

# Bridge The Trust Deficit

*Conservative credit & risk approach helped one bank to ensure optimal capital allocation. It is the Bank which is known by 'deals it has not done' .*



Macro Economy has regained its growth momentum . But the MFI sector is still reeling under the pressure of CV-19-II. 'Health emergency' becomes an 'economic emergency' for MFI customers given Inadequacy of savings & Insurance cover .

Rumor mills are churning gossips like

1. "MFI-1 will write off 25% of its portfolio"
2. "MFI -2 may lose its CEO & CFO "
3. " A forensic audit is underway for MFI-3 "

“Things are often blown out of proportion. But looking the other way around is “Magical realism” says Somasundaram DilliRaj , Founder – RajGuru Advisors



Things are often blown out of proportion. But looking the other way around is **“Magical Realism”**

Somasundaram DilliRaj  
Founder of RajGuru Advisors

MFIs should bridge the ‘Trust Deficit’ with concrete measures.

Solutions ? No Problem !

Somasundaram DilliRaj , Founder – RajGuru Advisors advocates a 9C framework for the Corrective Action Plan.

1. Credit Quality Review
2. Customer Connectivity Measures
3. Communication strategy
4. Cashflow Planning
5. Cost Control
6. Calibrated ‘Path to Profitability’
7. Concentration Risk containment

8. Cross Functional Execution

9. Capital Raise

### **Credit Quality Review**

- Stress test the portfolio to estimate probable credit loss.
- Provide 10% upfront. Plan to write off the remainder over 6 to 8 quarters. If needed, seek 'Regulatory Forbearance'.
- Disclose stress test results with provisioning & write off plan even if you are unlisted.

### **Customer Contracts**

- ● Avoid short cuts while rescheduling loan contracts/ increase in tenor
- ● Seek sector level dispensation through Sa-Dhan/FIDC/MFIN .
- ● Step up Loan utilization checks

### **Communication**

- Frequently communicate with Regulators, Credit grantors and Investors. What is worth communicating is worth 'over communicating' .
- Single spokesperson for the whole organization helps avoid multiple messaging & muddle . Not a great style ! But useful till clouds clear.
- Assuage field's fear on Job/ Pay cuts . A few branches may be axed but not the root i.e. field staff.
- Share the Path to Profitability ( discussed below) with Field using Balanced Score Card diagrams depicting how field processes help ROA/ ROE.

### **Cash Flow Monitoring**

In crisis , Cash Flows are more important than Balance Sheet and Balance Sheet is more important than P&L .

Cash in the Bank is your credit rating . Not what ICRA /CARE issues .

Define Liquidity metrics for cash holdings to meet corporate obligations.

Cash Burn Test (CBT) , Business Continuity Test (BCT) and Growth Test (GT) are levels of liquidity required .

- CBT – Hold 6 months Opex in cash
- BCT – CBT + 3 months debt repayment
- GT – BCT + 2 months Disbursement

A Board Committee should monitor results on a fortnightly basis

### **Cost Control**

- a. Core Management may opt for pay cut . Compensate with ESOPs at prevailing low prices. Field's pay should be protected
- b. Defer capital expenditures
- c. Renegotiate contracts ( branch rent / AMCs ) . Shift branches from Ground to First Floor for deeper cuts. Negotiate partial withdrawal of Security Deposits .
- d. Close down unviable branches. Right size the RO/ZO . Absorb Field staff in nearby branches .

### **Calibrated Path to Profitability**

Reporting losses for 2/ 3 quarters is inevitable . Market will forgive if a “ Path to Profitability” is shared with multiple drivers like

- Risk Adjusted Repricing -.

If credits are to be repriced , increase interest rates / processing fee which is a lesser evil than MFI customers turning bad credits. Choose the lesser evil . Liquidity Infusion is paramount.

- Explore non-lending revenues – Cross Sale ?
- Initiate an 'Economic Value Added' exercise
- Step up disbursements in time .

### **Contain the Concentration Risk**

- i) Geographical segments

Revisit caps on regions with Higher CV-19- II impact ,Policy intervention and prolonged lockdowns.

ii) Underlying economic activities

Cap limits for 'contact sensitive' businesses.

iii) People

Mitigate concentration risk on KMPs with a 2-tiered succession policy for executives reporting to the board and their reportees . Appoint a Lead Director to communicate between board and management .

### **Cross Functional Execution**

None above is a break through idea. Holistic approach & meticulous Execution only wins . "Ideas may not move the world. Actions do"

Adopt a cross functional approach. Implementing Cost control measures becomes easier when COO spearheads than the FC's office. Have more field guys than HO honchos in this team.

### **Capital raise**

2 Pvt sector banks adopted different strategies in the last 2 decades.

Conservative credit & risk approach helped one bank to ensure optimal capital allocation. It is the Bank which is known by 'deals it has not done' .

Another bank contemporaneously embraced huge credit risks and took several hits. But never gasped for capital with successive capital issuance . Today it is almost as stable as the other one .

It is Capital with which you 'pick up the pieces'

Finally, in your daily morning pooja , break 2 coconuts – one for you and one for the competition to avoid a systemic risk concludes Somasundaram DilliRaj ,Founder – RajGuru Advisors .

