

SHRIRAM HOUSING FINANCE LTD.

SERVING THE UNDERSERVED

When you hear the term underserved, first to come to your mind would be the low and middle income groups. But it is not the full picture, says Sujan Sinha, Managing Director & Chief Executive Officer of Shriram Housing Finance Ltd. Underserved can mean even the middle to higher income groups, which doesn't have proper income documents due to their work being in the informal sectors of the economy. That is why Shriram Housing Finance extends home loans ranging from Rs. 50,000 to Rs. 75 lakhs, and even beyond to Rs. 1 crore plus. According to this former head of retail lending at Axis Bank, the underserved category of home loans is booming, as the informal segment of the economy accounts for 90% of the working population. Though the interest rates in the segment are higher than that offered by banks and mainstream HFCs, the risk-adjusted returns are similar, according to Sinha. Shriram Housing Finance Ltd (SHFL) is a subsidiary of Shriram City Union Finance Ltd, a flagship company of Shriram Group, one of the largest diversified financial services groups in the country. Founded by legendary entrepreneur R Thyagarajan, Shriram Group is one of the most well-capitalized financial service providers in India, which makes scaling up of relatively newer operations like SHFL, a breeze. Shriram Housing has been growing at a blistering pace since late 2011, when it commenced operation, due to the Shriram pedigree and expertise, the management bandwidth, as well as the huge and growing market of the underserved in which it operates. Seasonal Magazine interviews Sujan Sinha, MD & CEO, Shriram Housing Finance Ltd.

Housing Finance has several specializations, and which is the segment that Shriram Housing Finance is focusing on? Is it the affordable segment?

We are present in the affordable segment, but the right segment to describe us would be the underserved category. We offer loans to not only the low income groups, but to the middle and higher income groups, with the common feature of all these customers being that they would be underserved by banks and regular HFCs due to lack of proper income proofs.

Shriram Housing which started its operation only in 2011 has however grown its loan book to Rs. 737 crore, which is one of the fastest growth rates in the underserved home loans segment. To what all do you attribute this brisk pace?

For your information, I think we have already crossed Rs. 1000 crore in loan book size in recent months. It is a brisk pace of course, and I would attribute it mainly to the size and growth rate of the underserved segment of homebuyers. At around 90% of the working population, those working in the informal sectors really constitute the mainstream segment of homebuyers. Secondly, its growth prospects and underserved nature being such, what an HFC focusing on this segment should have is just adequate funds for lending, which Shriram Housing is blessed with thanks to its parents Shriram City Union Finance and Shriram Capital. Thirdly, an HFC operating in this segment should have innovative credit appraisal models, good management bandwidth, and a willingness to learn, which I believe are qualities this company has nurtured properly.

Shriram, basically being a South based and Chennai headquartered operation, has however chosen Mumbai to be SHFL's headquarters. Was it a very purposeful decision and why?

Though Shriram Group is headquartered in Chennai, different group companies are headquartered at different cities across India. The largest group entity, Shriram Transport Finance, for example, is headquartered at Mumbai. So, the decision to locate our head office at Mumbai was for operational convenience.

SHFL has 72 branches across the country and is known to operate more in Tier-II and Tier-III cities and towns. How many states do you cover in your footprint, and which are your most prospective states?

We are present in 17 states and union territories across India. Our largest



R Thyagarajan, Chairman, Shriram Group

operations are in the states of Andhra Pradesh, Tamilnadu, Gujarat, & Rajasthan.

Does SHFL utilize the branch and/or employee network of parent Shriram City Union Finance in any way?

We have utilized the branch facilities of group companies including Shriram City Union and Shriram Transport on a co-location basis, but in a clearly demarcated way. Our first office in Mumbai was 100% part of a group firm's facilities, and around 75% of our branches are still co-located.

Shriram Transport Finance has a huge customer base among the used truck owners. Is there any synergy between this customer base and SHFL's prospective customer pool?

There is synergy of course, but there are limitations too as customer data can't be shared between even group firms. So, the synergy is more by way of understanding the underserved segments, their cash-flow challenges, how to effectively appraise their credit worthiness, and so on. Another point to note is that, despite all these synergies, for an average customer in this segment, a home is a pinnacle of an achievement, and is taken after much consideration. So, there is little scope for cross-selling and such strategies.

What percentage of Shriram City Union's loan book and business/profits is contributed by SHFL?

Well, our direct parent Shriram City Union is a large NBFC which is present in various retail lending segments, and which has been in operation for nearly 3 decades. Shriram Housing, in contrast, is a single segment company, which started only in late 2011. So, our current contribution to their business is tiny, and should be around 2-3%. But going forward, our contribution might go at a faster pace.

Considering that SHFL has been growing at a fast pace, and your group having multiple listed companies, is there any move to eventually list

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Shriram Housing in the bourses on its own?

This is something that has not been considered till now. Shriram Housing is not in need of external funds at this stage, due to the strongly funded nature of our parent companies as well as the capital infusion by Piramal Enterprises. Our current leverage is also less than 2 times, which can go up to 7 times if needed. Having said that, I also believe that Shriram Housing will eventually go for its IPO and become a listed company in the long run, because that would be the logical conclusion.

Despite being in the underserved segment, you have shown willingness to lend up to Rs. 75 lakh for homes. Are you eyeing the mainstream home loan segment that banks and HFCs are targeting?

Well, to answer the first part of your question, our normal limit is 75 lakhs, but we have given home loans for Rs. 1 crore and even beyond. The key here is that, we are not only an affordable home loan company. But I should answer the second part of your question in the negative, as we have no plans to be a mainstream HFC or like a bank. Even our large loans of Rs. 75 lakh or above, is to the underserved categories.

What would be the average ticket size of Shriram Housing?

It would be around Rs. 11 lakhs, as the bulk of our home loans are for the

affordable segment.

What would be your gross and net NPA levels? Is asset quality a major problem in the affordable segment?

Our net NPA is around 2%, which is comparable to peers operating in this segment. Asset quality is a higher risk in this segment definitely, but it is not an unmanageable challenge.

Where does your lending rates, spreads, and NIMs stand? Is it anymore true that affordable segment continues to enjoy better NIMs?

Our average retail lending rate for home loans is 15%. It is higher than banks and HFCs to compensate for the higher risk or poorer asset quality. Speaking about spreads, margins, & NIM, our experience has been that the risk-adjusted returns is nearly the same as for banks and mainstream HFCs. I was heading Axis Bank's retail lending operations, and therefore I can vouch for this fact.

According to you, what has been the major bottleneck constraining the growth of home ownership and home loan growth in India, especially the affordable segment?

The primary bottleneck is that of supply. We don't have large developers building affordable homes on a massive scale in the organized sector. I hope that with the favourable policies of the Central Government, more developers would focus on bettering the supply side. Even a few state governments have ventured into mass housing recently, on a PPP basis.

What all would you regard as Shriram Housing's USPs in the affordable home loan segment?

The market and the opportunity are so huge that an HFC doesn't need any USP to make productive use of it. The shortage in housing units is estimated at over 2 crore on a conservative basis. If Shriram Housing's focus stays unwaveringly on the grassroots and underserved segment, I would say that the future is very promising.

Sujan Sinha, Managing Director & Chief Executive Officer, Shriram Housing Finance Ltd.



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