Signs of revival turns lender bullish on villages

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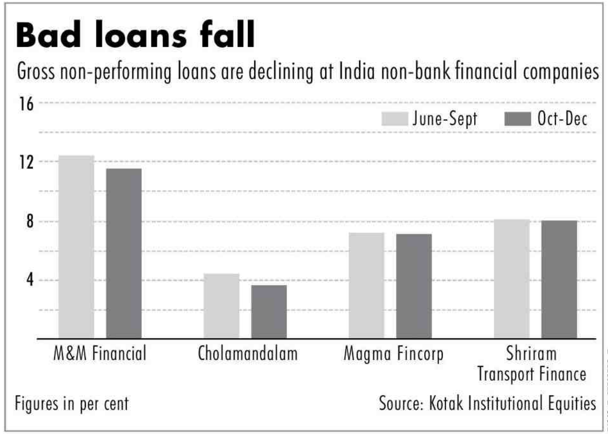
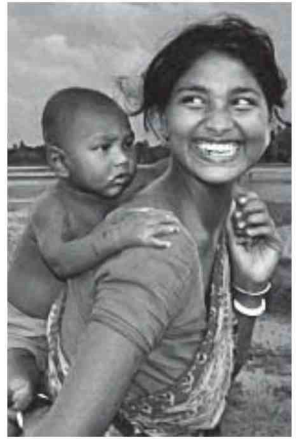
Bloomberg

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 resuming loan repayments. "The twin cash flow – income from farm produce and government's infra spend – is leading to an improvement in rural sentiment," Iyer said.





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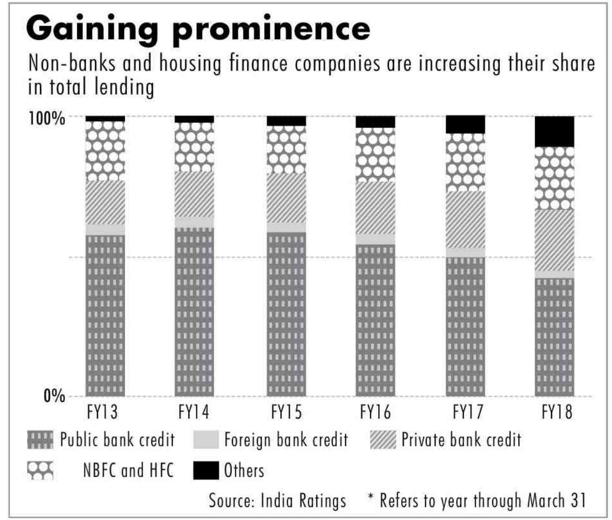

India had been ravaged by insufficient rainfall since 2015 and prime minister Narendra Modi's cash ban the following year caused crop prices to crash, triggering a wave of farmer protests across India. That pushed authorities to shift policy from keeping food costs low for consumers to offering farmers higher prices for their produce, and last week the government of Maharashtra – epicentre 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 population depends on agriculture for their livelihood. However, government-controlled lenders have been hit by the souring of the credit they 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 per cent of loans in the year to March 2017.

M&M Financial last quarter reported its strongest growth in profits since at least 2010 due to recoveries in non-performing loans, and management expects lower fresh delinquencies going forward, analysts at Emkay Global said in January. The brokerage upgraded its rating on the company to hold with a target price of Rs 520. M&M Financial shares fell 1.5 per cent to Rs 427.15 as of 12:34 pm in Mumbai on Monday, paring the past year's gain to about 36 per cent.

"Going by demand for farm equipment, commercial vehicles and construction equipment, rural demand is outpacing urban after about three years," Iyer said. "In the last three quarters, there has been a change for good," he remarked.