

Business Standard

Easier foreign loans to help restart stalled projects

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Reserve Bank of India (RBI)'s proposal to ease foreign borrowing norms for Indian companies will benefit infrastructure projects that need long-term funding to get off the ground.

On Wednesday, RBI increased the limit for companies borrowing abroad from \$20 million to \$50 million for three-year tenures and over \$50 million for five-year tenures.

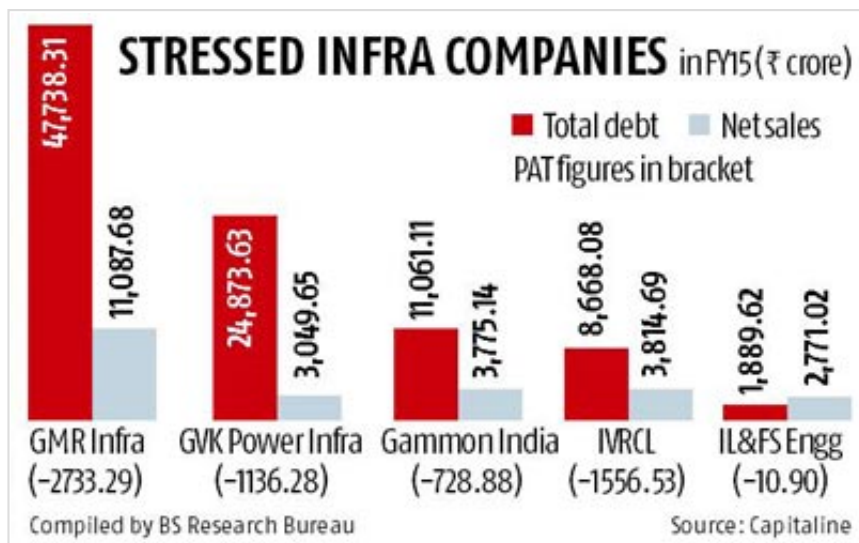
Companies can also use external commercial borrowing (ECB) for raising 10-year loans. Real estate and infrastructure investment trusts can raise rupee-denominated funds offshore.

Experts said the 10-year bucket was a step in the right direction but not suffice for infrastructure projects, where gestation and repayment peaked at 15-18 years.

"Even reputed companies with infrastructure projects are facing headwinds over repayment. We hope the time period will be extended further," said Prabal Banerjee, president, international finance, Bajaj Group.

Many infrastructure projects are stalled over funding and delays in environmental clearances and land acquisition.

The Centre for Monitoring Indian Economy (CMIE) reckons the value of stalled projects in the quarter ended June was Rs 79,300 crore, down from Rs 200,000 crore in the same period a year ago. Many top infrastructure companies are now making huge losses.



Experts said RBI wanted corporates with good credit to tap the market to reduce delinquency. "The RBI does not want India Inc's reputation to be tarnished by a couple of high credit default swap players, so that it blocks the route of others," Banerjee said.

RBI has also proposed easier end-use of foreign loans, but experts warned companies must take steps to protect themselves from currency volatility.

"RBI will have to take steps that the currency risk management of Indian

corporates is in place or else this move will be counter-productive," said Banerjee. "Interest rate ceilings have been lowered, which is significant as it takes into account likely increases in global rates and lower rates in India, which will, in effect, moderate the cost of foreign borrowings," said D R Dogra, chief executive officer and managing director of CARE Ratings.

A few companies are hedging their positions due to high forward rates of 6.5-7 per cent per annum. RBI has repeatedly told companies to take proper cover. "This move is not from the position of quantum of leverage of companies, but seeks to moderate its composition," Dogra said.

RBI has also proposed pension funds, insurance funds and sovereign wealth funds be included in the list of recognised foreign lenders to encourage long-term investments in Indian paper.