N. SIVARAMAN/L&T FINANCE HOLDINGS

Infra norms will help grow capital market

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The Reserve Bank of India's recent move to facilitate long-term finance for infrastructure is a positive one, says N. Sivaraman, president and wholetime director at L&T Finance Holdings. The move could hasten the development of the capital market, he said in an interview. Edited excerpts:

Looking ahead: *N. Sivaraman*

INTERVIEW

Your comment on the infra bonds rules announced by Reserve Bank of India (RBI)? Will it suit both banks and infra companies?

Let's look at it in multiple dimensions. On the overall, I would say that it is positive for the sector as a whole.

If I look at from the borrower's perspective, because the large part of lending in the sector does come in from banks and the banks being funded by deposits, the lending community has not been able to take a long-term pricing view on lending to the infrastructure sector.

So typically, you end up doing either a fully free-floating way of lending, or lending reset at periodic intervals. For a leveraged business, which infra is, because you end up operating at a three-four times leverage on the equity, so clearly any volatility or fluctuations of interest cost, has an impact on the equity returns.

Today, with the combination of 5/25 structure, as well as lending backed up by long-term bonds, either banks or non-banking financial companies (NBFCs), it just created a far higher level of stability in the price to the infrastructure projects.

So, assuming that the promoters do look at it as a positive, because if someone is looking at it as a declining interest rate environment, he will end up borrowing on a floating rate basis—that is not a good thing in infrastructure segment because your inflows are more or less based on a fixed rate. So, that is going to be positive for the sector.

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Second is, if I look at it from a capital market development point of view, banks are perhaps the best institutions to raise larger quantum of borrowings enabling more investors to participate and also banks are generally seen to be a better credit.

So, there will be larger participation of both retail and institutional investors into the segment so, all in all, we might see a far more evolved capital market. Lot more of investors participating, so there could be good amount of liquidity in the various instruments that the banks might issue.

So, I consider this to be positive. Even for a player like us, a well-developed market will be positive, that is what I am saying.

All this depends on whether banks will find adequate buyers for their seven-year bonds. Will depositors transit to these seven-year bonds? Will there be other buyers for these bonds?

Let me speak from our own experience of raising long-term money.

I think even in the current market, given the supply is limited, we are able to get borrowing at a price which is less than bank's lending rates for us, I think marginally higher than the deposit costs of the banks.

Of course, the distribution cost of such long-term borrowing is going to be something additional. That is something we will have to consider. All in all, I do not see this to be substantially higher than the five-year fixed deposits, as it stands today, because the participants are going to be both retail as well as institutional money that will come into the segment.

If I look at it from a lender perspective, just continuing to respond to your previous question, I think it also gives them far more stability on the liabilities side to support the asset build-up. I think, in fact, for NBFC like us, it brings us as well as the banks on a level playing ground because ultimately the source of money will end up being the same set of investors, so it is subject to only the credit rating-based differential. We will be able to attract money from the same set of investors.

The removal of tax sops for debt funds has led to a big selling of corporate bonds. Are you seeing redemptions?

No, I think this could be a temporary adjustment issue. Ultimately, all service providers, be it the banks or the mutual funds, will all have to walk towards building longer term market based products, so that's what would develop, those MFs (mutual funds) who have got a good credit perspective, and be able to manage the investment side well, will definitely stand or gain.

In addition to that, with a good liquid market, I think the investors will find a way of routing their investments through the MFs to be more profitable; otherwise, each one will have to start building a large credit function, so it is going to be a period of adjustment, but I do not see this to be having an impact. It does impact in the shorter term, the development of markets. I hope the government allows the adjustment period by appropriate legislative changes.