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Banks squeeze India firms harder in \$207 billion bad loan fight

BY BLOOMBERG | NOV 24, 2017, 07.49 PM IST

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By **Anurag Joshi and Anto Antony**

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Roiled by India's high-profile [corporate defaults](#), the nation's lenders are tightening the screws on borrowers with stricter debt covenants and greater enforcement as the battle to curb delinquent loans intensifies.

[Banks](#) are asking for collateral that may amount to one-and-a-half times the value of the debt on new loans extended and are insisting on contracts that allow loans to be turned to equity if the account becomes stressed, said Prabal Banerjee, chief financial officer at Bajaj Group. Borrowers in telecom, thermal power and steel businesses are among those facing strict terms, said S&P Global Ratings analyst Abhishek Dangra.

"Banks are trying their level best to recover what they can upfront at the first sign of trouble," said Rethish Varma, a Bengaluru-based researcher at MarketSmith India. While tight covenants were already in place, there's stricter enforcement of them, he said.

Indian lenders are stepping up efforts to have safeguards in place as they struggle to clean up \$207 billion of stressed loans in the system, targeting new borrowers and older ones that are tapping the market again. The Reserve Bank of India has asked banks to resolve 50 of the biggest defaulters within a year.

Last week, Reliance Communications Ltd., owned by billionaire [Anil Ambani](#), became the first Indian company in 15 months to default on U.S. dollar debt. On Friday, a National Company Law Tribunal panel issued a notice to Bhushan Energy Ltd., seeking a reply on State Bank of India's insolvency plea.



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Lenders are also introducing rating triggers for immediate repayment if there's a downgrade in the credit grades of borrowers, Bajaj Group's Banerjee said.

Founders will need to chip in more equity to support projects than depend on bank financing, said S&P's Dangra. "I would expect covenant tightening and banks to be more measured, to let's say new thermal power plants in India."

The year-old [bankruptcy law](#) put in place by Prime Minister Narendra Modi's government has been tightened to prevent errant founders from regaining control of firms being liquidated. Founders, whose borrowings has been classified as non-performing for a year or more and that are unable to pay overdue amounts, are barred from repurchasing their assets. The President signed the ordinance on Thursday, making the law effective immediately.

The code and the administration's decision last month to inject \$32 billion of capital into state-owned banks is expected to help lenders clean bad debts and prop loan growth.

Lenders may ease some of the conditions when the bankruptcy code becomes more effective and "demand for money picks up," said

