'Higher rated NBFCs will fare much better than the others'

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CNBC-TV18

After a high cost of funds cycle, L&T Finance Holding expects good rainfall and rural growth to help growth in FY19, Dinanath Dubhashi, managing director and chief executive at L&T Finance Holdings, said in an interview. Edited excerpts:

There were two threats to the NBFC business last year after a heady run. public sector undertaking (PSUs) are back in competition and bond yields have gone up. Both have gone away. Is life looking very much like 2017 for you?

Both the things that you mentioned, most definitely positive for NBFCs and there is no doubt, but business models are made to last much more than these small things but let me talk about interest rates specifically especially the policy and few days preceding the policy, a few good developments. one, the central government borrowings definitely coming much lower, to some extent negated by a much higher state government borrowing figure and a much lower inflation expectation by Reserve Bank of India (RBI) supported by lower inflation spirits. As you rightly said bond yields have corrected significantly. Where does it take us? Yes, definitely the borrowing cost of NBFCs is much lower than what it was four-five months back but on the whole, at least in Q1 FY19 funds will be costlier than FY18; no doubt about that. In this case it really depends on each NBFC, how strong it is, how it manages its Asset Liability Management (ALM), how it manages its balance between variable and fixed and balance between bank borrowings and market borrowings. So it is going to separate men from the boys.

For your firm itself give us some indication because you are saying that FY19 overall cost of money is going to be more than last year. How much higher?

Dinanath Dubhashi, MD and CEO, L&T Finance Holdings.

INTERVIEW

That would be anybody's guess. Bond yields are off by at least 60bps from their high in October but they are still 20-30bps above what they were a year back, also NBFC spreads had come down drastically. We believe that even if bond yields remain at this level there would be a chance of corporate spreads and especially NBFC spreads, these spreads to harden a bit from here. Once again, there are different kinds of NBFCs, the better rated ones; AAA or AA+ will definitely fare much better than the others.

Give us some indicative numbers. It is difficult to come to any conclusion on your loan growth because all this year you were battling a low base so numbers looked very big with 80% and 30% y-o-y. What is a normalized assets under management (AUM) growth for FY19? Tell us about NBFCs and more on L&T Finance.

L&T Finance, definitely our loan growth was around 25 % last year, the base was not that low. Now we have reached close to 85,000 crore. I do not think we can call it low. Of course, it is low compared to the leading banks but as NBFCs go, it is pretty high. Let us see on the asset side how situations are. We are controlling our wholesale book and not letting the book grow too much by using sell down but housing and rural growth are actually doing pretty well. Lots of positives, good rainfall, both private as well as government agencies have given good forecast. The speed of sowing has progressed extremely well. One small negative is that *mandi* prices are below minimum support price (MSP) right now but most state governments have taken very quick corrective actions on this and also investing a lot in rural areas through road construction, through Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). So excellent growth in tractor market, 18%, 15% growth in two-wheeler market and most importantly our collections are following an extremely good trend as we have completed the year. So I won't be able to give any number right now but things have gone pretty well and that indicates good growth definitely.

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A word on the housing side of your business. Is that going to be a bigger focus area? How do you expect the AUM pie to shape up?

Just a year back wholesale was 62%. We have brought it down to almost 56% now. I have been indicating that by the end of next year it should be around 50%. As far as rural and housing go, they were about 20% and 25% approximately. This will go up by about 2-3% points each in a portfolio which sort of indicates a more retailisation of the company. Our competitive strength or competitive position in retail housing is relatively less compared to how strong we are in rural, but we are gaining scale there and we are very positive about the growth next year.