

Revival signs turn M&M Fin bullish on rural India

BLOOMBERG

Mumbai, March 19

THE RECOVERY IN India's rural economy is likely to curb bad loans and boost profit at financial companies that specialise in credit to the country's villages, according to one of the biggest such lenders.

Mahindra & Mahindra Financial Services, which offers loans for equipment and vehicles in 330,000 of India's roughly 600,000 villages, is seeing business growing and bad loans dropping since the middle of 2017. That's because the crucial monsoon rainfall was normal last year and the negative effects of the government's shock decision to invalidate high-value currency notes is fading as authorities step up spending on roads and healthcare across the hinterland, said M&M Financial managing director Ramesh Iyer.

"We have a bullish forecast for the agrarian economy," Iyer said in an interview at the company's headquarters in Mumbai, adding that delinquent customers are now returning loan repayments. "The twin cash flow — income from farm produce and government's infra spend — is leading to an improvement in rural sentiment."

India had been ravaged by insufficient rainfall since 2015 and Prime Minister

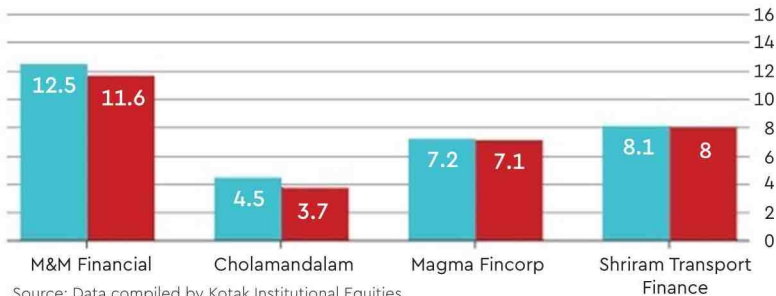
Bad loans fall

Gross non-performing loans are declining at Indian non-bank financial companies

% of total loans

■ June-Sept

■ Oct-Dec



Source: Data compiled by Kotak Institutional Equities

Narendra Modi's cash ban the following year caused crop prices to crash, triggering a wave of farmer protests across India. That pushed authorities to shift policy from keeping food costs low for consumers to offering farmers higher prices for their produce, and last week the government of Maharashtra state — epicenter of the agrarian crisis — agreed to consider forgiving the debt of more farmers.

More money in the hands of farmers stands to boost demand for tractors and trucks, benefiting companies like M&M Financial. However, such waivers do little to improve a farmers' creditworthiness —

which depends more on the outlook of the harvest, Iyer said. The market for agricultural credit in India is dominated by state-run banks, which are used as policy tools given that the bulk of India's population depends on agriculture for their livelihood.

However, government-controlled lenders have been hit by the souring of the credit they have extended to industrial companies, which has curbed new loans. This has allowed non-bank financial companies to grab a bigger market share, with M&M Financial and its peers accounting for about 21% of loans in the year to March 2017.