COMPANIES P2

REAL INTEREST RATES ARE TOO HIGH, SAYS AJAY PIRAMAL

'High real interest rates making India uncompetitive'

The ailing non-banking financial sector needs immediate support from the central bank, says **AJAY PIRAMAL**, chairman, Piramal Enterprises. The government must also address woes of the real estate sector on a priority basis for growth and job creation, he tells Abhijit and Sohini Das. Edited excerpts:

What should be done to revive non-banking financial companies (NBFCs)?

It is a crisis of confidence, which started with the Infrastructure Leasing & Financial Services (IL&FS) default. Out of its ₹1.2-trillion exposure, its NBFC had lent only ₹20,000 crore, and the balance ₹1 trillion was in infrastructure. However, people do not talk about IL&FS' losses in infrastructure, but only about the NBFC crisis. It is more a question of perception, which we have to change.

Prior to September 2018, there was an asset liability mismatch at NBFCs and everybody got caught in that maelstrom. Mutual funds and banks were lending funds of short-term nature like commercial papers liberally and the costs were low.

So, now we have to build back confidence. NBFCs play an important role in the economy as they finance micro, small and medium enterprises — a sector which is bleeding, but contributes about 30 per cent to gross domestic product (GDP) and employs 25 per cent of labour.

Q&A

How can confidence be restored?

The Reserve Bank of India (RBI) can have some special funding arrangement for finance companies. I understand that the Bimal Jalan Committee is looking at the RBI's capital reserves. If these excess funds are released to the government, the Centre could then open a special line, either through banks or other entities for lending to finance companies.

I have heard banks have indicated to the government that they can't take the risk alone (of NBFC exposure). If the Centre wants banks to lend to NBFCs, let it also take the risk.

"RBI could create an SPV to lend to NBFCs, and charge extra guarantee commission or a little higher interest rate. But let NBFCs have liquidity"

The RBI could create a special purpose vehicle to allow NBFCs to borrow funds. It can charge extra guarantee commission or a little higher interest rate. But let NBFCs have liquidity.

What is your view on interest rates?

Let us look at the interest rates at which people are borrowing in India. It is 10-11 per cent if you are a good corporate. The prevailing inflation rate is below 4 per cent. The real interest rates are almost 7-8 per cent. Which other economy has such high real interest rate?

In the US, companies can borrow at about 3-3.5 per cent. We are not competitive. More so, for an economy which needs capital expenditure to create assets and infrastructure. We have opened our economy to the world and say that we have to compete on a level playing field. But, Indian business is at a disadvantage. Also, India is still a developing economy and there is not enough equity. So, debt is higher. In a growing economy, you have to grow with debt.

What is the way out?

The RBI has to push down rates, which is doable. Instead of cutting interest rate by 25 basis points, make a larger cut and see to it that rates are transmitted. If inflation is low, why should deposit rates be high? This debate has to take place.

What are your plans for Shriram Group investments?

Shriram Group has unique strengths — it has people who understand the community and lend to retail. For Piramal to do that is impossible, as we have expertise in wholesale. Therefore, we said the two have to be separate. It is better we quit from one place; so we will exit from Shriram.

What is the status of your loan to Lodha Group?

We learnt after that you should not have a very large single borrower exposure because the market is uncomfortable. Our exposure was about ₹4,500 crore in September 2018, and we decided to bring it down. By end of June 2019, it will be ₹2,500 crore. By end of December this year, we will bring it down to ₹1,800 crore.

When do you see a revival in real estate?

The government needs to bring some policy measures to revive real estate. It forms around 5-6 per cent of GDP, 17 per cent of employment, and a lot of it is unskilled. So interest rates is one issue, availability of capital is another, as NBFCs were funding it in the past. We will have to think of creative ways to encourage demand like the interest subvention in low-income housing loans.

What is your view on smaller developers?

Consolidation is taking place. The marginal or small developers will not be able to survive, thanks to the Real Estate (Regulation and Development) Act. Customers are becoming more demanding — they have suffered from delays. Now they want to go by the brand and lenders are also becoming more conscious.

What about a re-entry into domestic formulations as your non-compete agreement with Abbott has ended?

We had sold our domestic business in 2010 to Abbott, and are looking for a suitable acquisition to re-enter domestic formulations. Our strategy in acquisition is that valuations must justify the price. We have not found the right mix. We cannot re-enter the branded generics market through a greenfield venture; it would take too long.