'We will cut growth to maintain quality'

Shriram Transport Finance Managing Director **UMESH REVANKAR**, in an interview with **Krishna Pophale**, says the company has lowered its loan-to-value ratio to protect asset quality. Edited excerpts:

The Reserve Bank of India has tightened the norms for private placement of non-convertible debentures (NCDs). How is this affecting Shriram's fund-raising plans?

It is not affecting us much because we are securing resources through deposits, as well as NCDs, as we are a deposit-taking NBFC (non-banking financial company). We felt NCDs were superior products, as these offered some security to the investor and we didn't have to put 15 per cent in the statutory liquidity ratio (SLR), as its yields were very low. Now, we are shifting to deposits. Whenever customers want to invest some money, we are offering them deposits. So, there isn't much impact.

Q&A

UMESH REVANKAR

Managing Director, Shriram Transport Finance

In the first quarter, growth in both profit and assets under management were flat, while non-performing assets (NPAs) increased. Do you think the difficult times would continue?

Things have become much more difficult in the second quarter. The rupee is depreciating. Fuel prices are going up, and are likely to rise further. That is likely to put constraints on the earnings of transporters. Second, there isn't enough load because the industrial manufacturing side is not really seen reversing. Power is inadequate. Even -scale industries aren't able to meet customer demands. These factors are putting huge pressure on small operators. So, at this juncture, we have reduced our loan-to-value ratio; we are focusing more on the quality of the portfolio and less on growth.

In this environment, we would like to curtail growth and maintain quality. As far as stress in concerned, it would be there in the portfolio; it will not go away in a hurry. We hand-hold the customer for longer durations, as our business model is a relationship one. The cost of funds has risen. We are able to pass on some costs to customers. We have already increased rates by 50 basis points from August. So, we should be able to maintain our net interest margin.

In this subdued-demand situation, how are your customers reacting to higher rates?

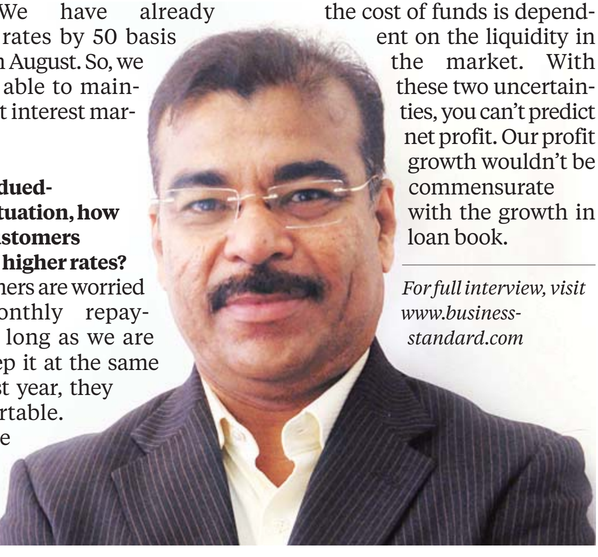
Our customers are worried about monthly repayments. As long as we are able to keep it at the same level as last year, they are comfortable. There are two ways to bring equated monthly installments (EMIs) under control—increasing the tenure or reducing the loan amount. We have lowered the loan amount. So, when you reduce the loan amount, your EMIs come down, even with higher rates. We have reduced our loan-to-value from 70 per cent to 65 per cent.

When do you expect loan growth to pick up?

Growth would be subdued for some time. So, we are very cautious this quarter and would be so in the next. Hopefully, by the last quarter, we should be able to see growth rise, assuming elections do not hamper government work. If that happens, we might have to wait till second quarter of next year.

What kind of growth in loans and profit do you expect this financial year?

For this financial year, we had estimated 15 per cent growth in loans. But there are uncertainties regarding net profit because of two factors—the cost of fund and the asset quality. The asset quality is entirely dependent on the environment and the cost of funds is dependent on the liquidity in the market. With these two uncertainties, you can't predict net profit. Our profit growth wouldn't be commensurate with the growth in loan book.



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