

90% of Rs 38,000-crore pledged debt not adequately covered: CRISIL

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CRISIL

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As much as 90 per cent of the rated pledged debt of Indian firms are not adequately covered, according to a new report by CRISIL. The rated pledge debt in the mutual fund segment has transaction cover of less than two times.

The RBI has prescribed of a minimum collateral cover of two times for lending against shares by banks and non-banking financial companies (NBFCs), but there is no such safeguard for mutual fund segment.

“Of the close to Rs. 38,000 crore of rated debt in the market, about 90 per cent had a transaction cover less than two times, and in some cases, as low as 1.2 to 1.3 times,” the report noted.

The findings come at a time when there have been various cases of sharp corrections in the price of pledged shares, which led to concerns on how to deal with the problem. These include cases such as those involving Subhash Chandra’s Zee Telefilms and Anil Ambani Group firms.

The Rs. 38,000 crore of debt accounts for up to 40 per cent of the total pledged of promoters, the report said, adding 90 per cent of them are ‘A’ category and above.

The report pointed out that data on companies in the Nifty 500 Index for 2005-18 indicate that at an overall cover of 1.3 times, in nine out of 10 cases, the market value of such shares could have dropped below the debt contracted within a month, leading to losses to lenders.

Further, in five out of 10 cases, an overall cover of even 1.8 times could have fully depleted within a month because of the fall in share price, making refinancing difficult.

“The overall cover acts as the first line of defence. It determines refinancing ability, and provides flexibility to pledge additional unencumbered shares to maintain the minimum pledge cover requirements and prevent breach of covenants in any specific transaction,” said Gurpreet Chhatwal, President, CRISIL Ratings.

The report also noted that in the case of a breach of covenant, lenders have just about one month to liquidate pledged shares, and the equity markets may not have the depth and liquidity to absorb simultaneous liquidation by multiple lenders.

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