

NBFCs see delay in loan repayments

NS Vageesh

Will make concessions for 'circumstantial defaulters', says M&M Financial Services MD



Mumbai, November 17:

Non-banking finance companies (NBFCs), which serve small traders and local farming communities, are expected to face difficulty in collecting their loan dues in the short term — a fallout of demonetisation.

They are likely to be hard hit since a significant part of their loan repayments are in cash. For instance, Mahindra & Mahindra Financial Services (MMFSL), a leading NBFC, has about 60 per cent of its collections in cash.

Ramesh Iyer, Vice-Chairman and MD of MMFSL, said the company's customers, in general, are daily wage earners — those who need to earn every day and pay their dues — from the farming or small trade community.

The liquidity crunch as well as shortage of business would impact them for a couple of days or weeks. They do not have past earnings to fall back on and have to be in business to keep paying their dues. Therefore, in the current situation, some delays will be inevitable. "We don't see delinquency, but we see delays," he clarified.

Asked how the company plans to handle the problem, Ramesh said, "We will take a partnership approach with good customers and a reconciliatory approach with customers who are in default."

So, where customers face genuine difficulties, the company is willing to make concessions and accept requests for delayed payments. Where customers have large dues piled up, the company is willing to look at accepting collaterals as a way to tide over the present crisis.

"This crisis will provide the opportunity of identifying both the intentional defaulter and the circumstantial defaulter," Ramesh said.

Other opportunities may also open up for the company, Ramesh said. For instance, this crisis may actually give a fillip to the second-hand market for vehicles — since some existing customers may want to downscale operations to adjust for lower level of business activity rather than default on their dues.

Or they may be more open to settlement of loan dues and repossession of their old vehicles. MMFSL, which currently has about 10 per cent of its balance sheet in financing second-hand vehicles, expects to take it to about 15 per cent soon.

Ramesh said the crisis may be an opportunity to revisit the firm's business model and persuade customers to use the banking channel more and shift them from excessive reliance on cash. For instance, instead of accepting margin money by cash, the company would ask customers to now think of bringing it by a pay order, he said.

(This article was published in the Business Line print edition dated November 18, 2016)