'There is a dearth of confidence in the system, not liquidity'

The crisis at non-bank financial corporations (NBFCs) has forced many to go slow on lending to property developers. However, Piramal Enterprises' (PEL's) finance arm continues to lend, and these loans are well protected, **AJAY PIRAMAL**, chairman, tells **Raghavendra Kamath** and **Sohini Das**. On Thursday, PEL posted a 25 per cent rise in consolidated net profit at ₹4.8 billion in the September quarter on back of strong performance of its financial services business. It had posted a consolidated net profit of ₹3.84 billion in the same quarter a year ago. Edited excerpts:

Any delay in payment from developers or home loan borrowers in recent weeks?

In terms of impact on our business, not much. We have not seen any delay from any developer or borrower. There is no lack of liquidity in the system; there is lack of confidence. People are not willing to lend. This is a crisis we have made ourselves. There is no liquidity problem or any demand problem.

Piramal Finance has lent aggressively and, so, there is a market perception that there would be some defaults.

You have to understand how we lend. One, we are very particular in the selection of whom we lend to. The counter-party and their track record is very important. And, we only lend in limited tier-I cities, mostly in Mumbai, Bengaluru, Pune, Chennai, the NCR, and Hyderabad — we have now also started in Ahmedabad. We only lend to tier-I developers in these cities. And, we dont want to lend against specific projects; we want to lend against a number of projects. Then, you can cross-collateralise these. Cash flow from all projects is fungible. In real estate, when one does well, another might not. So, the one that does well can fund the project that's not doing well. We have adequate security from all these projects. We take anything between 1.5 and two times the cover for projects.

Are you changing any conditions when you lend to developers in the current scenario, to protect your capital?

These structures have stood with us, like cross-collaterisation, the loan to value. People know that we know how to develop. We can take over an asset and cure it if ever there is a problem. Most other financial lenders do not have that ability to take over an asset and cure it. There is no problem in our portfolio. We have looked at it each developer-wise.

Any change of plan on the listing of your financial services arm?

We had said we will do it in the medium term.

What is to be done to get confidence back in the system?

Lenders must get confidence that the NBFC sector is a good one to lend to. It plays an important role in the economy. Today, 31 per cent of the country's gross domestic product is due to small and medium scale industries. According to RBI estimates, the majority of funding for micro, small and medium industries in the next four years will be because of NBFCs. It estimates ₹650 billion will be met by banks and four times that amount will have to be met by NBFCs.

Have you increased the lending rate? Have you gone slow in lending to developers in the past month?

We match floating rates of interest. The way we borrow and the way we lend, we match. So, it has gone up. New loans will go up by 50 basis points. Hence, we will also increase by the same (extent). We have not gone slow; we continue to give loans to developers. But, we are being a little more conservative on liquidity. There is no slowing from demand for loans from developers. In a sense, the demand for our loans is more, as most of the other NBFCs have stopped lending. So, one cannot suddenly say that NBFCs will not get funds or that they are bad. It will have to be a concerted effort by the government, RBI and the National Housing Bank to see that some long-term funds are given to NBFCs, to restore confidence of other lenders.