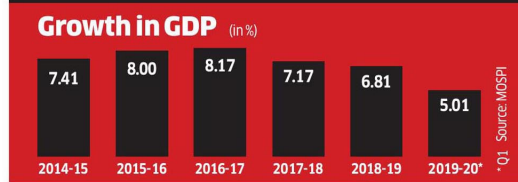
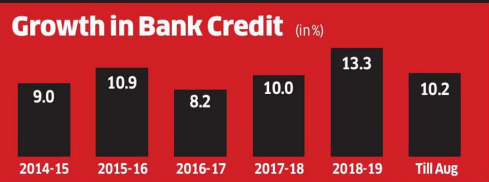


8 India Dialogues



"We need to get banks back into lending. For four years, banks have not been there because of asset quality review, which hit their balance sheets and occupied their time" - JAYESH MEHTA



REVIVAL AGENDA (Left to Right) India Infoline's Nirmal Jain, Rakesh Singh of HDFC Bank, Umesh Revankar of Shriram Transport Finance, Bank of America-Merrill Lynch's Jayesh Mehta and L&T Finance's Dinanath Dubhashi at the panel discussion

BIG VISION NEEDED, PIECE MEAL MEASURES CAN'T IGNITE GROWTH

INDIA DIALOGUES

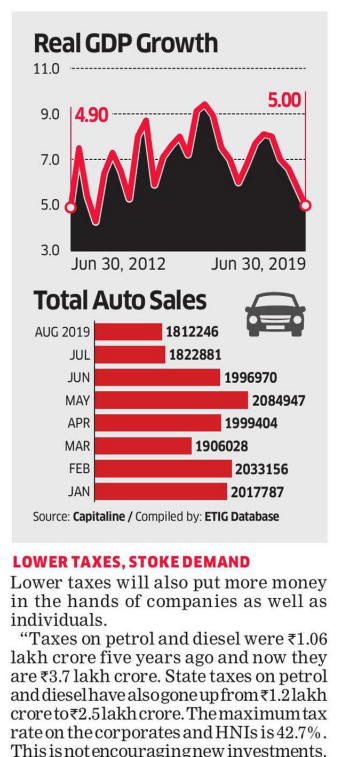
COMMON INSIGHTS. FOR THE COMMON GOOD.

The government has begun the process of reviving growth, but its concerted policy measures ought to include judicious tax incentives, increased federal expenditure and targeted solutions for rural areas...

Bolder measures like tax incentives, increased government expenditure and sector-specific solutions required to turn things around

up. Even car sales are hovering between 250,000 and 300,000. Another segment where growth has slowed down is rural. There are several reasons for rural car consumption going down. In cities, the growth is lower because of less parking space and fines going up. City infrastructure is not able to absorb remaining urban cars...

that are not in bankruptcy courts or already tagged as bad debt. Housing finance companies have also been allowed to borrow funds from overseas on easier terms to provide them better liquidity.



User-Pays Model Key to an Infra Rebound

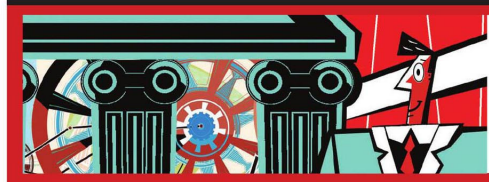
Viable revenue models, removal of roadblocks will attract private equity funding for projects

Mumbai: The revival of India's infrastructure sector could depend on the creation of viable financing models and removal of existing roadblocks...

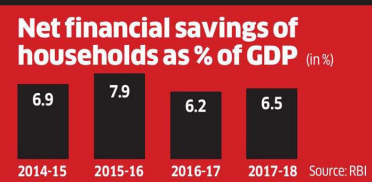


Further, creating viable revenue models would go a long way in incentivising private equity funding for projects that otherwise have suffered due to drying up of funding sources in recent months, according to experts.

The single biggest issue faced by private developers is the cost of acquiring land. Govt should consider bringing down the price for at least public utility projects as some of the shortfalls



While there has been a slowdown in the non-bank lending space, there is a genuine slowdown in primary demand. The investment demand in real estate has disappeared overnight - DINANATH DUBHASHI



Consumption's Not All Gloom, There are Many Rays of Hope

Not all sectors hit by consumption slowdown, there is underlying demand in certain pockets and wage growth can help accelerate consumption

OUR BUREAU

The drastic fall in car and home sales and the rise in shared mobility and outbound tourism are clear indicators that India's consumer behaviour is fast changing. The fall in car sales to two-decade low is being attributed to the advent of Ola & Uber and the changing spend patterns of the millennials...

Consumption Halt



Despite talks that some sectors are contributing to the demand that has slackened, India grew at 5% at the end of June, slower than in previous quarters...

country's top developers are sitting on unsold inventory worth nearly ₹1.4 lakh crore while their revenues dropped 7.2% and profits rose only 7%.

"There is a visible slowdown but there is an underlying demand that we continue to see in certain pockets," Singh said. "We are seeing significant amount of demand in warehousing, transmission side and renewables..."



Nirmal Jain and Jayesh Mehta feel the yield structure must be right for the country to develop a bond market for financing growth needs

KEY CONCERNS

TAX BURDENS

Economy goes through cycles which is normal, but what keeps it going is the animal spirits of entrepreneurs...

Quicker Execution of Projects, Minimal Interference will Draw Foreign Interest

India's bond markets could become the vehicle for financing large infrastructure projects, but the country must ensure quicker execution of projects and less political interference to keep overseas investors interested...

BRIGHT SPOTS

There is a visible slowdown in infrastructure, but there is an underlying demand in certain pockets. We are seeing good demand on electricity transmission side, and renewable energy projects.

CONSUMPTION TRENDS

Is there a change in consumption pattern? Yes. Hoarding, owning electronic gadgets have taken precedence over owning a home or buying a car.

REALTY HOPES

Earlier, even if there was not much consumption demand, investment used to keep it going. Not anymore. But there is hope. Commercial real estate is seeing traction...

BANK WOES

When RBI began the banks clean-up, they were forced to recognise bad loans which they rarely did in the past. Once you do that you require capital. Capital-starved state run banks couldn't do much.

Unfortunately, government bonds have the lowest yield, followed by corporate bonds. Deposits were giving you the highest yields.

Separately, Jayesh Mehta, MD of Bank of America-Merrill Lynch, believes that the yield structure in India's bond market must be right for the country to develop a bond market deep and sizeable enough for infrastructure financing needs...

What could bring back investors to NBFC bonds? JM: Our bond investors for NBFCs are typically mutual funds. That's why there are no long-term bonds for NBFCs...

Your view on offshore bond investors in infrastructure sector? Nirmal Jain: You have the potential to attract a lot of foreign capital into infra. Also, when they are looking at 30-year sovereign negative bond yield, they are certainly looking for something...

What are the major issues bond investors in the infrastructure sector are facing? NJ: There are a lot of systemic issues which need to be fixed in the whole scheme of things...

What's wrong with NBFCs that are battling crisis of confidence? NJ: It has been one year since the IIL&FS default. The problems in DHPF were known at that time as well...

Deposits have to have the lowest yields, followed by govt bonds and corp bonds. Unfortunately, govt bonds have the lowest yield and deposits were giving you the highest

After Altico, will NBFC funding become difficult once again? The problem is with few NBFCs, and not large NBFCs.

Unfortunately, most of the bond investors in infrastructure projects have suffered due to a variety of reasons

Is a comparison between India and the US justified when it comes to developing the bond market? NJ: It is my favourite topic in the last 25-30 years. We are still not addressing the basic thing but everything...

Has the investor lost trust? Total trust factor on credit and credit rating by the mutual fund investor has been lost. So, there is no other alternative source, which has been built up for NBFCs.

Can the bond market be a solution for long-term infrastructure financing? RBI has allowed external commercial borrowings (ECBs). But, how many of them will be able to access ECBs... it needs to be seen.



Earlier this month, finance minister Nirmala Sitharaman announced special incentives for real estate and export sectors in an attempt to boost growth. The real estate package included a ₹20,000-crore fund, half of which will come from the government...

There is a fear factor and the narrative and rhetoric should not make everybody fearful. These are times that call for bull measures for taxes and fiscal deficit targets

NIRMAL JAIN Chairman, India Infoline will start catching up. The moderated inflation number that could be a little higher would have helped in pushing up wage growth...

LOWER TAXES, STOKED DEMAND

Lower taxes will also put more money in the hands of companies as well as individuals. Taxes on petrol and diesel were ₹1.06 lakh crore five years ago and now they are ₹3.7 lakh crore. State taxes on petrol and diesel have also gone up from ₹1.2 lakh crore to ₹2.5 lakh crore...

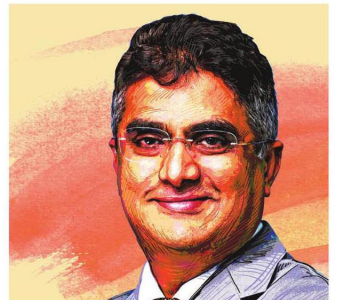
As per data from CARE Ratings, compared with ₹90 lakh per hectare in 2013-14, the cost of land acquisition stood at ₹147 crore per hectare in 2018-19. Even at the total land acquired for road projects has increased. The rating agency has projected the rate of highway construction to slow down to 47 km in the ongoing fiscal from 30 km last year.

Bureaucratic roadblocks have also taken a toll on these projects. "Most investors, especially in the bond market, have suffered due to delays and government interferences for political reasons," said Nirmal Jain...

SLUGGISH GROWTH

Data released late last month showed that the Indian economy expanded at a lower-than-expected 5% in the April-June quarter, the slowest in over six years, driven by weak investment growth and sluggish demand...

NBFCs Need to Focus on Niche Offerings, Consolidate to Survive



Using balance sheet as a strength for NBFCs is not going to work. NBFCs' strength is reach and specific knowledge

Participants at the ET India Dialogues were unanimous that NBFCs should not compete with banks and must turn to knowledge-based growth

OUR BUREAU

Mumbai: Non-banking finance companies (NBFCs) will have to reinvent themselves with niche offerings and consolidate for survival and growth after getting bruised in the last round of credit squeeze.

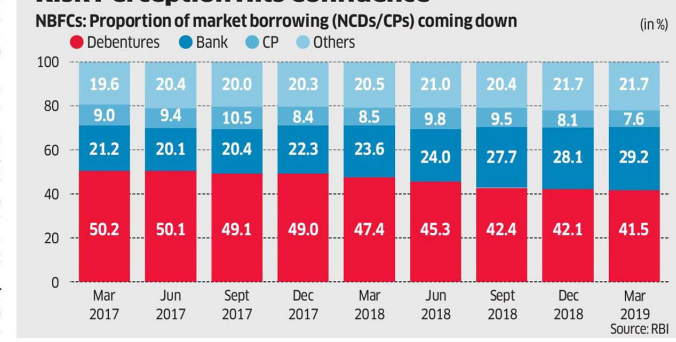
Participants at the ET India Dialogues were unanimous that NBFCs should not compete with banks and must turn to knowledge-based growth

lapse of IIL&FS. Many of them who were dependent on short-term funds from mutual funds faced severe constraints as the fund industry shut this sector out for fear of losing money...

many are cutting down on their balance sheet size by selling portfolios to banks and larger rivals. "NBFCs who are choosing to reduce their balance sheet by selling portfolios to banks are not going to survive..."

with banks," said Jayesh Mehta, MD, Bank of America-Merrill Lynch. Banks would look at income tax returns, including for companies, corporate, and retail. Only 4.64 crore people with more than ₹5 lakh income have filed return...

Risk Perception Hits Confidence



(L to R) Umesh Revankar, CEO, Shriram Transport Finance; Dinanath Dubhashi, CEO, L&T Finance Holdings; Rakesh Singh, head of investment banking & markets, HDFC Bank



NIRMAL JAIN

Is a comparison between India and the US justified when it comes to developing the bond market? NJ: It is my favourite topic in the last 25-30 years. We are still not addressing the basic thing but everything. The bond market development if you have the infrastructure right. By saying this, I mean, your deposits have to be the lowest yield, followed by government bonds...