Interest rate is important but not the most important

Sundaram Finance Ltd. is among the oldest and largest non-banking financial companies in the country. The company's services include financing for the entire range of commercial vehicles, passenger cars and construction equipment, as well as specially designed working capital products such as fuel finance and tyre finance.

The company has over 500 branches, with the farthest branch in the North being just 50 km off the Wagah border. The company employs over 4,000 people, has a deposit base of over Rs.1,100 crore and is one of the most trusted and respected financial services providers in India. Managing Director ***T. T. Srinivasaraghavan*** *talks to* ***The Hindu*** *in a free-wheeling interview. Excerpts:*

How do you see the economy going, and what has to be done to revive the larger India growth story?

While there have been challenges, one has been encouraged by the statements coming out of the Government and the Finance Ministry. For something real to happen, however, these statements of intent have to translate into action. That is the most critical thing as we look ahead to 2013. If the economy has to get going, public spending has to happen. Infrastructure investment has to be kick-started. We have not seen very much at all on that front.

There are two perspectives to this. One is that public spending is good because it creates jobs. Even more importantly, however, there is a crying need for investment in power. Lack of power is crippling growth. The investment that needs to go into the power sector is massive, and we are nowhere near that. If lot of immediate investments go into road infrastructure and power plant construction, that will start creating momentum of its own. It sets off a chain of activities. It sets the tone, and sends out a message.

Everyone believes that India continues to be a great growth story. There is no disagreement on that. India is still a very attractive investment destination. We have sort of lost our way a little bit in the wake of global events and also because of our own issues domestically. But the India story is not over. There will be far more credibility to the whole process than when it is just a talk. We are hearing very positive noises. The talk is very encouraging. How much of it translates into action is the key.

Where does the government find the money to invest?

Money does not grow on trees. There have to be hard decisions made. One is hopeful of seeing more of these decisions which may not be politically popular but will address the long-term interests of a majority of the population. Subsidies are bad except when given for economically weaker sections. Take the cooking gas issue. Why can't the same rule that is applied to ration cards (if you are above a certain level, you don't get a green ration card) be applied here? There is an inherent contradiction in the way we look at this. And if we juxtapose this alongside the Rs.47 a litre diesel price for someone who drives Rs.1 crore SUV, where does this add up? It is fundamentally flawed. Sooner the extent of subsidies is reduced, it is better. The government will then find the money to do the investment that is required for the growth story.

What is the scenario in the auto industry, and how is that panning out for the commercial vehicle sector?

India is a top manufacturer of cars, and has been a huge market for a while now. I believe we have now reached a size where it is unrealistic to say that our industry should be growing at 30 per cent. You can't be perpetually growing at 30 per cent. Similar is the case with the commercial vehicle (CV) sector. Add to that is the change in profile of tonnage in the CV sector. Twenty-five tonne is slowly phasing out. As against two 16 tonners a few years ago, you have got a 31 tonner now. We should not look at sales in terms of number of units. If you look at sales in terms of tonnage, you will find that over a period the industry has actually grown. There has to be a greater realism and maturity in terms of how we evaluate and benchmark.

What is your view on the impact of the much talked about interest rates in this whole consumer spending story?

We have beaten interest rates over the head for so long. Assuming that the Reserve Bank of India Governor drops rates by 50 basis points, will we go back to 7 per cent GDP growth rate in 2013? We are over-simplifying the issue by saying that interest rate is the only thing that stands between us and phenomenal growth. I don't buy that. Interest rate is important but it is certainly not the most important. Nor is it the only factor that is influencing the overall economic growth and development. There is a whole bunch of factors that contribute to the growth. In an otherwise favourable environment, a friendly interest rate regime would be of big help. From a retail consumer point of view, if his sentiment is positive ... if the job market is booming ... if they are getting nice pay rises, and generally if everything seems sunny, then the consumer may be inclined to go out and buy stuff.

What is the scene on the vehicle finance front?

The vehicle finance situation faithfully mirrors what is happening in the auto sector. Commercial vehicle sales are down steeply, and passenger car sales are flat. The only areas where there is some growth is in the small CV segment (the sub-one tonne) and the utility vehicle segment. The haulage segment has taken a real beating, which, again, logically fits in with the industrial production and the overall economy being down.

What strategy can NBFCs have in this kind of a scenario?

Over the nearly 60 years of our existence, we have seen some real highs and lows. If you recognise that over the decades you are going to see these highs and lows, then you build a business model and a strategy that allows you to come through these with a certain amount of equilibrium, which is the policy we follow. We have been within a much narrower band of growth with far less volatility.

Top line growth has to be tempered with asset quality and profitability. In lending, the day you give money is when the game starts. You have to balance growth with perception of what the future holds, and one has to plan based on the trends that you see and based on your past experience. Plans for growth have to be balanced, and there has to be a longer term perspective. You have to be conscious of 3 things: growth, quality and profitability.

But isn't there a big role for NBFCs to play in the economic growth?

Yes, definitely there is. And that probably explains why we continue to be successful and why we continue to grow. There is enough room for banks and non-banks to play. If banks act as wholesalers and we as retailers, if people are really committed to financial inclusion beyond talk, then you will realise that financial inclusion will only happen by fully leveraging the NBFCs.

Financial inclusion is a new buzz word. The hire purchase companies that started several decades ago were the original pioneers of financial inclusion. They took credit to the un-banked and to the rural areas. There needs to be discipline, and to that extent, regulation is fair and we are fine with it. Where we do have a problem is with us having to be fighting in an uneven playing field, whether it relates to taxation or in terms of the legal remedies available. The larger NBFC sector is fighting far too many unequal battles. If everyone is committed to financial inclusion, there has to be the recognition that we too are an important cog in the wheel. There have to be a number of supporting actors. The NBFCs, are one of those key supporting actors.

(The Hindu)