

Sundaram Finance sees disbursement growth slowing to 15% this fiscal

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Regulators should ensure that players in the banking, financial services and insurance industry get a level-playing field, argues T T Srinivasaraghavan, managing director, Sundaram Finance. In an interview with DNA, he spoke about how a well-deserved hike to employees is not a burden to his company and how prevention is the best cure when it comes to asset quality. Excerpts from the interview:

What kind of disbursement growth you are targeting this fiscal? Which are the sectors pushing growth?

In our annual report published in May this year, we had said that the automotive industry's two successive years of high growth is exhibiting clear signs of slowdown. With fleet replacements (replacing older model vehicles with new and improved vehicles) largely being completed to comply with emission norms and changes and demand for consumer goods beginning to moderate, sales of medium and heavy commercial vehicles are expected to increase by 5-8%. Looking at the numbers now we seem to be pretty much on target. We are expecting overall gross disbursements growth to be in the 15% range for the current fiscal as against 22% in the last. Growth is coming from light commercial vehicles, construction equipment, a little bit of tractors, so there is growth happening in parts of the auto industry. While medium and heavy is not growing at 30% like previous years, there is some growth which is contributing.

Your employee costs have gone up by 20% on a year-on-year basis in the second quarter. What contributed to the rise? How are you planning to bring it down?

The main reason is that we gave our employees a nice hike last year. It will be maintained at this level. The costs going up is reflective of the fact that we had a fantastic year, salaries in the industry have gone up so our people deserved to be compensated fairly. So there is no coming down.

What is your current prime lending rate (PLR)? What was it at the end of second quarter last fiscal? Do you expect these rates to rise in the near term?

For a financial intermediary like us, it is difficult to talk of a PLR because our rates are dependent on what happens with the banks and with market rates. So, we work with a bunch of floor rates for different types of asset classes with different risks. The sort of average lending rate would be around 12.5-13%, but that is still only an average. Last year's rates would not be dramatically different the change would be almost 50 basis points. I don't see that rates going up immediately, unless all the banks raise their savings bank rates and because of that there is pressure on their own lending rates.

Can you throw some light on your asset quality? What are the concerns right and how do you go about recovery of loans?

We have historically had one of the lowest delinquencies and non-performing assets (NPAs). As of March our net NPAs were 0.2% and as of end-September it is not very different. I think primarily this is because of credit philosophy because all of our business is direct to customers and we do not outsource credit call. The best method of avoiding bad loans is prevention; don't take bad risks which constitute a major part of our collection process. In terms of corrective measures after mistakes are made is a very small part of our collection process.

A working group appointed by the RBI suggests that NPA recognition for non-banking finance companies (NBFCs) should be made at 90 days like banks and housing finance companies instead of the current 180 days...