

ET INTERVIEW

ANIL AMBANI

CHAIRMAN, RELIANCE GROUP

Gasping NBFCs Need Urgent Help: Ambani

Reliance Group chief expects new govt and RBI to provide support in the form of immediate liquidity window

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Mumbai: Reliance Group chairman Anil Ambani said nonbanking financial companies (NBFCs) are facing a full-blown crisis. "The sector has gone into ICCU (intensive coronary care unit) over the past eight months," he said in an interview focussed on Reliance Capital and the problems facing NBFCs. "The contagion and cascading effect on the economy is clearly visible. In ICCU, if you want to save the patient, what is needed is not paracetamol but full life support."

Ambani expects the new government and the Reserve Bank of India (RBI) to provide support in the form of an immediate liquidity window. Risk-averse banks have cut lending to NBFCs since the crisis sparked by the defaults of Infrastructure Leasing & Financial Services (IL&FS), leaving these firms with no option but to raise funds through securitisation. Mutual funds have also cut back lending, said Ambani, who didn't comment on the controversy over the Rafale fighter jet deal.

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"Banks are now cherry-picking these quality portfolios, at a very high cost for NBFCs and HFCs (housing finance companies)," said Ambani. "The balance sheet size of all major players has shrunk in past eight months. It is a full-blown crisis."

Reliance Capital, which has debt of ₹18,000 crore, is following the mantra of "death of debt", he said. It's reducing debt by 50% this financial year through stake sales. The firm, two subsidiaries of which defaulted on short-term debt last month, has raised ₹6,000 crore by selling a 43% stake in Reliance Nippon Asset Management to Japanese partner Nippon Life. A stake sale in the general insurance business is also likely.

Ambani said all his firms are fully capitalised and they have been told that value creation and value unlocking must lead to debt reduction.

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‘India Inc Hit by 3Cs – Cash, Courts & Credit Rating Agencies’

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Ambani's comments came days after the RBI tightened liquidity coverage norms for the NBFC sector from April 2020 and amid calls by other embattled finance firms for measures to improve liquidity.

"Most NBFCs are facing growth issues because of constraints over liquidity," Srei Infrastructure Finance chairman Hemant Kanoria told E/T recently. "The government needs to take a decision whether it wants NBFCs to survive. The system has to simultaneously ensure flow of liquidity, the management of it and backup system in case of contingencies."

Edelweiss Group chairman Rashed Shah had said: "This is what I call 'liquidity cholesterol'. When liquidity is tight, people do not make discretionary purchases. Liquidity fuels optimism."

Ambani said India Inc has been hit by the 3Cs—cash, courts (which are delaying the recovery process) and credit rating agencies.

"Rating agencies have been bitten badly after the IL&FS episode," said Ambani. "They have now swung to the other end of the spectrum and are routinely making multiple-notch downgrades in quick succession. Unlike the international situation, rating agencies in India have not yet attained the requisite expertise and sophistication." He believes the Securities and Exchange Board of India (Sebi) and RBI need to intervene and bring about a more balanced approach.

Ambani pointed out that there was no credible review mechanism for proposed rating actions. "The rating agencies are judge, jury and hangman — all at once," he

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Reliance Group Chairman

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said. "The present system of review by a committee comprised a majority from the rating agency itself, and only one independent minority member is unfair and inadequate. The majority should be qualified and independent external persons."

On Monday, the Reliance Group announced the sale of its radio business to the Jagran Group. Reliance Capital is also in discussions with strategic overseas players to sell a majority stake in the home finance business.

Ambani said it wasn't easy to close deals in India.

"Our formal announcement last week on the RNAM (Reliance Nippon Life Asset Management) stake sale for Rs 6,000 crore, and further progress on general insurance and entertainment assets in the next few weeks, will demonstrate our serious intent and concrete progress," he said. "I hope rating agencies will act with the same alacrity in making upward revisions as they made downgrades."

The monetisation of a 35% stake in Prime Focus and strategic investments in the radio business are likely to contribute more than Rs 2,000 crore to the debt-reduction programme, Ambani said.