'There are enough operational projects'

Oommen A. Ninan

L&T Finance Holdings is into retail and infrastructure financing.

In an interview to **The Hindu**, **N. Sivaraman**, *President & Wholetime Director, explains the opportunities and challenges that exist in the sector while elaborating about the company's plans. Excerpts:*

You have business spanning retail and infrastructure finance. What is your strategy for growth?

The existing businesses do offer significant opportunities for growth. If you look at the asset creation as well as consumption financing in the retail segment, we believe there is a large opportunity. Rural demand has continued to be strong, and can be bolstered with a good monsoon.

The second is the infrastructure finance segment. The desired capital spend is about a trillion dollars in the next five years. So, it is fairly large opportunity to provide credit to this segment. Thus, one can always debate, how much of that will be converted into actual investment. Even if a fair percentage gets converted into investment, it still offers very good opportunity to grow. In the immediate term, the growth is expected from the renewable energy sector and refinancing opportunities, with a sprinkling of opportunity from road sector.

We have recently acquired Family Credit, which is primarily engaged in financing consumption. In India, where a very small part of consumption is financed, there is a large opportunity to grow. There are not too many prominent players financing consumption.

In addition, we will participate in the non-infra corporate loan market as well. All of these will offer significant and consistent growth opportunities over the next five years or so.

Are you planning any kind of infrastructure development funds (IDFs)?

We have established an NBFC (non-banking finance company) for the purpose of IDF, which is pending regulatory approval at the moment. IDF will enable us to address the needs of financing of the operational infrastructure projects in a competitive manner, with the available regulatory advantages.

What would be its size?

It will not be appropriate to indicate any size. Suffice to say that it is a large market and with the current capital we have committed to IDF of Rs.300 crore, we can potentially do up to say about Rs.3,000 crore of total assets. That's the starting point. Then depending upon the way it shapes up, we can look to raise this size. There are enough operational projects available in the market today.

Are you facing any sluggishness in your infrastructure projects?

The fact is that new opportunities are few. First is the road sector, which clearly faces lack of new tenders, or the difficulties which developers have faced on various regulatory clearances before they can actually announce the appointed date for these projects. This definitely has delayed or limited number of opportunities for new projects.

Similarly, in the power sector, there are coal and fuel availability issues coupled with the tariff structure, which are sub-optimal today for some of them. We see opportunities around the renewable energy sector and refinancing opportunities to other infrastructure sectors, both these are definitely offering us the encouragement and we continue to look at them.

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

While we do not lend to L&T or any company within the group, we do benefit from L&T's knowledge in the infrastructure sector. The inputs do help us in taking good credit decisions. Second is that we do lend into L&T eco system — to L&T's vendors and dealers on a standalone basis, without any comfort from L&T. The track record of the vendors/dealers with L&T does help us take a good credit view. We also provide advisory services to L&T's projects to enable them to achieve financial closure.

No conflict of interests?

Absolutely not. L&T has its own credibility, and given the rating and credit standing that it enjoys, it doesn't need an NBFC to raise money.

How much has the acquisition of Fidelity AMC helped your mutual fund business? What is your outlook for it?

Although L&T's own mutual fund, which was the erstwhile DBS Cholamandalam, did show some improvement in the AUM (assets under management) since we acquired it, we did not have sufficient scale. As of March 31, 2008, we were about Rs.3,800 crore, with around Rs.300 crore of AUM in equity. This was a very small quantum of equity assets for it to be meaningful or material to investors and intermediaries. The Fidelity acquisition pushed up the scale of the business. As of March 31, 2013, we had, on an average, an AUM of about Rs.11,500 crore, with about Rs.5,000 crore in equity assets. So, following the acquisition, we are now almost three times the size. It also brought about a good mix of the equity assets and fixed income. Furthermore, the acquisition brought a good mix of investor classes, institutional, high net-worth individuals and also the small investors. At the same time, we now have a good mix of distribution channels, independent financial advisors, as well as banking channels. We are in the top 15.

In this area you expect more mergers and acquisitions?

There are a lot of sub-scale players. So, there could be potentially some consolidation opportunities available for all players in the industry.

Talking of M&As, L&T finance Holdings also acquired Indo Pacific Housing Finance and Family Credit over the past one year. And, you have also acquired Future Generali Insurance. How would you look at these deals, and what next in terms of inorganic growth plans?

We have looked at acquisition as a way of reducing the time to market in case of products in which we are not present in or for a meaningful consolidation of our existing position.

Indo Pacific and Family Credit actually satisfies the time to market criteria, as we were not present in housing finance, or we were not present in a big way in financing consumption or in housing finance. These two acquisitions definitely brought us those products and enabled us to reach the market faster, and, at the same time, avoided the cost of learning. And, these acquisitions have been concluded at prices which are very reasonable.

As far as the Future Generali transaction is concerned, we have just signed non-binding term sheet, subject to definitive agreements and regulatory approvals. We are yet to sign the definitive agreements. It falls in the meaningful consolidation category. If it goes through, it enables L&T General Insurance to achieve scale and size in the insurance business, and accelerate its path towards break-even.

While we are not evaluating any current M&A opportunities, I think one has to keep his eyes open for acquisition opportunities so long as they fulfil any one of these criteria and at a valuation which is meaningful.

What about the country's growth rate? The Finance Minister says around 8 per cent growth rate is achievable.

It's an achievable growth rate. I don't see growth beyond this. Basically, it will have to be a combination of investment growth and consumption growth. Investments also fuel consumption to grow.

Both will have to grow hand-in-hand. While consumption has been quite good in the range of about 4.5-5 per cent over the last quite a number of years, it is the investment growth which is actually stagnant. If we do not get the investment back on track, consumption growth also will slow down. Infrastructure investment is a need and an immediate opportunity.

This will, in turn, drive some of the capacity creation for basic goods. This will have to go hand-in-hand and I see that it can be achieved.

It will take maybe around 3-4 quarters from now to reach a 6-6.5 per cent growth rate. But it depends a lot on what steps the government takes in invigorating the economy and getting the investment growth back on track.

What is your take for 2013-14 growth rate?

It may be slightly below 6 per cent — how much below 6 per cent is a question, which depends on how quickly we are able to put investment on track.

Do you think the current downturn in our economy will affect the profitability of NBFCs?

Any downturn in the economy affects every participant. It's a question of time. NBFCs cannot be immune to this impact because a downturn means there will be some stakeholders or some participants in the economy who will face difficulties, which will have a knock-on effect on others. It's a question of managing it proactively. You need the constituents to manage it better.

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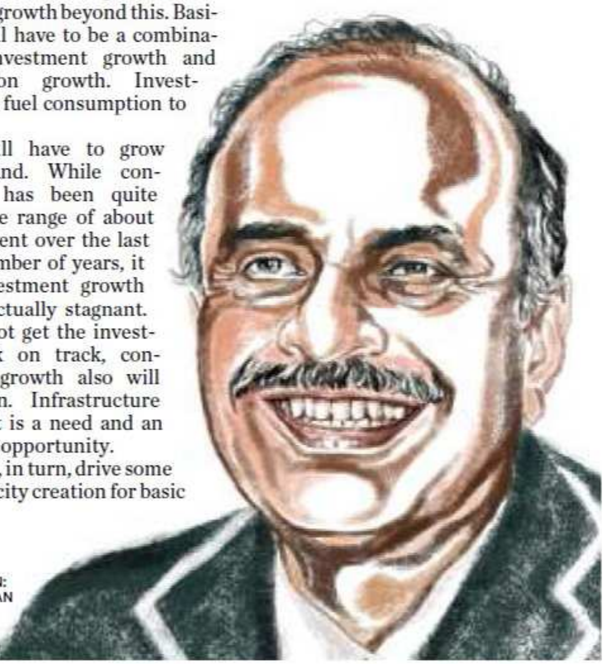

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