L&T Finance Holdings to focus on quality of loans, stable returns

INTERVIEW

Radhika Merwin
BL Research Bureau

N. Sivaraman, President and Whole-time Director of L&T Finance Holdings.

L&T Finance Holdings has not just been a blockbuster stock, the company is also expected to be a front-runner in any race for new banking licences. The company has stood out by offering a comprehensive range of financial products and services across the corporate, retail and infrastructure finance sectors. *Business Line* spoke to N. Sivaraman, President and Whole-time Director of L&T Finance Holdings, to understand the prospects for the NBFC sector and the company.

What will be the impact of Usha Thorat committee's recommendations on the sector? It proposes to bring the period for classifying a loan into NPAs at par with banks. From the existing 180 days for NBFCs, it is proposed to bring it down to 90 days. How is this expected to impact the sector in terms of slippages and earnings?

The impact will be significant. Most of the borrowers are from the unorganised sector and lack financial discipline. Thus, the chances of default are higher and this will lead to higher level of slippages and NPAs in the system.

NBFCs seek to be brought under the purview of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, which currently allows both banks and housing finance companies recourse against defaulting borrowers by way of securing their assets.

You have a business spanning both retail and infrastructure finance. On the retail and corporate finance business, what is your strategy for growth?

While our competitors like M&M Financial and Magma Fincorp have a better reach, our strategy is to follow the hub and spoke model. From around 30 branches in 2006, we currently have about 100+ branches. We have been cautious in expanding, managing our operating costs. While we will continue to build and grow our businesses, our focus will be on the quality of loan book and stable returns. We are confident of growing at 25 per cent in our retail and corporate finance business.

What is the outlook for this business?

The commercial vehicle and the construction equipment business have been sluggish, with disbursement significantly lower than last year. This has been due to the economic slowdown and also the company's conscious strategy to focus on credit quality.

However, the rural product finance and capital market business has seen good opportunity and has driven growth. The rural finance may see some pressure particularly in the South, due to poor monsoon.

In terms of NPAs, we expect some more pressure in the near term. But, we expect the asset quality to stabilise going into FY 2014. We continue to follow a conservative provision policy, factoring in potential foreclosure losses. Also on the operational side, the net interest margins (NIMs) are expected to stabilise at current levels with possible improvement in FY 2014.

How is your infrastructure finance business doing with sluggish projects?

Over the last five years, we have grown at more than 40 per cent annually. Initially, we started by focusing on corporate loans and Tier- II developers.

Now, we are building on larger ticket relationships. We have started looking at operational projects and currently, 68 per cent of our loan book gets serviced out of operational cash flows, out of which 34 per cent each is from corporate loan and operational projects.

The business 'under construction' is only 30 per cent.

While the operational projects are on track, the corporate loan book is a concern due to delays arising from extended working capital requirements in construction companies.

The pace of recovery in the business will be slower than in retail finance.

Overall, our focus will continue to be on the loan quality rather than on growth alone.

The net interest margins should be in the current range of 4.7-4.8 per cent and we expect the NPAs to stabilise in FY 2014.

Here again, our conservative provisioning policy of 3-8 per cent for all assets overdue in 4-6 months, is comforting and will keep us on track to meet the Usha Thorat committee recommendations.

How much of your overall business is from L&T, your parent company?

There are three key businesses with L&T.

One, while we do not lend to L&T directly, we support its supply chain, by meeting the working capital and capex requirements of the dealers and vendors of L&T.

This business constitutes 2-3 per cent of the total balance sheet.

The second kind of business is providing financial advisory and debt syndication to L&T for its infrastructure projects.

Third, we provide some amount of gap funding for L&T projects to ensure accelerated financial closure. However, it is a very small amount.

Last, in case of equipment manufacturer supplying to L&T, we provide loans on a case-to-case basis depending on the credit quality of the customer.

What is the outlook for the other businesses like mutual fund and home finance?

In the housing finance business, we expect to build our assets significantly over the next 5 years, leveraging on our existing relationships with developers.

In the mutual fund business, after our integration with the acquisition of Fidelity MF, we will be able to build our assets and break even next year.

radhika.merwin@thehindu.co.in