THE ECONOMIC TIMES

Thu, 23 May-19; Economic Times - Mumbai; Size : 446 sq.cm.;
Circulation:227412; Page : 12

ET Q&A

VISHAL KAMPANI
MD, JM FINANCIAL GROUP

A stable macro environment will boost prospects of the NBFC sector, ensure medium- to- long-term growth

Problem with NBFCs is of Liquidity, Not Solvency

The recent crisis in the non-banking finance sector has underscored the fact that fast-paced growth without focusing on profitability could push companies into trouble, says **Vishal Kampani,** managing director at JM Financial Group. He tells **Saikat Das** that business leaders want stability in the macro environment because that offers them the confidence to make long-term plans. **Edited excerpts:**

Exit polls are predicting a stable government. How will that help the NBFC sector?
Business leaders and entrepreneurs seek stability in the macro environment. Stability offers business leaders a lot of confidence, and they can plan their businesses with certainty over a longer term. This is the key factor determining whether India will attract or repel capital from foreign and domestic investors. A stable macro environment will boost the prospects of the NBFC sector. A stable government will provide solutions to ensure medium- to- long-term growth for NBFCs.

What are the biggest lessons from the NBFC crisis?
The recent crisis has strengthened our belief that growing at a measured pace with focus on risk-adjusted profitability is the need of the hour. NBFCs need to grow steadily and those which have attempted fast-paced growth without focusing on profitability are at the receiving end. NBFCs with conservative ALM (asset liability management) and strong underwriting standards will stand the test of time.

How did you change your borrowing pattern in the past eight months?
We have always matched our borrowings with assets. Commercial paper (CP) continues to play a significant role to fund our short-tenure lending. Even though we have access to CP funds, as a conscious decision, we have stayed away from funding long-term assets through CPs. Between September 2018 and March 2019, we have cut our overall CP exposure by almost 50%. We have diversified our borrowing profile through public issue of bonds in two of our key NBFCs.

Large corporate houses have to mandatorily borrow 25% of their requirements from the bond market. Can our bond market accommodate such large volumes?
While the markets are shallow, there is always a need for a growing economy like ours to develop a functional and deep corporate bond market. Bond markets tend to disseminate more information in the public domain, push corporates towards better governance practices and so the information arbitrage tends to be low. This leads to appropriate risk pricing as well as better use of capital by banks ... pre-entry of the FPIs, even the equity markets were relatively shallow, but due to all of the above reasons, we have a very vibrant equity capital market.

What needs to be done to improve market liquidity?
Given the current economic scenario, it would be beneficial for the RBI to change its stance from neutral to accommodative to address larger issues in the economy. We all know that the problem with the NBFC sector is that of liquidity and not solvency. As the system is short of liquidity, we expect the RBI to continue with open market operations and infuse rupee liquidity through more unconventional liquidity measures like forex swaps (dollar swaps). Liquidity will flow to the sector depending on the risk appetite of the respective lenders, be it banks or mutual funds. Maybe an out-of-the-box idea like the RBI giving a limited time window to NBFCs to do ECBs or masala bonds without end use restrictions could improve liquidity to a great extent.

What is your take on the loans given to real estate builders by NBFCs?
Real estate financing fundamentally has been a space which only specialised institutions with specialised resources have focused on. Given the various risks involved in the sector, the returns have been higher than the returns in other sectors. Being attracted to these higher returns, in the last 5-10 years, we witnessed many NBFCs and HFCs entering this space. They have quite aggressively grown their books to gain market share. A lot of it happened at aggressive credit underwriting and pricing.

Are firms paying a price for aggressive growth?
Like in any other sector, if the underwriting has been aggressive, and the sector undergoes a slowdown, it will definitely have an impact on NBFCs. This will play out in the next few quarters where the NBFCs will have to recognise the bad loans and make provisions on them accordingly if the real estate industry does not witness a revival. In some cases where asset covers have depleted, there may be a possibility of NBFCs having to take haircuts. I guess the next year will be extremely crucial from this perspective.

How do you see the growth of JM Financial?
We have always believed in the steady growth of the loan book for our lending businesses, including JM Financial Credit Solutions. We have a debt-equity ratio of 1.9 in JM Financial Credit Solutions.

LESSONS FROM THE NBFC CRISIS

The recent crisis has further strengthened our belief that growing at a measured pace with focus on risk-adjusted profitability is the need of the hour