INTERVIEW: KAILASH BAHETI, CFO, MAGMA FINCORP

'We expect cost of funds to soften over next 2 quarters'

*MAGMA FINCORP EXPECTS its cost of funds to soften over next two quarters, on the back of measures announced by the government and the central bank. Measures that facilitated co-lending, on-lending and the partial credit guarantee scheme will benefit Magma Fincorp, **Kailash Baheti**, chief financial officer, tells **Mitali Salian** as the company has a substantive portfolio of retail, rural and granular financing. Given the overall slowdown and liquidity issues faced by the sector, the company could see a slower pace of disbursements in Q2FY20, says Baheti. Excerpts:*

How is Magma Fincorp coping with the ongoing challenges? Are the disbursals down?

The current liquidity squeeze for NBFCs has lasted the longest in the last three decades, impacting the business of financing. The impact of this liquidity squeeze is now clearly visible in the significant slowdown in the overall economic growth. There has been a general slowdown in business and we are not an exception. While in Q1FY20 we have grown our disbursement by 12% year-on-year, we are likely to see a slower pace in Q2FY20.

Our focus is on the portfolio quality, and growth is secondary in the current economic scenario, as we believe that portfolio quality would provide us the requisite strength to scale up disbursements once the economic situation improves.

The second area of focus has been on improving liquidity and re-balancing our asset/liability matching. From a short-term source of funding, we have moved to 100% funding through long-term sources, thus strengthening the ALM significantly.

Do you expect liquidity crisis and slowdown transform into a fresh NPA crisis?

Retail NBFCs like Magma with smaller ticket size and well diversified book should not experience a major NPA impact. The NBFCs with large corporate exposures or exposure to construction finance or speculative exposures are clearly under significant stress.

Do you expect to benefit from the measures announced by the government?

The measures by the government will provide considerable liquidity support to NBFC/HFCs and we expect our cost of funds to soften over next two quarters.

We are a retail, rural and granular financing company and almost our entire portfolio qualifies under either co-origination guidelines or on-lending guidelines issued by RBI or partial guarantee scheme for portfolio assignment issued by the government of India.

Would you need funding? Are you well capitalised for the next year or two?

Magma has a capital to risk weighted assets ratio (CRAR) of 24.4%, which is one of the best in the industry and, therefore, we are very well capitalised for our growth.

Why is the cost of borrowing not coming down for NBFCs?

Under the current circumstances, the debt capital market is going through a confidence deficit and access to raise funds via debt remain largely unavailable. Commercial paper funding was a source of cheaper money and has completely dried up, and this has contributed the most to the rise in cost of funds.

The sector is largely dependent on the banking sector for both replacement and incremental funding. While banks have increased funding to the sector, there is still huge demand supply mismatch and therefore costs of funds have remained elevated.

RBI has decreased the repo by 110 bps, while the banks have passed on around 30 bps only, and even this transmission has happened for new and not the existing loans where the rate reset usually happens at annual interval. Thus, the lack of transmission.

Do you expect things to normalise both on the asset and liability side, and if so, when?

Measures to restore liquidity by the government and RBI introduced in the recent past will take time to flow down to the last mile and may take at least two quarters for liquidity to be restored. The asset side pain may ease by next quarter considering that the monsoon has been good and we are entering the festive season.