‘Rural demand driving growth in light commercial vehicles segment’

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  Umesh Revankar, MD and CEO, Shriram Transport Finance Company. — Shashi Ashiwal

Economic slowdown, mining ban impacted large truckers: Shriram Transport Finance MD

Though there has been a slowdown in the heavy and medium commercial vehicle sales due to weak economic growth, Shriram Transport Finance Company (STFC) is banking on demand from rural India for light commercial vehicles.

In an interview with *Business Line*, Umesh Revankar, Managing Director and CEO, said Shriram Transport Finance is setting store by the evolving hub-and-spoke model in the transport sector whereby large commercial vehicles plying on highways re-distribute load to light commercial vehicles to reach villages. So, opening rural centres to reach customers in the hinterland is high on his agenda.

Besides discussing the challenges facing his non-banking finance company (NBFC), Revankar observed that the cause of financial inclusion will be well served if the banking regulator allows more banks, NBFCs and credit societies to come up. Further, the regulator would do well to relax the curbs imposed on NBFCs. Excerpts from the interview.

Do you see imminent signs of recovery in the economy?

If the problems of power shortage and infrastructure are fixed, I think the economy will return to a six per cent growth rate by October this year. Shortage of power is affecting many small industries such as poultry and textiles. In fisheries and poultry, production has come down by 40-50 per cent because of shortage of power.

If we can remove power and infrastructure bottlenecks, inflation (including food inflation) can also be brought under control. Food inflation is mainly because 35 per cent of the perishable food items such as vegetables are wasted. The cold storage network and logistics are weak.

Once inflation comes down, interest rates will also soften. This will come as a relief for the industry.

How is the slowdown impacting your commercial vehicles (CV) financing business?

The problem in our business started two years ago, when mining was banned due to transgressions (of course, mining was rampant and done in an illegal manner). Prior to the ban, the CV segment had grown because of mining. Indian Railways was not able to cope with the demand, so more trucks entered mining.

After the ban, most of these trucks went out of business. Some trucks came into haulage (normal goods transport). So, a little overcapacity got built in haulage. The slowing GDP growth and the coal scandal added to the woes of large truckers. Naturally, demand for heavy vehicles came down.

On the other hand, the growth of medium-sized vehicles slowed because of delayed monsoons and resultant delay in cropping.

Last financial year, our Assets Under Management (AUM) grew by only 12 per cent, much lower than the average growth rate of the previous five years.

What contributed to your company's growth?

The rural demand has been very good. The light CV segment (less than 3.5 tonne carrying capacity) grew at 20 per cent last financial year. These trucks are typically used for last mile connectivity.

Also, rural consumption is driving growth in the light CV segment. In India, the hub and spoke model — where large vehicles on highways redistribute load to smaller vehicles to reach villages — is developing. So, the small vehicles will be required to reach the last mile. I do not see any dip in the small vehicle segment in the next four-five years.

What are your company's expansion plans?

We have opened 350 rural centres since March 2012. We have set up these centres as residential centres in villages, where the local person gets the business.

A centre will be converted into a full-fledged branch once it attains a sizeable proportion. A sizeable business for us is 500 customer relationships. We will open 300 rural centres every year and the plan is to convert one third of these into full-fledged branches every year. Till now, we have converted 20 rural centres into full-fledged branches.

What are your capital raising plans in the current fiscal?

In the fourth quarter of the last fiscal, we did securitisation deals (the process of pooling loans, CV loans in this case, and issuing securities, which are backed by these loans, to investors) worth Rs 5,500 crore because of very good demand from banks. So, the liquidity position is very good at this point. We might come up with a non-convertible debenture issue in the latter half of this financial year.

Also, in the current fiscal, many banks are talking to us in advance for securitisation because they , including foreign banks, may not able to meet their Priority Sector Lending targets. (Banks, which are unable to meet the prescribed regulatory target of 40 per cent of loans, take the securitisation route to meet a part of the target).

But RBI Deputy Governor K.C. Chakrabarty has been telling banks to directly lend to customers to meet their priority sector lending target…

The impression that if a bank lends directly to the end customer, then the cost will come down is not true.

There are distribution and collection costs involved in such lending. Banks do not have that kind of an extensive network.

Besides, borrowers in this category do not really look at the cost of funds.

They look at the quickness with which they can get money because there is an opportunity cost. They also look at the flexibility of the repayment.

We do not mind if a customer who has to pay his dues over 36 months, does so in 42 months. Our people keep talking to the customer and are on the field. Ours is a blue collared job, while a bank job is a white collared one.

What are the regulatory hurdles that NBFCs face?

NBFCs are also undertaking financial inclusion. However, the RBI recognises only financial inclusion done by banks. I am surprised. How can they do that?

If an NBFC doesn’t give money, then the customer takes money from moneylenders at usurious interest rates.

Even today there are moneylenders in financially developed States such as Tamil Nadu who give money based on very basic verification like vehicle registration certificate. Some of these deals are conducted orally. It is a parallel (shadow) economy.

So, instead of being so strict, RBI should allow more banks, NBFCs and credit societies to come up. RBI is more of a regulator and not a development agency. We need a development agency which encourages formal lending and formal savings companies.

The RBI should also give more freedom to NBFCs to operate.

Such as…

NBFCs should be allowed to borrow directly under the external commercial borrowings route. Also, freedom should be given to raise retail resources much more freely than what is allowed now.

At present, there are restrictions like an NBFC can raise only 4.5 times of its net worth (if it is rated). Now, the regulator is looking to bring it down to 2.5 times. So, I feel these curbs should not be there.

I feel the RBI should have more liberal view on NBFCs. They can have more control on the NBFCs, I don’t mind that.

That will encourage more product-specific NBFCs to start business.