

Retail Finance

Ground View Conf Key takeaways

13 December 2016

We organised a **'Retail Finance Conference'** on 9th December 2016 in Mumbai. In this day-long event, we hosted the following companies, consultants, and channel partners.

India Research Team

PARTICIPANTS

S.N	Segment	Company
	Mortgage	
1	Corporate	Housing Development Finance Corp. Ltd
2	Corporate	Gruh Finance Ltd
3	Corporate	Aspire Home Finance Corporation Ltd
4	Corporate	Capital First Ltd
5	Rating agency	ICRA
6	DSA	Andromeda Sales and Distribution Pvt Ltd
7	Property Valuer	
	Auto Finance	
8	Corporate	Mahindra & Mahindra Financial Services Ltd
9	Corporate	Shriram Transport Finance Ltd
10	Fleet Operator	Transport Corporation of India Ltd
11	Consultant	Indian Foundation of Transport Research and Training (IFTRT)
	Gold Finance	
12	Corporate	Manappuram Finance Ltd
13	Corporate	Muthoot Finance Ltd
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14	Self Regulatory Organization	MFIN
	SME Finance	
15	Corporate	Shriram City Union Finance Ltd
16	Consultant	SME BOTS

Housing Development Finance Corp. Ltd

Salaried segment normalising

- Major impact of demonetisation largely in the tier-2 and 3 cities. Most impacted places are Jaipur, Surat, Indore, and parts of NCR (disbursements are down by 50-60%).
- While disbursement will not see growth in November-December, the impact on loan growth may not be significant due to low repayments in November.
- Non-individual loans, which form 30% of its loan book, could see growth due to its lease-rental discounting business, which saw strong growth. LAP is likely to remain a problem area due to difficulty in arriving at the property value.
- Margins may not be dented much, as decline in yields have been compensated with a fall in the cost of funds – these are likely to decline further as it has replaced Rs 200bn worth of bank loans with borrowings from ECB, Masala Bonds, and domestic bonds.
- Do not expect any major impact on asset quality, as 85% of retail loans are to salaried people and around 8% are to self-employed professionals.

Gruh Finance Ltd

Concentrated portfolio to impact current year growth

- The impact of demonetisation will not affect asset quality much, but disbursement will decline in H2FY17. However, on a full-year basis, disbursement will remain flat due to strong disbursements in H1FY17.
- Loan growth is likely to look normal from FY18 driven by lower interest rates and correction in property prices, which will drive demand. It expects FY19 to be a strong year with an increase in the supply of affordable housing.
- Gujarat market affected significantly, as ~40% of real estate/developers deals are in black. While the impact was minimal in south and east, believes west and north India will be impacted the most.
- LAP is currently 11% of loan book with average yield of 13%. The plan is to bring it down to 5%; will maintain the mix ahead. Direct selling agents contribute 60% of LAP sales.
- Developers' loans include 20 accounts; wants to maintain it at 4-5% of loan book. The yield on developers' loan is 15%.
- Borrowing mix: NHB 40%, NCD/CPs 25%, banks 25%, deposits 7%.
- Margins could compress marginally, expects NIMs at 3.8-3.9%.

Aspire Home Finance Corporation Ltd

Near term to be challenging

- Aspire Home Finance started in May 2014. It caters to home-loan needs – primarily finances new home purchases. It has refrained from lending to builders and lending against property.
- It originates most of its loans in house – from relationship officers (80%), direct branches (4%), and DSAs (16%).
- It has a loan book of Rs 30.7bn with outstanding loan accounts of 32,177. Its average ticket size is Rs 1mn and maximum ticket size is Rs 2.5mn. Average LTV is 63% and the ratio of salaried to self-employed is 60:40.
- Average loan yields for the salaried segment are 12-13% and for self-employed they are 13.5%.
- Loans up to Rs 1.2mn are approved by credit heads and loans above Rs 1.2mn have to be approved by the Chief Operating Officer.

- It has a network of 74 branches spread over Mumbai (14), Rest of Maharashtra (30), Gujarat (18), Madhya Pradesh (11), and Telengana (1). It plans to increase its network to 122 branches and will expand in Karnataka, Rajasthan, Tamil Nadu, and Chattisgarh.
- Asset quality remains healthy with GNP/NNPA at 0.29%/0.24%. Expects near-term asset quality to weaken due to demonetisation; there have been cases of cheques bouncing on presentation.
- Loan disbursements will be dented by 50% due to demonetisation with a consequent impact on loan growth in FY17.

Capital First Ltd

Some impact on LAP; consumers to benefit due to spill over

- SMEs constitute almost 60% of its portfolio (LAP and Business loan). LAP is growing at 10% currently and likely to grow by 5% ahead. Log-in is down by 30% in the first 10 days of December in the SME segment. Collection in November was in line with October's run rate.
- While SME segment was slightly injured, the consumer segment was good due to spill-over effect. There was a slight improvement in the last few days in the two-wheeler segment – where a major part of its financing (~60%) is for Honda. Expects 25% yoy growth for FY17 in the consumer segment.
- Capital First has stopped lending in wholesale books last year (which is primarily developers). This book currently stands at around Rs 10bn. Moreover, it has also entered into the used-car segment; this book is ~Rs 3bn.
- GIC Singapore bought a 4.92% stake in the company at Rs 712.
- Expects 18% RoE by FY19/20 with 60-80bps jumps every quarter. With a shift towards consumer durables, which are high yielding, NIMs are likely to improve. Expects NIMs to touch 10.25% by FY19/20 from 8.85% currently.
- Cost of borrowing is falling. Diversifying to other channels of funding that are 100-125bps lower than bank borrowing.

ICRA

Credit behaviour of LAP

- Retail Finance - LAP delinquencies have gone up to 3% from 1% in the last two years because banks and NBFCs have now started to season their books (although not completely) and market yields have come down to 11% from 13-14% due to competition and lower interest rates.
- Lower corporate credit growth has led to banks' foraying into the LAP segment and these entities have been given lower risk weights – 35% is the risk weightage in mortgage.
- LAP is mainly given to self-employed people, largely with shops or homes as collateral.
- SARFESI act enables NBFCs to recourse the property in 2-3 years.
- Revenue recognition of LAP is 120 days.
- LAP prepayments rates have come down to 19% from 24% as reliance on DSAs has reduced, and lending rates have fallen. Overall industry reliance on DSAs is going down, hence churning is lower.
- NBFCs contribute a major chunk of the LAP book in the Indian housing industry.
- Unsecured lending is increasing in retail.
- MFIs remain vulnerable. Gold loans are in a comfortable space.

Andromeda sales and Distribution Pvt Ltd

Salaried HL showing signs of recovery but LAP is worst hit

- Loan against property (LAP) business down 30% in November. Fresh pipeline build up is very slow. The pullback is due to valuation knocks on properties.
- High-ticket LAP was more impacted. Lenders are moving to Rs 2-5mn ticket-size business loans.
- Lenders have increased collection efforts in anticipation of borrowers facing repayment challenges.
- Balance transfer business is becoming difficult, as volumes are down by 50% in the last two years due to stagnant property prices.
- Salaried home loan business (after initial hiccups) is recovering. Potential borrowers had postponed decisions in anticipation of a sharp correction in property prices and interest rates – which did not happen. Files have started moving again and enquiries has resumed. Overall, the salaried home-loan business was down 20% in November.

Property Valuer

Price correction in secondary market to be higher due to cash component

- Operates in markets of Mumbai, Navi Mumbai, Pune and Nashik as every market / City has different Municipal regulations affecting the property mkt
- Thinks secondary market has higher component of cash (black money) and will be affected the most given that difference between market value and reckoner value is always there. Cash heavy markets of Ghatkopar, Western Suburbs, Gujarat have seen cash component as high as 50-70% and will be affected the most
- Primary market typically follows the secondary market and thus will also see a impact.
- Currently Mumbai market is disturbed not only because of demonetisation but due to frequent changes in the regulations. For example, the recent amendments to TDR application rules have led to surge in TDR prices by almost 100%, which makes many projects unviable where TDR is required
- The new era would bring in lot of transparency to the construction industry and will be beneficial for the buyer.
- Most important development is RERA (Real Estate Regulation & Development Act) which mandates compulsory registration of property after 10% of the payment is made vs 25% earlier.
- Gujarat has already implemented the RERA act while Maharashtra is likely to do after Feb 2017; It is under seeking public comment on the draft
- All the large developers will benefit as for most small & unorganized players the compliance cost will make the project prospects less remunerative
- Most large builders in Mumbai have cleaned up the Act over a period time. Few areas / charges where it's still possible to seek cash were parking etc which will be difficult under RERA.
- Difficult to assess the actual impact on prices, however may see 15% correction across geographies with deeper correction in the geography where traditionally cash component was higher.

Mahindra & Mahindra Financial Services Ltd

Farming segment hit the most; recovery will also be fast

- Farming segment is the worst hit due to demonetisation, as farmers have either postponed selling their produce or have not received cash after sales. However, this segment will recover fast – as cash inflow is just delayed. While fresh sowing of crops was a bit delayed, it has recovered now.
- Collection efficiency was 92% in October and 75% in November due to demonetisation impact and delayed collections.
- Repossessed 4,000-5,000 vehicles in November as it believes customers were intentional defaulters. The company generally keeps the repossessed vehicle for 45 days in its yard before selling (to see if customers come back).
- Tractor disbursement in October and November was higher. Disbursement growth likely to be lower at around 8-10% vs. earlier guidance of 15%.
- It has waived off penal interest for customers who came for clearing dues before 25th November.
- Ola/Uber financing has a huge potential, but its current contribution to MMFS' portfolio is small.
- It takes 2-3 good crop cycle for overall loans to recover. From mid-November to January collections from the harvest usually come in.

Shriram Transport Finance Ltd

Short-term impact on growth; collection efficiency impacted marginally

- While disbursements were down 20% mom in November, collection efficiency was reduced by just 3%. Collection efficiency in November was ~90% vs. 93% before demonetisation.
- Shriram's customers are mostly in the general category vehicle owners, not aligned to any particular industry. As a result, they are still getting business; their truck utilisation was 15-20 days in November. Around 75% of its customers are single-truck owners with 99% having less than four trucks.
- Despite lower utilisation levels, customers' cash flows are not impacted much as they saved on toll charges, which constitute around 20-30% of the trip cost.
- 100% of its customers have bank accounts. Around 40% of payments have come through cheques while 10% have come in new currency.
- Demonetisation not likely to have any structural impact on business. The management does not see business moving to banks after demonetisation.
- Tamil Nadu and Maharashtra, which have a higher share in India's GDP, have not performed well in the last two years. Uttar Pradesh, Orissa, Madhya Pradesh, and Rajasthan are doing well. Geographical distribution of the portfolio – south 42%, west 32%, north 16%, and east 7%.

Transport Corporation of India Ltd

Focus towards cash-less operation

- Road transport business is down by ~25% after demonetisation. The fall is mainly due to a demand slowdown rather than operational issues. There was a one-time benefit from non-payment of toll that was not passed on to customers. Toll is ~15-20% of freight cost (Mumbai-Delhi toll is ~Rs 9,600).
- Almost all transporters have bank accounts and getting credit for fuel, tyres, and buying is normal trade practice.
- Organised players have gradually moved to online payments through petrol, card, and fast-track payments (10% discount) for tolls. Companies have started using pre-paid cards for drivers.
- Freight rates have declined by ~20-25% on most routes as benefits of lower toll and fuel costs were passed on to customers. However, transporters are concerned about getting return cargo. Most of the transporters prefer shorter lead distances in a slowdown due to cash availability and fear of high waiting time for return cargo (~5 days).
- Average cash requirement per driver per day is Rs 2,000-2,500. Smaller fleet operators are attaching themselves to organised players as trade is moving to the organised segment.
- Demonetisation will help companies to move towards GST compliance faster and reduce the impact time after GST significantly.
- GST will provide operational efficiency and cost benefits as ~5% cost in transportation is not adjusted in the current tax regime. Under GST, this will be adjusted, benefiting fleet owners. Excise duty paid on buying fleets will also be adjusted after GST, reducing capital costs for owners. Overloading of cargo and under-reporting is also likely to reduce after GST is implemented.

Indian Foundation of Transport Research and Training (IFTRT)

MHCV recovery to take time

- Truck utilisations are 50% lower after demonetisation.
- MHCV industry should take three quarters to recover; don't see any pre-buying happening yet.
- Small fleet operators (80% of India's fleet) have felt more heat and delinquencies might start if things don't improve soon.
- Despite converting major expenses through the banking channel, a lot of expenses (30-50%) have to be incurred in cash.
- The LTVs (loan to value ratio) in MHCVs are between 90-100%.
- On an average, MHCV owners earn Rs 1mn from a new truck in four years (including resale value).
- Not happy with digitisation – because additional cost of 2.5% (on card payments) is way too high and many businesses don't have such margins.
- Chinese truck tyre imports were 443 containers in October – have declined to 340 in November and will be below 150 in December.
- Don't see anti-dumping on tyres before May 2017.

Manappuram Finance Ltd

Impact high due to short duration portfolio; recovery to also be faster

- Usually operate through direct banking and online platforms.
- 60% of its customers have bank accounts.
- 35% of its customers pay interest in the three-month scheme. They are much better hedged now due to increase in gold prices in the last six months.
- 25% of the loan book is closed within one month.
- After demonetisation, the number of new customers per day has reduced. Demand is still there, as people are now shifting from moneylenders.
- Collection on cash basis is very difficult to ascertain, as it is an amalgamation of interest, principal payments, and EMI.
- Planning to launch its own wallet (online medium for payment); already received a license from the government. Expects operating costs to come down significantly after this.
- Trying to get e-lockers in branches – where customers can access their accounts on their own. This will reduce manpower requirements, and lockers will respond on the basis of the biometric system.
- Guided for Rs 200bn AUM by FY18.

Muthoot Finance Ltd

Business down 30%; Asset quality likely to remain stable

- Demonetisation has impacted business by about 30-35%. While disbursements are down to 65% of the normal run rate, repayments in November are down to 70% of normal.
- Interest collection has fallen to 80% of the pre-demonetisation run rate.
- While earlier collection used to be entirely in cash, now cash collections are down to 40% while 60% are in the form of cheques.
- Interest rates on products ranges from 12-23% with LTV in the range of 55-75%.
- Ideal volume per branch is around Rs80-120mn.
- Asset quality likely to remain stable even as auction could see some increase. Loss given default to remain low helped by higher gold prices and lower LTVs.

MFIN

Delicate scenario, faster remonetisation is a key

- Disbursement is down by 25-30% mom in November while collection efficiency is 75-80%.
- Collection efficiency is better for MFIs with a wider geographical spread than regionally concentrated players.
- Collection pain is more in Madhya Pradesh, Maharashtra, Uttar Pradesh, and Uttarakhand. Large concentration to these states may lead to unfavourable credit behaviour.
- Instances of local politicians making false propaganda of loan waiver. MFIN is in constant touch with the state machinery to avoid a crisis; launched an active campaign in vernacular newspapers.
- Collection is better in small-ticket loans vs. large ticket. MFIs are not deterring disbursement.
- As of now, no evidence of impact on borrowers' earnings profile; however, MFIN is watching developments and can comment only by the end of December.

Shriram City Union Finance Ltd

Collection efficiency drops 15%; maintains growth guidance

- In the SME segment collection is largely through cheque (97%), while only 3% collection is in cash (that to from the customer whose cheques has been dishonoured). EMI date is 7th of every month hence collection efficiency in November remained healthy. Real impact likely to be known in December, for which data is yet to be collected.
- While there is no stress in south and Maharashtra, in other regions (Gujarat, Madhya Pradesh, and north) stress has been reducing.
- Did highest ever two-wheeler financing in November helped by spill-over from the previous month. Expects December to show growth over last year.
- At a consolidated level, collection efficiency was impacted by 15% due to demonetisation. Auto and gold loan portfolio worst hit.
- Auto and SME business to normalise by January end, while other segments will normalise by December end.
- Maintained AUM growth guidance at 20% for FY17 and GNPA ratio (120DPD) at 7%. Expects further reduction in cost of funds in 2HFY17 / FY18.

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