Banks demanding guarantees may leave infra projects starved of funds

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The need for bank guarantees could emerge as a key challenge for the infrastructure and construction sector, which is expected to see additional capital outlay in the next couple of years, said rating agency ICRA.

Bank guarantees are required at the various stages of infrastructure projects – from the bidding phase to the defects liability period – and they are also used for release of funds against claims awarded by arbitration tribunals.

According to ICRA, banks have started stipulating higher margin money and collateral requirements for guarantees in line with the increased risk perception associated with non-fund based (NBF) limits.

As per ICRA's estimates, the total NFB exposure of banks is close to ₹4 lakh crore, with more than two-thirds being from public sector banks, of which, over 20 per cent is from the 11 banks that are currently under the PCA scanner. The NFB exposure of the scheduled commercial banks to the construction sector stands at over ₹1 lakh crore at present, compared to the ₹90,000-crore fund-based exposure.

"In the current environment, with many public-sector banks facing high stressed assets, particularly from the construction and infrastructure sectors, bank guarantees are not easily available, especially when many of these banks are under the Prompt Corrective Action (PCA)," said Shubham Jain, Vice-President and Group-Head, Corporate Ratings, ICRA.

While recognising the problem already exists on the ground, ICRA also projects further stress as the requirement for bank guarantees is expected to be higher going forward. “The construction sector would require incremental bank guarantees between ₹15,000-20,000-crore per annum over the next three to four years. The estimated bank guarantees requirement will involve an additional collateral of at least ₹3,000-6,000-crore,” Jain estimated. According to private-sector players, getting bank guarantees has become extremely difficult in the past six months, as banks seek additional guarantees, which was not the case before.

“Banks have started asking for guarantees from the promoters and parent companies, even in the case of large players that have not defaulted on any loans,” a top official of one of the largest infrastructure players told *BusinessLine* on conditions of anonymity.

Another top manager said that after public sector banks stopped lending to infrastructure projects, private banks, too, have almost shut shop for new loans.

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