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Market Watch

Although there have been Cassandras, we don't see a blow-up in credit sector: Romesh Sobti, IndusInd Bank

BY SALONI SHUKLA, ET BUREAU | NOV 11, 2019, 07:55 AM IST

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*The Indian credit sector is not headed toward any form of blow-up as Cassandras would like us to believe, said **Romesh Sobti**, MD of **IndusInd Bank**. In an interview with Saloni Shukla, he also spoke in detail on his 2020 superannuation and said that he did not expect an extension beyond the age of 70 from the RBI, which is why his successor — an internal candidate at the bank — will have a parallel run with him for at least 3-4 months. Edited excerpts:*

With non-banks exiting the space they had taken over, are banks taking back the share?

In the last 5-7 years, NBFCs were offering almost all services that banks traditionally were doing; we all know that it led to liquidity mismatches. Now, we are seeing that there is a clear differentiation between retail and wholesale NBFCs. One SBI report says retail NBFCs have managed ₹2.36 lakh crore worth of securitisation; that's massive liquidity. About \$9 billion dollars of ECBs and bonds have been raised by them; these are staggering numbers. So, the shift is happening. Retail NBFCs will continue to grow and compete with banks but their returns may reduce because the cost of funds is going up. I think the whole concept of co-origination will take off now. On the wholesale side, we are clearly seeing mitigation in the competition.

What is your view on larger non-bank lenders turning into banks if the RBI were to allow it?

I don't foresee NBFCs readily converting into banks. We saw of a recent case which didn't go through due to whatever reasons, but the retail NBFCs have created their niche and the wholesale space could be mitigated through merger with banks. I see a lot of intermingling. Several years ago, we wanted to set up an MFI; we were told it's a separate space, and now we own an MFI. All said and done, the NBFC sector will not fade away. But how they approach growth may differ. Valuation-linked growth will no longer be the norm; now it is bottom-line linked. Liquidity norms of banks are gradually being applied to non-banks.

The worry in the NBFC sector is that there are a few time-bombs waiting to explode. What can the govt and the regulatory authorities do?

If I look at only the RBI actions, there have been nine policy actions to facilitate credit and liquidity to this sector. The issue now is risk averseness, which is directly linked to resolutions. If recoveries start flowing from IL&FS and in the new calendar year we expect that to happen, things will start to look up. If the share sale of the media company happens, if the real estate company we have now started talking about gets over its cash flow issues ... once these bumps are smoothed out, it will be better. In the case of the [housing finance](#) company, we were hoping to find a resolution, but it is embroiled in other complicated issues now. But the biggest account which cast a shadow was IL&FS and if a few thousand crores start flowing in from that you will see a clear toning down in the risk averseness. We have seen the RBI take a tough stance that they are monitoring the top 50 NBFCs and time and again they have said they don't see systemic issues.

The government has also taken steps for the housing sector. We know it's more beneficial to lend but we are watching for resolutions to happen.

When will the fresh recognition of stress stop and resolution start ?



The issue now is risk averseness, which is directly linked to resolutions.

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This is the long and dark shadow of IL&FS. If we resolve that part of the shadow, only then will this stop. Every time a new name pops up, we have to see the extent of the residual loss the banking industry took on them. The banking industry is facing issues with a media company, a diversified NBFC, a housing finance company ... one has to see the residual loss left in these cases.

The other issue is that a few years ago, the exposures were small but now they have swelled. Suddenly you realise one troubled NBFC has ₹1.2 lakh crore of loan book ... that is why I keep harping on resolutions. End of the day it's not the NPA but the credit costs that hit your P&L; once that's sorted, it will be business as usual.

We have seen a slowdown in banking system credit. The festive season also didn't move the needle. What lies ahead?

In our book we saw retail and vehicle credit grow normally. In the [microfinance](#) book the growth is back as the issue with floods has played out. On the corporate side, the growth was muted due to recoveries and repayments in a few accounts. While we may be a bellwether on credit growth because our book is small, overall we should see growth over 20%.

PSU lending is happening, collections in MFI have gone to the pre-flood levels; in the vehicle sector we are growing because of the market share shifts but the sector is not growing; non-vehicle retail is also being talked about a lot.

In unsecured portions, the CIBIL data do not show stress emerging in that segment. So, although there have been Cassandras that believe something is wrong, in my mind we are not headed for any form of blow-up in the credit sector.

It boils down to corporates. Hopefully, it will be better growth as compared to Q2. It's a mixed bag but we don't see uniform momentum upwards.

Is the auto sector finally looking up?

The festive season has surprisingly done well as the passenger vehicle data showed. Maruti, for instance, showed very good numbers. So, for me the message is the consumer is willing to buy at a price.

The board has chosen a successor and the name has been sent to RBI for approval...

We have been occupied with succession planning for years. There have been no assumptions on extensions. As an organization, we didn't have plan A. It was always this plan.

Are you disappointed that you didn't get an extension?

No. I never expected it. At 65 when the rules came in, there was no RBI policy on the CEO's age. So, it became slightly discretionary. But when the rules came in, it was made a defined policy. The board has remained focused; two years ago they had sought to know who are the potential successors. And it's not only the CEO; over the last 12 years, we have created a solid bench strength and we are leveraging that now. We are finding people from within to lead us; that's part of the succession play in an organisation.

Has that started happening here?

Yes, it has been happening for a while now but its subtle and non-obtrusive. You give the potential candidate a wider role and the organisation starts sensing that. The parallel run would be for 3-4 months, not for 12-18 months.

What is sacrosanct about age of 70?

What is sacrosanct is what the regulator says. The Companies Act also lays down 70 but has a proviso that you could go beyond 70 if the shareholders approve. If the regulator lays down a policy, it's a rule. Period. You don't contest these sorts of things. I have conveyed it is my job to give you a good successor and do a smooth handover, and that is what we will do.

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