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Lack of credit flow hurting economy, NPA issue overstated: Srei's Hemant Kanoria

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Hemant Kanoria, chairman, Srei Infrastructure Finance

Over the past few years, Kolkata-based Srei Group has gradually brought down its exposure to infrastructure financing. Instead, the group is now focusing solely on its equipment finance business. In an interview with VCCircle, Hemant Kanoria, chairman at Srei Infrastructure Finance Ltd, talks about the reasons behind the change in strategy, the weak state of the economy and how some of the existing regulations should be changed to revive India's economic growth. Excerpts:

There is a lot of talk about economic gloom, be it the liquidity crisis that non-banking financial companies (NBFCs) are facing or banks' non-performing assets. What's your assessment?

There has been a slowdown in economic growth in last two to three years. The demonetisation [in November 2016] created a disruption and then the Goods and Services Tax (GST) was introduced [in July 2017]. While the GST is a good concept—it simplifies multiple issues related to taxation—[yet] resetting at such mass level does impact the economy in a way.

In my opinion, the lack of credit flow is hurting the economy. Banks have liquidity close to Rs 4 lakh crore, which they are not lending because of apprehensions. We need to bring back the confidence and encourage banks to release this money into the system.

NBFCs, on the other hand, do not have sufficient liquidity for lending. These factors have resulted in a situation where credit flow has become constricted. This issue needs to be addressed to revive economic growth. An economy cannot function effectively without the supply of money.

The NPA (non-performing asset) issue has been blown out of proportion. A lender-borrower relationship is like a partnership. When the going gets tough for borrowers, lenders must offer support through pragmatic resolution plans. If the customer is errant then the lender must initiate appropriate legal actions, but such instances probably account for only 1-2%. Hence, we need to change our mindset; majority in the system don’t commit fraud and we have to build a relationship of trust.

As lenders when we support borrowers during the down cycle, then our money is safe, as the borrower is able to come out of the adverse situation. The regulator should consider reviewing the existing non-performing loan (NPL) norms in view of the present economic situation.

Infrastructure, for instance, is a long-term business and a "day of non-payment" does not make the asset bad. Cash flows over a period of 10 to 20 years will always be available to repay the loan, if the assessment of the project has been done wisely.

At present, everyone is lending to the retail segment, [but] lending to trade, small businesses and services has been extremely slow. It is important at this stage to release funds into the economy.

What is the way ahead?
While the issues may appear complex, the solutions are simple. Our policies have to be aligned with market conditions. Our policies should encourage banks to lend and make funds available for NBFCs.

Tax sops may not offer any immediate solution. This is because most companies are struggling to stay profitable. Tax sops will only help those who are making sufficient profit and, at this juncture, even those companies may not be keen to make fresh investments. Lower taxes for individuals may improve consumption demand to a certain extent but in an environment of uncertainty, when people are worried about job security, they will also be cautious in spending.

Hence, to kick-start the investment cycle in both manufacturing and infrastructure sectors, the thought process needs to be different.
Infrastructure financing and investments entail a long-term perspective with absolute clarity on viability, liquidity, dispute redressal and appropriate exit timing. The confidence of the investors and financial institutions/banks is reinforced if all the above are functioning in sync.

At this juncture there are some gaps. The government is aware of the issues and is trying their best to find solutions. As soon as the issues are addressed, financial investors will be back with gusto.
The government must also fast-track the approval process in order to increase economic activities. We have suggested a model of "deemed approval", which should be introduced in every sphere. The tortuous, laborious and lengthy process of getting approvals creates fatigue, frustration and unviable cost escalation for every project or investment. I am confident that if a few of these simple tweaks are implemented, then India can quickly go back to GDP growth of 9-10%.

What sense are you getting from interactions with government officials on resolving these issues?
The government acknowledges the slowdown in economic activities and is working towards finding a solution. While the Budget [for 2020-21] captures the government's medium to long-term vision, we hope that measures to address the liquidity issue will be announced soon.
Also, the partial credit guarantee scheme will not fully solve the liquidity problem. Loan portfolios as on March 31, 2019 are only eligible for the partial credit guarantee scheme. That deadline needs to be extended and new loans should be brought under the coverage of this scheme.

What all have been your focus areas at the company level over the past few months?
For the last few years, our focus has been to grow our equipment finance portfolio. We are seeing a silent recovery in demand for equipment, which had fallen by 25-30% in the last couple of years, especially since the IL&FS episode [in late 2018]. The government is seized of the slowdown in infrastructure investments and the economy. So, we are sanguine that demand will pick up soon with awarding of new engineering, procurement and construction contracts.

Srei's board, in 2014-15, had decided to reduce the infrastructure project financing portfolio gradually over the years due to increased risks in the sector. Our infrastructure financing portfolio has reduced from Rs 27,000-28,000 crore to Rs 12,562 crore in the first half of 2019-20; it will shrink further. But we are veterans in infrastructure financing sector and it will be sad if we do not make a comeback at an appropriate time.

Is there a plan to raise funds for equipment financing?
We will raise funds maybe through the public market, private placement or from strategic investors. That is the plan for next financial year.

There is a lot of focus on streamlining businesses, cleaning up books and reducing debt by corporate houses. Will this painful process lead to better days for business houses?
Today, unfortunately, if a business makes a mistake and fails or the market conditions turn adverse, it is taken to a bankruptcy court immediately. While the introduction of the Insolvency and Bankruptcy Code is welcome, certain stumbling blocks must be removed to make the IBC effective.

For instance, Section 29(A) of the IBC, which prevents promoters from putting in a bid for their companies, should be abolished. If a promoter has not committed a fraud, then he should be allowed to bid for the company. Otherwise, there is a distinct possibility that the company will not survive and will get liquidated. That is not a desirable outcome.

Resolution professionals (RPs) are like doctors, who must be capable of reviving distressed firms. When a company is admitted in National Company Law Tribunal or National Company Law Appellate Tribunal, which are like hospitals, efforts should be made to revive the company and get it back in shape as early as possible. More accountability will improve efficiency of RPs. Hence, the Insolvency and Bankruptcy Board of India should evaluate the performance of RPs on an ongoing basis.