Lending to infrastructure sector sees negative growth in last two fiscals

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Developers who face difficulty in completing projects turn to NBFCs for funding

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Despite efforts by the government to revive private investments, bank credit growth for infrastructure projects has been in the negative for two consecutive years, according to data compiled by Crisil for *BusinessLine.*

“In the last two fiscals, credit growth to the infra sector slowed down due to the deterioration in the outlook on credit quality for entities in the sector, which made banks averse to lend in the segment,” a Crisil analyst said.

Regulatory issues, delayed environmental clearances and challenges in land acquisitions are some of the issues faced by infrastructure projects. As a result, the share of non-performing assets (NPAs) in this sector has increased from 16.7 per cent in March 2017 to 22.6 per cent as on March 2018. It pegged gross NPAs at around ₹10.3-lakh crore, a little above 11 per cent of total advances as on March 31, 2018.

Bank guarantees

Multiple infrastructure developers interviewed by *BusinessLine* have confirmed they face difficulties in getting financial closures for new projects. Vinayak Chatterjee, Chairman, Feeback Infra, said the crunch is not only in bank funding but also in getting bank guarantees that are often required for EPC projects. “It’s a virtual famine,” he said.

“Nation-building will have to be done by the government in the near future. All banks, be it public sector or private, are facing huge losses from lending to the infrastructure sector,” he pointed out, suggesting that the government will have to take steps to strengthen contracts.

Mid-sized players

While most of the public banks, as well as big private lenders such as Axis Bank and ICICI Bank, have significantly downsized lending to infrastructure projects on account of huge losses, some mid-sized private players that enjoy robust growth are still lending to the sector after applying stringent filters.

“We are open but cautious to project finance,” said Romesh Sobti, CEO and MD, IndusInd Bank. The bank is looking at sectors such as power transmission and renewables. Bond market, infrastructure debt funds and alternative investment funds have emerged as options for some of the infrastructure players, experts say, although they are often limited to AA+ rated companies.

According to Chatterjee, developers currently have the option to dilute promoter’s equity and get equity funding from a private equity firm or investor. Some banks are still giving loans, he pointed out, adding that NBFCs are being seen as a huge source of funding for infrastructure projects.

"After banks have stopped financing the infrastructure sector, the balance sheets of NBFCs have started growing rapidly and foreign capital is chasing them," an industry player told *BusinessLine*.

"The time when pure greenfield infra projects were purely financed by the private sector is long gone. Development finance institutions such as IIFCL are also not active, and it is very difficult to get project financing unless it is being developed by a very large group," Sunil Kanoria, Vice-Chairman, Srei Infrastructure Finance, told *BusinessLine*.

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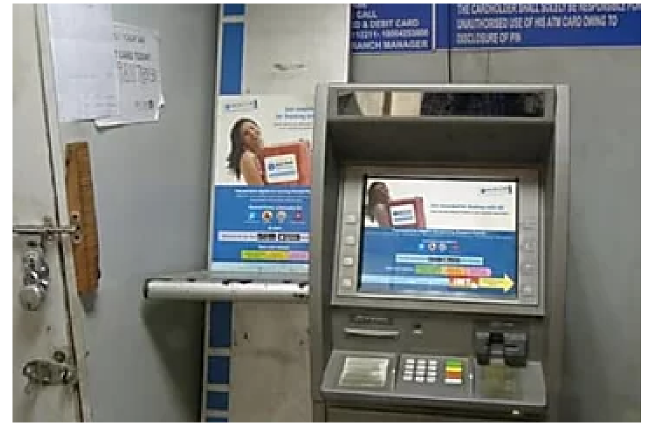

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