

Farm Loan Waivers May Hurt NBFCs

SIDE EFFECT Valuations of some players set to come under strain as recovery of loans have already started getting delayed

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Mumbai: Rich valuations of some of the non-banking finance companies (NBFCs) lending to farmers could come under strain, as expectations of farm loan waivers delay the recovery of advances in some of the important states that are at the forefront of mechanised ploughing in India.

Uttar Pradesh, India's most populous state, recently announced a conditional loan waiver, setting off a raft of similar demands from large states such as Karnataka, Maharashtra and Tamil Nadu. Together, these states account for a third of tractor loans advanced by companies such as M&M Finance, Magma Fincorp, Sundaram Finance, Cholamandalam

and Shriram Transport. Stocks of these companies are currently trading at 50-70% premium to their historical averages.

"Collections in tractor loans for

PREMIUM PLAY

M&M Fin, Magma, Sundaram Fin, Cholamandalam and Shriram Transport Stocks are currently trading at 50-70% premium

NBFCs in the states where the waivers are announced or anticipated are getting delayed as borrowers hope the waiver to be applicable even to non-PSU bank

lenders," said Aadesh Menta, analyst at Ambit Capital. "Given that such states account for one-third of the tractor loan market in the country, delayed collections in these states can have a meaningful impact on the credit cost of tractor loans."

In the auto NBFC space, tractor loans account for 18% of the loan book of M&M Finance and 20% for Magma Corp.

Moreover, with these two firms already seeing high delinquencies in tractor loans, their non-performing assets could rise further with simultaneous increase in losses, stemming from slower recoveries. Shriram Transport and Cholamandalam Investment have 5-7% of their loan books exposed to the farm sector.

So far, the stocks have defied the rules of gravity. M&M Finance has risen 25% this year,



Lean Season Ahead

Stock	CMP (₹)	YTD Rin (%)	PE FY18 E	5Y Avg PE
Shriram Transport	1050.9	25.0	16.4	15.4
M&M Finance	332.5	24.1	29.8	14.0
Magma Fincorp	119.7	19.9	22.0	12.3
Sundaram Finance	1638.9	45.4	29.1	16.8
Cholamandalam Investment	1064.4	13.0	21.9	14.9

Source: Bloomberg

compared with a 12% rise in the Sensex. It is currently trading at a forward PE of 30, compared with its five-year average PE of 14. Magma Fincorp, with a year-to-date gain of 20%, is trading at 22 times its FY18 estimated earnings as against five-year average of 12. Sundaram Finance has surged 45% this year, while Shriram Transport gained 25%.

"The recent NBFC rally likely ignores various risks and, hence, we would maintain our cautious stance, and we continue to believe that risk-return trade-off is not in favour of investors," said MB Mahesh, analyst, Kotak Securities. "We expect demonetisation to temper growth in FY18, largely for NBFCs operating deep in the cash ecosystem. For others, increasing competition from banks will spoil profitability over the next four-six quarters."