INTERVIEW: YM DEOSTHALEE

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‘Investment-led credit growth may be some distance away’

ALTHOUGH consumption-led credit should continue to grow next year, both in urban and rural markets, investment-led credit growth may be some distance away according to **YM Deosthalee,** *chairman and managing director at L&T Finance Holdings. Deosthalee tells* **Pranay Lakshminarasimhan,** *he expects infrastructure debt funds to contribute to the company's growth.*

What is your outlook for 2016 in terms of overall credit growth?

While we could see consumption-led growth both in urban and rural markets, investment-led growth is going to be limited primarily because there is not going to be much investment by the private sector. The reasons are well-known and among them is the fact that the commodity sector is not doing well and there is excess capacity. That's the situation globally. Second, in infrastructure, several developers are currently going through pain and do not have the financial muscle to put in equity into projects. So, unless some new developers come in, it will not be a very easy road for investments.

What about big-ticket sectors like power or steel? Will higher prices help?

Steel is not only about prices, it is about excess supply and large global capacity. So, therefore, there's little room for improvement and investments will take time even if prices rise. In the power sector, the the problem is not necessarily in generation but

in transmission and distribution. We need to quickly complete the transmission networks and make sure distribution is efficient so that losses are reduced. Discoms have to profitable and their past problems resolved and that's why a package has been announced recently. New investments in power capacity will depend on the economy, demand for power and on how efficiently the grid operates.

How are infrastructure debt funds coming along?

It's a very good product that will provide growth for NBFCs like ours because is an extremely good refinancing tool for projects which are operational.

First of all, it is a tax-free entity and secondly, it has some guarantee mechanism and because of these characteristics, it is normally a AAA entity.

Therefore, the borrower's cost is lower and it improves his equity IRR (internal rate of return). Second, given the fact the you have the track record you can elongate the tenure, which also helps the borrower.

We have an operational IDF and since we can now bring in several sectors into infrastructure debt fund arena, we hope to grow very well.

What is your outlook on the tractor finance sector?

There is no impediment to growth as far as tractor financing is concerned but it is a cyclical product. A couple of years ago, it did exceedingly well but this year there is a negative growth. Secondly, coupled with that, is the drought situation so the industry isn't likely to do well and tractor financing is related to that. So, it is important to have a basket of products because if you are only in one product line, then you get completely impacted because of the cycles.

Your view on taxation on provisions made by NBFCs vis-a-vis provisions made by banks?

We have been saying there is really no reason for not giving this exemption. Deduction actually, I should say, for NBFCs. If you lend to a customer, and if it becomes an NPA, and you make a provision, that provision is not allowed as a deductible expenditure for NBFCs. Whereas, if the banks make the same provision, then it is allowed as a deductible expenditure. So, the tax outgo for the NBFCs, for the same customer, is higher than that of the bank.

What is RBI's point of view on the matter?

As far as the Reserve Bank of India (is concerned) it is extremely supportive. They have said that there is logic behind this, that it should be done, but it is not really RBI's issue. It is a finance ministry issue. We have taken this up from time to time and the finance ministry has heard us. I hope something good comes out in this budget.