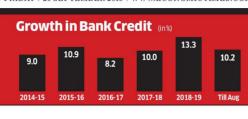
8 India Dialogues

"We need to get banks back into lending. For four years, banks have not been there because of asset quality review, which hit their balance sheets and occupied their time" – JAYESH MEHTA





BIG VISION NEEDED, PIECEMEAL MEASURES CAN'T IGNITE GROW

1822881

LOWER TAXES, STOKE DEMAND

"Taxes on petrol and diesel were ₹1.06

and diesel have also gone up from ₹1.2 lakh crore to ₹2.5 lakh crore. The maxin

rate on the corporates and HNIs is 42.7%.

This is not encouraging new investments

narrative and rhetoric should not make

everybody fearful. These are the times

that call for bull measures for taxes and

fiscal deficit targets. The government may

have to take some leeway for some years to get the economy back on track," Jain

Revival of the real estate sector is also

said. Urban demand will pick up only

"If real estate is not picking up in urban

key to a pick-up in demand, Revankar

from IIFL said.

The Economic Times Bolder measures like tax incentives, increased government expenditure

process of reviving growth, but its concerted policy measures ought to include Revankar said. judicious tax incentives, increased federal expenditure

BRICK-AND-MORTAR PROBLEMS

biles, experts attending the second edition as builders have been burdened by rising there is a slowdown and has shown the

downturnisgettingworseandthisishigh anno time that industry, government, policy er and work out a complete package tha takes care of everything," said IIFL's Jain.

SLUGGISH GROWTH Data released late last month showed that

the Indian economy expanded at lower than-expected 5% in the April-June quar ter, the slowest in over six years, driven by weak investment growth and sluggish demand. Sales of cars and SUVs fell 41% on-year, while that of trucks and buses fell 39%, and two-wheelers also saw a 22% drop in sales, according to data re eased by the Society of Indian Automobile Manufacturers (SIAM).

There are concerns that growth could slin further this fiscal as consumption

next year if the economy does not pick last-mile funding for housing projects seen significant growth," Singh added. said Revankar.

and sector-specific solutions required to turn things around up. Even car sales are hovering between that are not in bankruptcy courts or Real GDP Growth

India Infoline (IIFL) chairman Nirmal increased a little bit, the investment demand dropping off has been the death Government s

nis year. 720,000-crore fund, half of which will a need for wage growth. Entry-level ing demand after two to three years. So, "It may slow down or grow less in the come from the government, to provide salaries in the private sector have not everything is becoming stagnant,"

250,000 and 300,000. Another segment where growth has slowed down is rural. There are several reasons for allowed to borrow funds from overseas rural car consumption going down. In on easier terms to provide them better

HTS. FOR THE COMMON GOOD.

cities, the growth is lower because of less parking space and fines going up.
City infrastructure is not able to absorb

BANKS MORE CIRCUMSPECT Banks have also become reluctant to lend due to the problem of mounting bad loans. As a result, funding for both investment and construction has come down. Getting banks to lend will

and targeted solutions for ustries such as property and automo-facing challenges. Home sales are falling demand, panellists said. "Ultimately, we still need to get banks debt, with banks reluctant to add risky exposures.

back into lending. For four years, banks have not been there because of the asset "Investment demand in real estate quality review, which hit their balance intent to take corrective measures, more has disappeared overnight. When the needs to be done, panellists said at the total demand was investment plus time. We need to start getting banks to needs to be done, panellists said at the total demand was investment plus time. We need to start getting banks to consumption even if the latter has lend," said Mehta of Bank of America-

banking and markets Rakesh Singh. knell for the industry," said Dubhashi of V because there is still demand in some Shriram Transport Finance CEO Umesh L&T Finance. "This is the new normal. pockets that can be tapped and improved sand HDFC Bank's Rakesh Singh. Dinanath Dubhashi and Bank of America-disappeared, and it will require systemic "There is a visible slowdown but there Merrill Lynch MD Jayesh Mehta were the panellists for these discussions.

solutions. One clear solution is to make sure good projects from good developers tinue to see in certain pockets. We are "The government is taking many steps but they are all piecemeal. What we need today is one package which is well thought through and executed very well. These are it will be implemented. In fact, the main These sectors are still consuming capital "As demand accelerates, supplies are ₹3.7 lakh crore. State taxes on petro

> There is a fear factor and the narrative and rhetoric
>
> New investment takes place in anticipation of profit. There is a fear factor and the should not make everybody fearful. These are times that call for bull measures for taxes and fiscal deficit targets

Earlier this month, finance minister

NIRMAL JAIN Chairman, India Infoline
areas, durable or luxury item sales will
not pick up. The positive trend over the now, is waning. Revankar of Shriram Nirmala Sitharaman announced special inflation number that could be a little last one year is that commercial property Transport Finance, the largest truck financier in the country, said commercial vehicle sales could contract 10% to 15% incentives for real estate and export higher would have helped in pushing is picking up. You need housing by up to up wage growth, which can basically five times the demand of commercial lead to higher consumption. There is real estate. It may translate into hous-

User-Pays Model Key to an Infra Rebound

Viable revenue models, removal of roadblocks will attract private equity funding for projects

OUR BUREAU

Mumbai: The revival of India's infracreation of viable financing models and removal of existing roadblocks, such as levated costs of land acquisition and frequent political interference. Furthermore, creating viable reve nodels would go a long way in incentivis ing private equity funding for project that otherwise have suffered due to drying up of funding sources in recent

months, according to experts. "The concept of user pay has to come said Rakesh Singh, group head, inves ment and private banking, HDFC Bank. 'Be it electricity or civic infrastructure, unless user pay is not considered the stakeholders will face serious cha

User pays, or beneficiary pays, is a price most efficient allocation of resources oc curs when consumers pay the full cost of the shortfalls the goods they consume. Furthermore, Singh said that the cost of acquiring land are massive should be brought down significantly to atractprivate capital to fund public projects.
"If you go to any Indian metro city, you'll find people complaining of in-frastructure," Singh told delegates at the second edition of India Dialogues

HDFC Bank

Bureaucratic roadblocks have also
taken a toll on these projects.

the shortfalls are massive.

The single biggest issue faced by private developers is the cost of acquiring land. Govt should consider bringing down the price for at least public utility projects as some of

Head, Investment Banking & Markets, HDFC Bank

on Monday, "The single biggest issue" "Most investors, especially in the bond faced by private developers is the cost of acquiring land. The government should government interferences for political consider bringing down the price for at reasons," said Nirmal Jain, chairman of least public utility projects, as some of the shortfalls are massive." IFL group. "Seemingly good road pro-jects have suffered and lost money. The As per data from CARE Ratings, com-need of the hour is clarity and upholding pared with ₹90 lakh per hectare in 2013-14, the cost of land acquisition stood at ₹2.47 crore per hectare in 2018-19, even as fere unless there is a clear breach of law. he total land acquired for road projects "Uncertainty becomes a very impor has increased. The rating agency has tant point," said Dinanath Dubhashi, MI projected the rate of highway construc-tion to slow down to 27 km in the ongoing of L&T Finance. "Every time an IL&FS ruling happens, it takes away the sancfiscal from 30 km last year. Furthermore, tity of an existing SPV structure. Every the government's target for FY20 has also time a new government comes in and de are taking away certainty.

THE ECONOMIC TIMES | MUMBAI | FRIDAY | 20 SEPTEMBER 2019 | WWW.ECONOMICTIMES.COM



While there has been a slowdown in the non-bank lending space. there is a genuine slowdown in primary demand. The investment demand in real estate has disappeared overnight — DINANATH DUBHASHI



Consumption's Not All Gloom, There are Many Rays of Hope

Not all sectors hit by consumption slowdown, there is underlying demand in certain pockets and wage growth can help accelerate consumption

₹1.4 lakh

560,000

of ₹4.5 lakh

crore stuck

The drastic fall in car and home sales and tourism are clear indicators that India's consumer behaviour is fast changing. The fall in car sales to two-decade low s being attributed to the advent of Ola & the millennials. What has made matters vorse is the mounting unsold inventories f the real estate sector with consumers preferring to live on rent.

"There's a change in ownership pat-tern; earlier, the ownership of a vehicle would have been a priority. Today, with the advent of shared mobility, spends are moving to holidaying, electronics," said Rakesh Singh, head of investment banking & markets, HDFC Bank. "An interesting data point is that 10 million tourists ravel within India and 30 million travel outside India. Consumption in some sectors is dropping but there is still consump-

Over the past five years, the total consumption expenditure of Indian households had accelerated with an average growth rate of 7.8%, compared with an average of 6.1% in 2011-14. But the recent sharp fall in private final consumption expenditure in the June "There is a visible slowdown but there is an underlying demand that we continue he March quarter has significantly

Nou need housing

by up to five times the

housing demand after

demand of commer-

cial real estate. It

may translate into

two to three years

UMESH REVANKAR

are seeing significant amount of demand in warehousing, transmission side and capital and growing." Despite talks that some sectors are con-FY20 compared to Q4 FY19.

prices in Mumbai sank 11% last year

expenditure dropped to 3.1%

in June versus 7.2% in March

sector, there hasn't been significant ring-fencing customer money in projects rowth," said Singh. "The moderated in-lation number that could be little higher yould have helped in pushing up growth laved across the top seven Indian cithich can lead to higher consu u look at the new generation, people are Consultants. ppier to consume, if you increase wage growth, it will accelerate consumption." Significant deceleration in growth of gross domestic product of 'financial sion of PAN card and Aadhaar card for real estate and professional services' within services sector from 9.5% in Q4 FY19 to 5.9% in Q1 FY20indicates that the current problem is of inadequate demand propelled by a low wage gone down. The investment demand in 75% of the 'financial, real estate and When the total demand was in professional services' segment. The other missing link in the fall in increased a little bit, investment demand household consumption has been the significant drop in real estate sales. The

GROUP THOUGHT: It is high time that industry, government, policymakers and the central bank all sit together and work out a complete package that takes care of everything

country's top developers are sitting on unsold inventory worth nearly ₹1.4 lakh crore while their revenues dropped 7.2% and profits rose only 7%.
An analysis of about 11,000 home builders by research firm Liases Foras in February showed that developers on an average have to repay twice as much in debt each year as the income they generate

that can be used to service it. This comes as property prices in India's biggest cities re flagging — home values in Mumba dropped 11% last year following a 5% de-"When the body has cancer, one of the is removed. The tumour of black money was removed by repeated operations of demonetisation, GST, RERA and the liquidity crisis in NBFCs," said Dinanath Dubhashi, CEO, L&T Finance

o recuperate." The collapse of infrastructure financier IL&FS in September last year, which led to a liquidity squeeze and a slowdown in the non-bank lending space, also added to their woes.

Toldings. "The patient (real estate) may

be now cancer-free, but it will take time

"There are not many strong NBFCs which are not ready to give capital to the retailsector," said Dubhashi, "They wan ow in retail and slow down the whol sale book, infrastructure, real estate.. to see in certain pockets," Singh said, "We these have become bad words and money is flowing out of it. While there has been a slowdown in the non-bank lending space renewables — these sectors are still there is a genuine slowdown in primary

The Indian government has taken a se tributing to the demand that has slackened; India grew at 5% at the end of June, slowest in 25 quarters. Low wage inflation the unorganised sector. After demonetisa for the workplace has exacerbated issues tion removed black money from the sector as the salary structure has stagnated for the past few years due to which the conumption slowdown is more entrenched in has declined by ₹1.5 lakh crore in Q1 drop in customers. The introduction of "There is a need for wage growth. If you look at entry-level salaries in the private ments against construction delays and As many as 560,000 homes worth ₹4.5 lakh crore (\$65 billion) are stuck or deies, according to Anarock Property

"Our research shows that while there's a slowdown, there is still demand for homes there have been issues regarding submis transactions," said Dubhashi.
"I wouldn't comment on whether black money is out of the system but the ability ssional services constitute real estate has disappeared overnight plus consumption, even if the latter has

KEY CONCERNS TAX BURDENS

Economy goes through cycles which is norma but what keeps entrepreneurs

it going is the animal spirits o While business conditions decide nvestments, one key factor s the rate of taxes, especially

when it keeps rising. **BRIGHT SPOTS**



but there is an underlying demand in certain pockets

good demand on electricity transmission side, and renewable

CONSUMPTION TRENDS



pattern? Yes. Holidaying, owning electronic gadgets have

over owning a home or buying

REALTY HOPES



to keep it going. Not anymore. But there is hope. Commercial real estate is seeing traction, so that might translate into residential a vear or two later.

BANK WOES When RBI began



forced to recognise bad loans which they rarely did in the past. Once

the banks clean-

up, they were

Capital- starved state run banks couldn't do much.

Quicker Execution of Projects, Minimal **Interference will Draw Foreign Interest**

quicker execution of projects and less est yields. political interference to keep overseas

Separately, Javesh Mehta, MD, at Bank JM: Our bond investors for NBFCs are of America-Merrill Lynch, believes that the yield structure in India's bond market must be right for the country to develop a bond market deep and sizeable enough for are cyclical. infrastructure financing needs of a nation that is aspiring to expand into a \$5-trillion economy. Edited excerpts:

infrastructure sector.

Nirmal Jain: You have the potential to attract a lot of foreign capital into infra also. When they are looking at 30-year sovereign negative bond yield, they are ertainly looking for something. India nfrastructure bonds are yielding abou 8-9%, which are attractive enough for those foreign investors.
Unfortunately, most of the bond nvestors in infrastructure project

Your view on offshore bond investors in

have suffered due to a variety of reasons including delays, execution risk government interference, politica Even in road projects which are good

people have lost money. Interest rate What are the major issues bond investors

NJ: There are a lot of systemic issue scheme of things. Legal and tax issues

battling a crisis of confidence? known at that time as well. After that, no other NBFC has defaulted as such, and Altico is a small NBFC. World-over,

financial sector problems have happened

changed for the good. want their loans back. That is causing more like a loan situation.

you do that you require capital.



Is a comparison between India and the US Did surplus liquidity ustified when it comes to developing the trigger the NBFC crisis?

rance, pension funds as a percentage of happened. 80%. But in the US, that as a proportion Has the investor lost trust? of GDP is 112%. That itself makes a huge difference.

Total trust factor on credit and credit rating by the mutual fund investor has

JM: It is my favourite topic in the last 25-30 years. We are still not addressing the basic thing but everything. The bond them will be able to access ECBs....it market will develop if you have the infranceds to be seen. tructure right. By saying this, I mean, our deposits have to be the lowest yield, side framework for NBFCs. We cannot followed by government bonds, followed depend only on mutual funds. That is a

vehicle for financing large infrastructure projects, but the country must ensure the lowest yield, followed by corporate bonds. Deposits were giving youthe high

tors interested, says Nirmal Jain, What could bring back investors to NBF



Deposits have to yields, followed by which need to be fixed in the whole bonds.Unfortunately govt bonds have the lowest yield and NJ:Ithas been one year since the IL&FS default. The problems in DHFL were deposits were giving

because you borrow short and lend long.

That was not a great practice. It is highly are also linked to the currency view. FPIs unlikely that NBFCs will get access to normally take such a view but they are short-term money from commercial missing at this juncture. mutual funds and that has Mutual funds were the main source. Right now we have to find alternative Most banks are in complete panic and in aparalysis mode. They are not willing to give term loans to most NBFCs; some

Right low, we have to find after harve sources. At some point of time, the public issue market may pick up.

Banks really don't buy NBFC bonds or that have lent money are panicking and any bond for that matter. They will come

JAYESH MEHTA MD. Bank of America-MI

more damage; Lenders should act responsibly and not succumb to the fear factor, After Altico, will NBFC funding become because that will aggravate the problem. **difficult once again?** The problem is with a few NBFCs, and not

The real issue began about four-five years ago when we started AQR (asset quality review) for banks. You had 11 banks under prompt corrective action (PCA) Six banks were almost not lending anything as they were on the verge of PCA. Private consumption, which was typically done by public sector banks, was completely missing.
Then of course, we had GST, DeMo and all that. This created a lot of liquidity surplus That is when mutual funds got money, banks were also surplus on liquidity.

Jayesh Mehta: People start comparing funds. And that is where it grew at a very with the US market whenever there is large speed, which actually deferred ou about bonds outstanding to GDP, which was a problem. Then NBFCs stepped in is 112% in the US versus 18-20% in India. Equity investors started thinking that But nobody talks about AUM (assets NBFCs would take over banks' last under management) of mutual funds, in- mile lending. That is where the problem

been lost. So, there is no other alternative

Can the bond market be a solution for source, which has been built up for

NBFCs Need to Focus on Niche Offerings, Consolidate to Survive Participants at the ET India Dialogues were unanimous that NBFCs should not compete with banks and must turn to knowledge-based growth



Using balance sheet as a strength for NBFCs is not going to work. NBFCs' strength is reach and specific knowledge Dinanath Dubhashi CEO, L&T Finance

OUR BUREAU

These non-bank lenders, also known as shadow lenders, would have to work out other ways of funding their books and look atmodels such as originate and distribute so hat they are not stuck due to swings in the ancial market conditions, experts said. "NBFCs have always been in niche segment; whether gold, housing, CVs (commercial vehicles)," said Umesh Revankar, CEO, Shriram Transport Finance at the ET Dialogues meet. "NBFCs who tried getting into a lot of segments faced problems. Today there are co-lending. NBFCs do not compete with banks. Only first-time customers may come to NBFCs. NBFCs will keep doing onboarding. India's credit penetration is not Intense debate is on about the future of NBFCs after they got burnt in the last one year with funding problems after the col-

dependent on short-term funds from musheet size by selling portfolios to banks and crore-₹3,000 crore are asking for two-three of America-Merrill Lynch. "Banks would tual funds faced severe constraints as the larger rivals.

Mumbai: Non-banking finance companies (NDBFCs) will have to reinvent themselves of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losing money. Many are fighting for surbalance sheet by selling portfolio are modified by the first of losin with niche offerings and consolidate for vival with some big lenders such as Dewan erating value expectation and selling to NBFCs rather than spreads. It is two-three come) have filed return, NBFCs have their Housing Finance defaulting on loans, and in the last round of credit squeeze.

Housing Finance defaulting on loans, and in the last round of credit squeeze.

Housing Finance defaulting on loans, and larger NBFCs," said Dinanath Dubhashi, years from there. Some NBFCs will close down and smarter ones will merge."

while the last round of credit squeeze.

Housing Finance defaulting on loans, and larger NBFCs, "said Dinanath Dubhashi, years from there. Some NBFCs will close down and smarter ones will merge."

while the last round of credit squeeze. Risk Perception Hits Confidence

NBFCs: Proportion of market borrowing (NCDs/CPs) coming down DebenturesBankCPOthers 2017 2017 2017 2017 2018 2018 2018 2018

lapse of IL&FS. Many of them who were many are cutting down on their balance CEO of L&T Finance, "NBFCs with ₹2,000 with banks," said Jayesh Mehta, MD, Bank times valuation. Growth will be more knowl- look at income tax returns, including for NBFCs constitute around 12% of the total market, M&A, land acquisition financing

and have been growing at a faster pace in

The government has also come up with recent years. As of March 2019-end, the aggregate capital adequacy of NBFC sector was guarantee scheme on asset purchase from top-rated NBFCs originated before March 19.3%, while the gross non-performing assets 31,2019. "When demonetisation happened ratio was 6.6%. The credit growth of NBFCs. and banks stopped lending. NBFCs started which was over 20% earlier, slowed down in thinking they could compete with banks the second-half of 2018-19 after the debt deared and started getting cheaper money. We fault by a systemically important NBFC. still want to get banks to get to lending, "Out of 15,000 (NBFCs), 14,900 are likely said Mehta

mom-and-popshopsthatarearegulatory burBut the days of handsome profitability den for RBI," said Nirmal Jain, chairman of IIFL. Jainsaid RBI will better regulate larger NBFCs than focusing on the small ones. "Borrowing short term and lending long" The government and the Reserve Bank of term is hopefully a dead phenom navebroughtinseveralchangesinthe said Dubhashi of L&T Finance. "Using last twelve months to provide more liquid-balance sheet as a strength for NBFCs is $ity to NBFCs and ensure better regulations.\\ "Typical retail NBFCs would not compete "and specific knowledge."$





