FINANCIAL EXPRESS

INTERVIEW: RAMESH IYER, VICE-CHAIRMAN AND MD, MAHINDRA FINANCE

'Our forecast is a 50-60 bps increase in interest rates'

*Apart from improved asset quality, an increase in vehicle sales and better margins have contributed to the 81% year-on-year (y-o-y) jump in Mahindra Finance's March quarter profit, **Ramesh Iyer**, vice-chairman and managing director, told **Shritama Bose**. Excerpts:*

Your income has grown 13%, but profit is up 81%. Is this because of a reversal of provisions?

Definitely, the provisions have substantially reduced and that has added to profit. There's no doubt about it. The second is also that we have been able to maintain and retain our net interest margin. We ask ourselves, when an increase to the incremental borrowing cost happens, are we in a position to pass that on to the consumer, like we do when the borrowing cost falls? So there has been the protection of margins. Another factor is the product-mix change. When growth comes from tractors, a little more from pre-owned vehicles, etc., it will come at a yield definitely higher than that from other products. That also helps maintain growth. But, one large factor that would have helped growth, in addition to the product mix and disbursements, would be reversal of past provisions and lower provisions on an ongoing basis.

What was the fall in provisions y-o-y?

If you look at December-end itself, we had a gross non performing asset (NPA) ratio of 11.6%, and that has come down to 8.5% now.

Your loan growth has been 18%. Can this be attributed to the base effect of demonetisation?

I wouldn't want to put it that way. Let's say the base was much lower, but if the OEMs (original equipment manufacturers) didn't sell, we would do nothing. So I think the growth of a finance company comes from how the underlying asset growth has happened for the OEMs. All the OEMs, whether it's Mahindra, Maruti or Tata, everyone has registered growth in the rural market and my personal opinion is rural market is growing faster than the urban market, as far as the growth rate is concerned. With our deeper penetration and working with around 500-odd dealers for all products across the country, we become a direct beneficiary of that growth. Secondly, our pre-owned vehicles segment, where we are participating in our existing customer trying to sell a vehicle to another customer who wants to buy a second-hand vehicle, we become a direct financier to them, knowing both sides. The third is our SME segment, where we have participated in financing the expansion programmes of dealerships or the supplier capacity expansion programme, has also registered growth for us. So I think it's an overall growth from all products, deeper penetration across the country, maintaining market share for high-volume products and gaining market share in the new products that we have eneterd into.

In which products would you have gained market share?

Even in auto and tractors, from a 32% level we have moved to a 34% level, and that's on a very large base. As far as Hyundai, Tata Motors, Nissan and Renault are concerned, all of these products have shown volume growth and market-share growth for us.

What has been the net impact of rising yields in the market?

Fortunately for us, at the beginning of the year, we did see a drop in rates and then as we moved along, we saw the borrowing cost going up. We don't resort to any one source of money since we have a multi-product mix. Even if the rate of some product has gone up by, say, 50 basis points (bps) or 20 bps, the overall impact on the borrowing cost may have been 20-30 bps. But, when we replace our old liabilities, which are maturing, some of them are maturing at even higher rates. Even though we have seen the marginal cost increase, the average cost does not go up so much because they (new liabilities) are replacing high-cost borrowing on the book.

What would your outlook for interest rates be for FY19?

I think that if we were to take a one-year horizon, one would see a 50-60 bps increase in rates. That is our forecast.

Will you be in a position to pass it on to your borrowers?

Our practice has been that if there is a 50-bps drop, we have factored that in our lending rates, therefore, we would pass it on even when there is a 10-20-bps increase. If we do see that 50-bps increase kicking into the borrowing, then the lending rate also moves proportionately. It may not be across products or in all geographies. It is important to understand that the customer then also passes it on to their consumer in the form of freight rates or passenger fares