

Tag road loans as secured, RBI told by Finance Ministry

The finance ministry has urged the Reserve Bank of India to consider a change in its stance that treats loans to road projects as unsecured. If the RBI sheds its reluctance to treat highway sector lending as secured loans, credit flows to the fund-starved sector could grow by at least 20%-25%, officials reckon.

"The roads minister CP Joshi met the finance minister to discuss financing challenges in the sector which included RBI's treatment of road sector loans as unsecured. We have been assured that this matter will be resolved," said a senior roads ministry official.

The roads ministry has sent multiple suggestions to the finance ministry on ways to ease the fund crunch in the sector. The PMO had asked the roads ministry to send a note to the PM's Economic Advisory Council on the matter. An email sent to RBI seeking its response remains unanswered.

NHAI has so far awarded only one-tenth of its ambitious 8800 km target for this financial year. Sources say the roads minister was 'upset' with the dismal performance during a review meeting held last week.

RBI's 2012-13 Q3 review of monetary and macroeconomic development noted that 'investment in road sector has collapsed in 2012-13, with scant interest in new projects, large delays and poor execution in existing projects.'

Analysts said that RBI's treatment of road sector loans as unsecured makes banks wary of lending and increases the cost of borrowing. An SBI Capital report shows project finance for infrastructure projects in the country has gone down 49% in 2012. Land in road projects is publicly owned and loans cannot be backed by assets.

Banks depend only on cash-flows from annuities from BOT projects or toll collections. So RBI requires banks to make higher provisions i.e., set aside more cash, for these unsecured loans to make up for losses from defaults.

NHAI chairman RP Singh had sought to allay RBI's concerns. In a letter to the RBI governor dated 20th July 2012, he said "while few projects might have been restructured due to the COD (commercial operation date) having been postponed... there is no known default by the concessionaires in the industry."

(Economic Times)