

# Our Approach On NBFC Consolidation Will Be Conservative

Q&A

Given the current stress in the NBFC sector, there is going to be

consolidation, but it is always better to take a conservative approach so that the quality of the book remains good, said **Ajay Piramal**, chairman, Piramal Group, in an interview with ET Now. Edited excerpts:

## What can the RBI do to improve liquidity in the market?

RBI took several measures after the IL&FS mess to infuse liquidity in the system but now it is more a matter of rebuilding confidence that if you lend to NBFCs, your money is not going to go down the drain. RBI will have to increase its liquidity to the NBFCs. One of the suggestions that we could have is if RBI opens up a special window of funds which can be lent to NBFCs. Besides that, the RBI can also look at creating a whole special purpose vehicle which can lend some funds to NBFCs on a short term basis; they can buy over the commercial papers which the NBFCs are due and refinance them. They could take a fee if they like but these are some of the measures that the RBI would have to do.

## Larger companies such as yours in the last couple of quarters have changed the mix of the sourcing of the capital via NCD and ECB, but smaller NBFCs are not being able to do so. Do you think that could spur a lot of M&As in the system?

Clearly, there is going to be consolidation in the NBFCs. Actually, post IBC, consolidation is taking place in almost every sector. I see this in the NBFC space as well and over time, you will see the larger ones becoming larger and some of the smaller ones which are not well capitalised and which do not have as good an asset quality as they should have, would find it very difficult.

## You are very well capitalised, and you have been approached by different players. Are you evaluating such proposals?

We are very clear in this; generally we are known to be the people who do a fair amount of mergers and acquisitions in other industries but in the finance sector, we would take a very conservative approach because



in financing, what is most important is that the culture and the values that the organisation and the people who work there have and secondly, that has to be very important for us to be able to look at the quality of the book in granular detail. Only when we find that it meets with our requirement, would we look at acquiring portfolios.

## Last last six-seven months have not been easy for the sector or for the company. From here on, how does the roadmap look like?

One of the things that we realise is that because we also raised a lot of long-term funding and people did a through diligence of our books, the quality of assets that we have is high class and therefore the underwriting that we did was good. In that sense, we feel confident that even in a very stressed environment where there is so much pressure all around, our quality of book remains good.

## What have you learnt from the recent crisis?

One of the lessons that I have learnt is that what we have done till now as far as underwriting is concerned has been good. Second lesson is that we should be more conservative and have more long-term funds and now even the RBI has put up new policy document which in some ways will also push us towards that. We would rather err on the side of conservatism. The third thing we have learnt is that the single borrower exposure will have to be brought down because it creates unnecessary pressure in the market. Fourth, we knew that it only gets further amplified and it is always better to be conservative in your debt equity ratios.