

## INTERVIEW: N SIVARAMAN

PRESIDENT & WHOLETEIME DIRECTOR, L&T FINANCE

# Developers, construction contractors remain stressed

*L&T Finance Holdings has multiplied its asset base from a mere ₹850 crore to ₹30,000 crore in just seven years. The company, incorporated in 1994, attributes leap in growth since 2005 to timely acquisitions and product diversifications. The NBFC, which has a broadbased play across retail and wholesale lending, is viewed by analysts as a suitable candidate to acquire a banking licence. L&T Finance president and wholetime director N Sivaraman believes despite a promising growth prospect, there are impending risks of growing too fast that the company has to guard against. In an interview with Pranav Nambiar, Sivaraman discusses a range of issues, including company's future roadmap, plans to build a larger presence in metros, asset quality concerns, and RBI's new NPA norms. Excerpts:*

**In a short time span, you have built a diversified playfield across wholesale and retail lending as well as mutual funds and insurance products. Are you looking to bite off more than you can chew?**

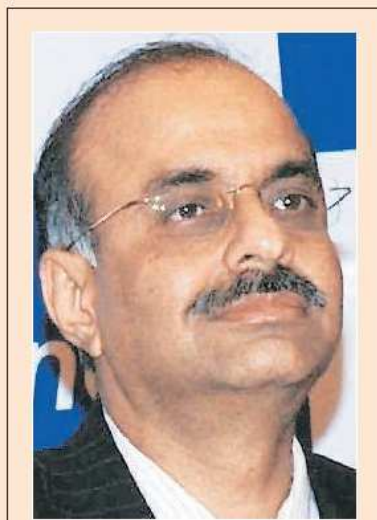
We are wary of concerns at growing too fast and have, thus, created a well-defined structure around five CEOs who handle our

various lines of businesses, including retail, infrastructure finance, wealth management, mutual funds and general insurance. A large-ticket corporate financing can be originated either by L&T Finance or L&T Infra. In the case of infra lending, it will be done only by L&T Infra and loans for non-infra projects are originated by L&T Finance.

Over the longer term, the market offers an opportunity to grow in excess of 25-30%. Currently, we have about 100 branches and 500 point of sales with people who operate out of their homes. What we have been doing on a progressive and measured basis is to consolidate these point of sales locations into branches, thereby, increasing our branch presence. Going ahead, we will add 20-30 branches in a year.

Our strength in product offerings is more in the rural and semi-urban areas. But the expansion in L&T Housing Finance, Family Credit (auto loans), as well as general insurance and the mutual fund businesses, will require us to expand our presence in the metros. Today, in metro cities, we have at best one branch.

**Your loan book has grown slow-**



**The proposed RBI guidelines on revising the recognition of NPAs at 90 days of loan repayment default from the current 180 days will lead to an increase in our NPA levels**

**er this financial year. Can you please explain?**

Yes, market conditions have been challenging and we have thus grown at 8-10% in the first half. Large ticket wholesale loans

currently constitute around 50% of advances (balance is retail). The weak equity markets are slowing down projects and developers are finding it difficult to get the financial closure achieved. However, there are greenfield projects coming up in road and thermal power. With state governments providing support, we are seeing greater activity in and solar and renewable energy.

**The NPA levels in non-microfinance lending went up from 1.3% of loans to 1.55% of loans (overall gross NPA at 1.81%) over the last 2-3 quarter. Is this a cause of concern?**

It is in some of the corporate exposures with developers or construction contractors where there is a good amount of stress coming. A large part of this is owing to the systemic issues and the cash flow stress in the system. We are working with other lenders and in some cases with CDR cell to sort out these issues. As far as microfinance is concerned, our exposure in Andhra has almost been fully provided for.

**Will the new NPA guidelines stipulated by an RBI panel, headed by Usha Thorat, affect**

**your NPA situation?**

The proposed RBI guidelines on revising the recognition of NPAs at 90 days of loan repayment default (from the current 180 days) will lead to an increase in our NPA levels. Especially in the retail businesses like CV, CE and tractors, there will be a spike in provisioning costs before it stabilises. These are borrowers, not very organised and have volatile cash flows. Also they do not distinguish between business cash flows and personal cash flows. RBI panel has proposed a time period of three years to achieve this target, so hopefully it will mitigate the effect of some of these changes.

**Are you able to leverage on the brand value of the parent company L&T?**

We are leveraging on the brand name on several fronts. This includes occasions when we are looking to borrow funds or dealing with customers. However, there is a misconception that we are lending into the L&T ecosystem. Our loan exposure to the group is less than 5%. We support the dealers and vendors of L&T through what we call supply chain financing. Beyond that we really do not lend into the L&T ecosystem.