

INTERVIEW: Ola, Uber driver loans may need recast, says Magma Fincorp

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By Alekh Archana

MUMBAI – Commercial vehicle buyers and drivers of taxi aggregators like Uber and Ola taxi are among the "highly stressed" borrowers likely to seek restructuring of their loans, says Sanjay Chamria, vice chairman and managing director of Magma Fincorp Ltd.

"These customers who had availed moratorium and did not pay instalment in September or in October. Obviously, these are the highly stressed customers," Chamria said in an interview to Cogencis.

"In terms of restructuring, we have guided that not more than 3% of the total portfolio will get restructured – 450-500 crore (4.5-5.0 bln rupees) worth of portfolio may get restructured," he said. "Largely, these will be the customers who are in the high stress scenario."

As on Sep 30, assets under management stood at 156 bln rupees, down 2.2% on quarter.

For the industry as a whole, he expects non-banking finance companies to see a 500-600 bps de-growth in assets under management. For Magma Fincorp, overall disbursals are expected to reach 100% of pre-COVID level by March assuming there will not be any further pandemic-related disruption.

When asked about expectations for Union Budget 2021-22 (Apr-Mar), he said that continuity of liquidity measures is crucial for the sector. NBFCs, through the Finance Industry Development Council, have requested that various schemes whether Targeted Long Term Repo Operations or Emergency Credit Line Guarantee Scheme be made more permanent at least till the time normalcy is restored, he added.

"Our expectations are largely in the area of liquidity enhancement so that it completely restores the confidence in the sector and banks to lend at lower cost. What we have seen is that even though the interest scenario is benign, the full benefit is not passed on to the NBFC sector by the banks," he said.

Below are the edited excerpts of interview with Chamria:

Q. How do you see loan growth and asset quality of NBFCs and Magma Fincorp in the coming quarters?

A. Disbursals in segments such as affordable housing and tractors have reached pre-COVID levels. In case of other products such as used vehicles and construction equipment, disbursals have reached 70-80%, and 50-60% in case of commercial vehicle and working capital for small and medium enterprises. On an overall scale, it would be 70-75% for the industry. For this financial year, there will be 500-600 bps de-growth in industry assets under management.

For Magma Fincorp, the disbursement numbers are similar to industry trends. Overall, disbursals are expected to be 70-80% of pre-COVID levels. In March, it may reach 100%, assuming there are no pandemic-related disruptions.

On the asset quality, the real impact will be felt in Oct-Dec and Jan-Mar. Till August-end, there was moratorium, then there was one-time restructuring and standstill on asset classification as per the Supreme Court's interim order. All of this led to NPA numbers being much lower than what it would have been otherwise. Accordingly, credit cost is expected to rise for most NBFCs in these two quarters.

Q. What is the status on loan restructuring for Magma?

A. In September, customers with 9.5% share in the AUM did not make payment. These customers had also availed the moratorium. That percentage came down to 3.8% in October. On an absolute basis, it came down to about 600 crore (6 bln rupees) from 1,500 crore (15 bln rupees) in October. These were customers who had availed moratorium and did not pay instalment in September or in October. Obviously, these are the highly stressed customers.

In terms of restructuring, we have guided that not more than 3% of the total portfolio will be restructured. 450-500 crore (4.5-5.0 bln rupees) worth of portfolio may get restructured. Largely, these will be customers who are in the high stress scenario.

The guidance was given at the start of November, and it remains the same.

Q. Please give more details on the customer segment that may go in for loan restructuring.

A. Three are types of customers who fall into the category of loan restructuring. First is commercial vehicle customers. They are finding it difficult to deploy their vehicles. The second segment is commercial taxis, which are used by Uber and Ola. They have also seen a dip in the number of rides. The third is certain businesses under the SME category.

Q. Given the structural changes to business caused by the pandemic, what would be your approach for loan restructuring? For instance, in case of Uber and Ola drivers, an increase in the number of rides is crucial.

A. In all cases, our approach to restructuring is threefold. First, we assess the cash flow of the customer. On the basis of that, we allow restructuring by increasing the tenor of the loan. Then we look at loan-to-value ratio and the principal loan outstanding to ensure that restructuring should not result in lowering of the margin of the customers. Third is the earning ability of the customer. We don't want to restructure and defer the problem. If we find that the customer will be able to repay post restructuring, we will do it.

Q. Would you be adding to the COVID provisions, which that stood at 2.38 bln rupees as on Sep 30?

A. We had earlier guided that this provision was adequate, looking at the percentage of customers who paid post moratorium, we maintain the same position.

Q. The recent investor presentation speaks about fresh deployment of funds in higher return on assets products like used assets, tractors, SME and affordable housing. What prompted this?

A. The change of strategy is not new. We started this three years ago, when we said that we want to grow the contribution of used assets, affordable housing and SME. The only thing that we did not mention was the tractor business, which we are looking to cautiously grow.

Now, we have taken a hard call that we don't want to do products in which banks have an advantage over NBFCs and they have lower cost of funds. These are products such as new cars, new trucks, new construction equipment.

Q. Any capital raising or public NCD issuance in the offing?

A. We are adequately capitalised. We don't need capital. At the moment, there is no plan for any public NCD issue. The interest rate scenario is very benign and banks are also willing to take fresh exposure. We have been getting good support from banks.

Q. Magma Fincorp had planned to unlock value in the housing finance and general insurance subsidiary. Any update on that?

A. Work is in progress, and we have received a good level of interest from investors. Both the businesses are doing well and there is significant traction.

Q. Reserve Bank of India has proposed many changes for NBFCs. How do you see the regulatory landscape for NBFCs in the medium to long term?

A. In the last three-four years, the regulatory landscape for NBFCs has been fairly stable. It is not hostile anymore. Even during the pandemic, in the various initiatives by the RBI as well as the government, there was an increasing recognition on the role played by the NBFCs in financing in various segment such as affordable housing, micro enterprises, agriculture etc. The RBI and government worked together to ensure that there is adequate liquidity available to NBFCs at lower cost.

Even the differentiated approach that the RBI has been talking, the industry has been requesting the central bank that instead of having a broad approach of "one-size-fit-all" it is better to have a different approach, where systemically important and those with large liability franchise, they may have high touch regulations like those for banks. For smaller lenders with limited liability franchise, they may have a light-touch regulatory approach.

Lenders with high touch may also get certain relaxations from the RBI and the government in terms of accessing the bond market and ability to offer certain products.

Q. What are your expectations from the Union Budget for 2021-22?

A. Through FIDC (Finance Industry Development Council), we have submitted our recommendations and also interacted with finance ministry officials. Our expectations are largely in the area of liquidity enhancement, so that it completely restores the confidence in the sector and banks to lend at lower cost.

What we have seen is that even though the interest scenario is benign, the full benefit is not passed on to the NBFC sector by banks.

We also requested that various schemes whether TLTRO or ECLGS be made more permanent, at least till the time we are back to normalcy.

We also made two specific requests on direct taxation. One is regarding deduction of tax deducted at source on certain kind of income, which is applicable on NBFCs but not banks. It impacts cash flows and we have requested that either it may be amended or the rate of interest be reduced.

The second thing we mentioned in the case of NBFCs is the accounting of certain type of income or credit losses, which is not applicable to banks.

Post the implementation of Indian Accounting Standards, companies are required to book interest on NPAs/doubtful assets on time basis in their books of accounts. Thus, NBFCs are required to book such interest on doubtful assets on time basis, irrespective of the fact of unreasonable certainty of their ultimate collection. Thus, recognising the said interest income on non-performing assets would lead to taxability of notional income as the probability of receiving this income is remote.

Further, as per the Income Tax Act, interest income are offered to tax in the year in which it is credited to PL account or actually received whichever is earlier. For the companies that are preparing their accounts under Ind-AS these interest income on NPA are required to be booked in PL even if they are not received and thus the companies are required to pay tax on notional income.

It is, therefore, suggested that such interest income on doubtful assets should be made taxable only in the year of receipt and not on time basis as the same is notional in nature. End

Edited by Maheswaran Parameswaran