

NPA-hit banks may halt financing infra projects

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But thanks to NHAI, lenders remain optimistic about advances to the road sector

MUMBAI, AUGUST 31

Our Bureau

With banks saddled with huge non-performing assets in the infrastructure lending space, they may have to cancel their financing to the sector, said a top banker.

Given the burden of non-performing assets in the infrastructure space, banks saw a year-on-year growth of only 2.2 per cent at ₹9,07,700 crore in outstanding loans to the sector as of July 21, 2018.

The infrastructure segment comprises transport, energy, water and sanitation, communication, and social and commercial infrastructure.

“When it comes to infrastructure lending, right now, banks are a bit constrained. Whatever activity we are seeing (in infrastructure space), we are seeing only in the roads sector. That, too, because of the kind of enablers that have been put in place by the National Highways Authority of India. So that is something that has started building up confidence of the bankers for financing the road sector,” said Dinesh Kumar Khara, Managing Director, State Bank of India, on the sidelines of a financial market conclave organised by the Bengal Chamber of Commerce and Industry.

Power sector

But when it comes to power, he observed that no one is likely to deal with the sector because there are issues such as those related to power purchase agreements.

“So, these are the imponderables which banks are not really geared up to manage...and the kind of experience that banks are having, particularly if you analyse their NPA book, much of that is coming from infrastructure lending, which was done 2008-09 onwards.

“And apart from that, if you actually look at it, infrastructure is a sector that requires a play for 25 years. From 2008 to 2018 is just 10 years. It has not yet completed its play,” explained Khara, underscoring that globally, infrastructure financing is for 25 years.

“So, I would say that this was the first phase of infrastructure lending that is still not complete, but with the kind of problems that banks are now faced with, maybe they have to abort their financing to infrastructure. Because, as of now, they would not be in a position to finance,” said Khara.

If at all an infrastructure project is worth looking at, banks would be more than happy to finance, he said, even as he emphasised that there should be enough risk mitigants in the projects.

New projects

According to the Reserve Bank of India's Annual Report, infrastructure activity, which could be the force multiplier for India in the take-off to the middle-income group of countries, gained pace (in 2017-18) in terms of projects under implementation, but new project announcements remained subdued across public and private sectors.

Published on August 31, 2018

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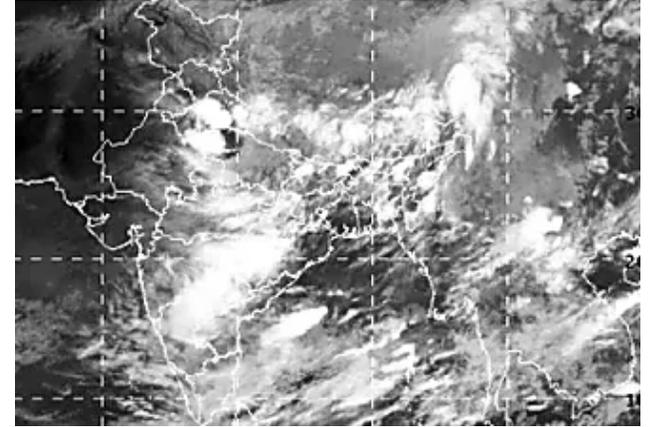
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