



# RBI cuts off lenders from loan evergreening via AIFs

Shayan Ghosh  
shayan.g@livemint.com  
MUMBAI

The Reserve Bank of India (RBI) has clamped down on lenders evergreening loans through the use of alternative investment funds (AIFs), a practice previously red-flagged by the stock market regulator.

From now, a lender will not be allowed to invest in the schemes of any AIF that has invested in a borrower or investee of that lender, a move the regulator said aims to address concerns of evergreening.

AIFs reported in November 2022 that the Securities and Exchange Board of India (Sebi) had informed RBI about instances of non-bank financiers evergreening loans through the AIF route.

Evergreening refers to practices to mask the true extent of bad loans by allowing delinquent borrowers to take more



Shaktikanta Das, governor, RBI.

loans and repay existing ones. Tuesday's circular applies to all commercial banks, cooperative banks, non-bank lenders, and all India financial institutions. Alternative investment funds are privately pooled investment vehicles, collecting funds from sophisticated investors, either domestic or foreign. Under the latest guidelines, a debtor or a borrower would mean a company to which the lender currently has, or previously had, a loan

or investment exposure anytime in the previous 12 months.

RBI said that entities regulated by the central bank invest in units of AIFs as part of their regular investment operations; however, certain transactions have raised regulatory concerns.

These transactions entail substitution of direct loan exposure of REs (regulated entities) to borrowers, with indirect exposure through investments in units of AIFs, it said.

Experts said the circular would curb evergreening concerns that have been highlighted multiple times by the markets regulator.

Shrishail Kittad, a partner at law firm IndiaLaw LLP, said financial institutions cannot invest in equity of borrowers, but when they invest in AIFs which have done such investments in the borrower,

TURN TO PAGE 6

IL NEWS

## Shrishail Kittad, Partner, IndiaLawLLP quoted in LiveMint

AUTHOR IndiaLaw LLP

PUBLISHED 20 December 2023

# AIF route closed to loan evergreening

FROM PAGE 1

this rule is circumvented. "This notification targets regulatory concern arising out of such transactions," Kittad said.

"The AIF is invested in riskier debt and other unquoted instruments that have less transparency as regards to end-of-use funds, and there is a likelihood of it being used for payment of existing stressed loans earlier given by the banks," said Jyoti Prakash Gadia, managing director at investment bank Resurgent India.

The central bank also directed lenders, which have invested in AIF schemes that come under the purview of the circular, to liquidate their investments within 30 days. Moreover, if an AIF scheme, in which lenders are already invested, makes a downstream investment in any such borrower or investee, lenders will have to liquidate their hold-

ings within 30 days from the date of such downstream investment by the AIF.

"In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100% provision on such investments," the RBI circular said.

RBI has, in the past, raised the issue of evergreening at banks. Governor Shaktikanta Das said in a speech on 29 May that during the regulator's supervisory process, it found certain instances of lenders using innovative ways to conceal the real status of stressed loans.

"To mention a few, such methods include bringing two lenders together to evergreen each other's loans by sale and buyback of loans or debt instruments; good borrowers being persuaded to enter into structured deals with a stressed borrower to conceal the stress...", said Das.

<https://www.livemint.com/industry/banking/alternative-investment-funds-rbi-tightens-investment-norms-for-banks-housing-finance-companies-and-nbfcs-11702987810382.html>