Hindu Business Line

\'The self-employed too are credit worthy\'

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Meet the CEO

'The self-employed too are credit worthy'

Non-performing assets in the self-employed segment have been one-fifth of the salaried segment's NPAs in housing loans —Vellayan Subbiah

LOKESHWARRI S K
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While heads of most companies are ready to recite a litany of the troubles in every interview, Vellayan Subbiah, MD of Cholamandalam Investment and Finance Company, is different. He brushes aside the ongoing slowdown, labelling it a temporary blip and instead prefers to talk about the immense potential for financial services companies due to the under-penetration of these services in the country. His passion to make a difference in the lives of the people he deals with, from the hair-dresser in a small town to the truck-driver who plies the country's highways, transformed what would have been a routine interview of an NBFC chief into an insightful interaction marked by human touch.

These are difficult times for vehicle financing and your business is not doing as well as it should. Is there a pick-up in this business of late, especially in medium and heavy commercial vehicles?

When you say, "as well as it should," you are creating an expectation, and there is a problem in that. There are cycles in every business and if you are going to get depressed in the low-end of the cycle and get excited at the higher end, you create a problem for yourself. We have delivered significant profit growth over the last five years and I believe growth over the next five years will also be good.

Heavy commercial vehicle sales have been down for almost three years before they started picking up. That is the natural order of things.

Most of our businesses are so stand this natural order. The AUM (loan book) growth might not be great this year, but worrying about these numbers takes us away from our core focus, that is "How do you make a customer's life better?"

For instance, take someone who started as a cleaner, went on to become a driver to an owner of a used truck to an owner of 200 trucks. Taking customers along that progression is what is exciting to us. All the people we fund, be it in the SME business, the home equity business or the truck finance business, are entrepreneurs. India's growth is going to come from creating more possibilities for them. I just regret that I did not come back to India soon enough.

So, for your business where do you see the opportunities?

We have started doing housing loans for the self-employed; self-employed as a category still do not have access to credit. If you are a vegetable grocer or if you run a hair-cutting saloon, and you have a plot of land on which you want to build a house or want to buy an apartment, credit is scarce. Most banks don't give them credit because they will not have the necessary documents, such as five-year IT returns and so on.

It is a perception that lending to the salaried is safe while loans to the self-employed are risky. I think the converse is true. If you have a grocer selling grocery from the same place over the years, he is less likely to lose his job than a salaried employee.

The ticket-size of the loans can go up to ₹25 lakh. Most of these guys do not have a credit score. But if a small grocery shop owner who makes about ₹52,000 per month has been given a loan of ₹15 lakh for a property worth ₹41 lakh, how much risk is likely to be in that?

Of course, we do a lot of checks to see if he is making the money he says he is, but I think he is very creditworthy.

It's the Indian dream where everyone aspires to own a home. And I think everyone should have the right to do so. This massive focus on the salaried class is almost discriminatory in nature.

Wouldn't cash flows of the self-employed be lumpy, varying with seasons?

Look, if I lend to a '*kaapi kadai*' (road-side coffee shop), you think his earnings will fluctuate? Depending on the location, it might, but only slightly. A tea stall in a business area could make less money on holidays but it is a much steadier income over the long term. My colleague has been buying cigarettes from the same cigarette vendor for the last 20 years.

The NPAs in this segment have been one-fifth of the salaried segment's in housing loans. The NPAs here are on par with the best housing loan companies in the country.

Other NBFCs are entering this business, but we are early and have an advantage.

What do you think about the RBI's new NBFC regulations on the 90-day cut-off for recognising NPAs?

We are at 150 days now, one year ahead of schedule. I think we will stay one year ahead of schedule. For the profiles we've got, especially with truck drivers, these norms are not ideal but we have to think about making our systems work in this. You have to understand that the truck is their only earning asset.

There are three things that can go wrong — the driver can meet with an accident, the truck can have a major repair or the driver can fall ill. If the driver breaks a leg, it takes three months to fix it.

He will, therefore, not drive the truck in that period; there will be no income and therefore, he cannot repay loans in that period.

We have to think about how to manage our behaviour in that period, because I would like to give him space. Over time, it will play itself out.

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>
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> MD, Cholamandalam Investment and Finance Company

How often do you meet your clients, the hair-dressers, truck drivers and so on?

That is what is enjoyable about this job. Almost every month, we are out somewhere. The energy I derive is from the field. By getting closer to the customer, you get the pulse of what is driving the country. Cities are so different from what is out there.

So, what do they tell you — about inflation?

Things are difficult for these guys; that is the reality. The biggest challenge they face is that large companies are stretching out payment terms, say, from 45 days to 120 days.

If a transporter ties up with a large company, the company will pay him 45 days after receiving the receipt, which means he will get the money after 56 days. He does not have the capability to finance that kind of working capital. So, he goes to a private financier who will lend to him at 3.5 per cent per month.

The economics and math per trip is staggering. If a guy has a truck, he will have fixed costs, such as maintenance. Variable cost of fuel on a trip could be as high as ₹26,000.

He has to think about financing this fuel cost since he will get paid only after 56 days. Some drivers could get stuck in another city if they run out of fuel.