Kaizad Bharucha interview: 'We need land and labour reforms and a big focus on developing infrastructure'

Kaizad Bharucha said that as NBFCs had a fair share in retail and rural consumption, it slowed as NBFCs got constrained.

While some NBFCs have come under stress over the last nine months following the IL&FS default in September 2018, there has been overall slowdown in consumption. Kaizad Bharucha, executive director, HDFC Bank, told Sandeep Singh that as NBFCs had a fair share in retail and rural consumption, it slowed as NBFCs got constrained. He however, added that government spending post the Budget and some policy announcements to provide an impetus to industry may help improve things. Excerpts:

Do you see the current liquidity issue being faced by some NBFCs and HFCs to spread across the sector?

It is well known that that there are concerns over the quality of the assets of certain NBFCs. But are we in a crisis? I don't think we have one. Yes, we had one stumble, but I don't think we are in a situation where a large part of that sector may go under. In fact, we are not anywhere close to that. Also, we need to make a clear distinction between NBFCs that are facing solvency and liquidity problems. If it is a solvency issue, then it is a different matter altogether. Those facing a liquidity problem can work themselves through by putting the right mechanisms in place and with some support. The sector is now of course being watched closely, but again a distinction needs to be made between stronger and weaker NBFCs. The ones that have given loans which carry a higher risk will have to take a longer walk than those who have lent prudently. The prudent ones have hedged their bets by spreading the risk across products, geographies and have ensured that their portfolio concentration is not on the high risk sectors.

Do you see the need for the government and the regulator to step in as they have largely stayed away till now?

I think there is an issue but it has not reached a stage where the regulator needs to step in. While a certain segment would seek intervention, I feel there are some alternate resolutions that should be looked at by these entities. These include raising funds through ECB (which may be a tad expensive), securitisation and raising funds through issuance of bonds. The concerned entities should explore such options first.

Do you see it hurting the sector and economy?

Yes, the sector does come under stress. Over the last several years, while the private sector capex remained tepid, growth was driven by government spending coupled with growth in consumption and services. However, since the event in September 2018, the consumption part has also slowed down as it was retail consumption and the NBFCs had a fair participation there. So, when NBFCs got constrained, they obviously lent less and as a result, the consumption demand is also being affected.

With consumption slowing down, how bad is it for the economy?

Is there a slowdown? Publicly available numbers suggest that. Some of the numbers announced by the FMCG, auto and two-wheeler companies too seem to bear this out. While there are other reasons as well, especially in the case of the automobile industry, one factor has definitely been less access to credit. If the monsoon is not normal, it could aggravate the problem.

However, I remain optimistic and it comes from the fact that the government spending is expected to increase after the Budget. Also, if some policy announcements are made which give an impetus to industry. Further, in order to bridge the current account deficit, we can step up exports across sectors. Ranging from engineering, auto, textiles, garments and commodities. And if there is a normal monsoon, it can bring back a rural demand which is important. After all, over half of India lives in semi urban and rural areas. On the whole I remain optimistic.

Where do you see growth coming back first?

One sector that has done well and will continue to do well is roads, thanks to the Government focus on this. We are also seeing demand in industries like chemicals, specialty chemicals, transmission, light engineering and food processing. This is being reflected in the demand for working capital. What is also noteworthy is that while cement and steel plants may not be operating at optimum capacity, the capacity utilisation has not gone down either. All this make us optimistic.