

'There is no asset-liability mismatch for majority of NBFCs'

G Balachandar Chennai | Updated on July 10, 2019 Published on July 10, 2019



TT Srinivasaraghavan, Managing Director of **Sundaram Finance**, a leading non-banking finance company (NBFC) that is part of TVS group, feels elated as NBFCs' role has been acknowledged for the first time by a Finance Minister in Budget speech. He welcomed the measures put forth by Finance Minister Nirmala Sitharaman to address some of the burning issues facing the sector. Srinivasaraghavan spoke to *BusinessLine* about the liquidity scenario, slowdown in the automobile sector and near-term challenges. Excerpts:

Have liquidity constraints eased now in the NBFC sector?

Liquidity is better. For some of the larger NBFCs, liquidity has eased. Actually, for many of the bigger players, liquidity was always available but it came at a higher cost after the IL&FS issue flared up in Q3 of last year.

In the last month or so, the cost of funds has eased which, I believe, is reflective of the fact that liquidity too has started easing. From Q3 of FY19 to Q1 of this fiscal, we are definitely in a better place. However, for medium and small players, I don't think liquidity has eased. They were actually untouched by the capital market happenings and were largely dependent on bank borrowings. With banks tightening the screws on lending to the smaller players and also increasing the rates, they have been badly hit.

Numerically, they are large and it is they who deliver much of the last mile credit. If there is a greater push by the government/RBI and if banks free up the funds a little bit, the situation with the medium and small NBFCs will improve.

What do you have to say on the issue of ALM (asset-liability mismatch) in the NBFC sector?

There is no ALM problem for most of the NBFCs. This is mostly uninformed discourse that NBFCs have an ALM issue. Where is the question of ALM for vehicle financing NBFCs, which have an average lending duration of 3-5 years, or consumer durable financing NBFCs, which have asset tenures of 12 months or less?

The HFCs (housing finance companies) have an issue in terms of asset-liability mismatch given that they lend for 15-20 years and there is no long-term funding source available for them.

That is a systemic issue but that again is nothing new. It has been there for decades. But it is important to realise that there are no ALM issues for the overwhelming majority of NBFCs.

Is there any hope for revival in the commercial vehicle (CV) sector in the near term?

The first six months of the last year was a boom time for the CV sector. But starting from Q3, sales dropped month after month, including in Q1 of the current year.

The actual problem started with the introduction of the revised axle load norms. That came at a time when CV sales were at a peak. It created a 15-20 per cent excess capacity, especially in the M&H (middle and heavy) CV segment. Rural sentiment was negative, freight movement has been sluggish, thereby resulting in the M&H CV segment going into a free fall.

And now there is talk of BS-VI and pre-buying ahead of the launch. My own feeling is that even if there is pre-buying, it will be a limited one, largely driven by replacement buying. Even with that, the CV sector is likely to go through a

bumpy ride over the next 12-18 months.

There are lots of unknowns surrounding BS-VI, including higher initial cost, availability of fuel across the country, and so on. But this is not the first time we are seeing this downturn.

Cyclicalities is a known factor in the CV sector. I expect a revival in the second half of FY21.

What is your take on the slowdown in other auto segments?

The biggest worry is the passenger car segment. CV is cyclical and there it is a question of 'when' and not 'if'. But in the case of passenger vehicles, one wonders what will trigger the revival and the turnaround.

The outlook is currently bleak for the passenger vehicle segment. This is the more worrying area because of the cascading effect it can cause. The recent buzz around Electric Vehicles will only add to the confusion in the customers' minds.

What is Sundaram Finance's strategy this year in light of the CV slowdown?

What we have done well over the years is to develop a diversified portfolio.

If you look at our FY19 numbers, we did not grow in the CV segment and yet we registered an increase in disbursements of almost 10 per cent, which is an indication of strong growth in other segments. It is a question of shuffling the pack and being nimble-footed.

It is certainly going to be a tough year. But there still are areas of opportunity to increase our market presence and market share. There are pockets of opportunity in the market which we can tap. Even in the CV segment, there are gaps in the market.

Infrastructure is a big story, today and for the future. The continuing focus of the government on the infrastructure space will help boost the construction equipment segment.

If the monsoon turns out well, the farm sector could see a revival and positive rural sentiment will result in increased consumption spending.

We see good growth prospects in the construction equipment and farm equipment segments.

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