

Priority tag sought for loans to sick state firms

The Department of Public Enterprises has proposed to the Finance Ministry that it should classify loans to 'sick' state-owned companies as priority sector lending, which will entitle them to lower interest rates and also help in hastening their recovery.

Presently, the state-owned banks charge loss-making state-owned enterprises 14% interest, after taking into account the risk involved in lending to them. On the contrary, the private sector entitles them to loans at 9 - 10% interest.

According to new definition a firm is declared 'sick' if its accumulated loss in any financial year is equal to 50 per cent or more of its average net worth during four years immediately preceding the financial year. A firm is also declared sick if it does not pay its creditors for three consecutive quarters on demand made in writing by any of the creditors.

Out of 213 state-owned companies in operating condition, 54 incurred losses during 2008-09.

Sick state-owned companies' losses grew by 40% to Rs 14,424 crore during 2008-09 as against the previous year's Rs 10,257 crore.

The department of Public Enterprises has stated that government-owned companies when granted loans do not put stress on the bank's balance sheet, thus indicating that the risk of defaulting is low. Private Banks are reluctant to give loans to such companies because of the repayment risk. It is noticed that lower interest rates will ensure these companies do not end up in the vicious cycle of debt, which will ultimately lead these sick firms to a dead end.

According to the rulebook the State-owned banks are required to lend at least 40% of their total net credit to the priority sector, which includes agriculture, education, housing and small enterprises. Whereas the banks are given the freedom to price priority sector loans worth over Rs 2 lakh, they keep the rates low to meet lending targets. The government has thus so far provided Rs 15,253 crore as financial support to 55 loss-making state-run companies.

In the case of Hindustan Machine Tools it had filed a complaint with the Board for Reconstruction of Public Sector Enterprises some time ago, seeking relief from the high interest rates charged by UCO Bank. This portrays that the costly loans make revival packages ineffective for the 'sick' firms.

Source: Economic Times.