Shriram HFC to cross-sell to 15 mn customer base

Expects fewer speculators and more real buyers to come into the market:

Shriram Housing Finance has been providing home loans, residential plot loans, affordable housing (PMAY) finance, home improvement loans, home extension loans, top-up loans, refinance & balance transfer and loan against property (residential & commercial) and construction finance. Over the last few years, it has focused largely on affordable housing finance. However, recently it has transformed into a universal housing finance company and Ravi Subramanian, MD & CEO, says this year, the company has expanded its targeted customer segment to include the affluent segment as well. "Currently around 74% of our portfolio is under affordable housing (under ₹3.5 million), 14% is mid-segment (₹3.5-8 million) and 12% constitutes luxury segment (loans above ₹8 million).

GROWING IN TOUGH TIMES

The company has till date disbursed over 26,000 loans and has an AUM of around ₹20 billion, almost all of which is in the retail segment. Says Ravi Subramanian: "Despite the industry headwinds, liquidity crunch and de-growth in the HFC market, we still managed to grow our housing portfolio at a CAGR of 30% over last few years and a 8% growth in 2018-19."

While Shriram HFC has a pan-India presence, bulk of its originations comes from the 4 southern states and the western belt of Maharashtra, Gujarat and Rajasthan. South brings up around 50% of the book, says Ravi Subramanian.

The company's ethos is to cater to the retail segment. It drives its business by reaching out to the end customer directly. As a brand, it identifies with these customers the most. "As a policy we believe in funding completed property and are very cautious on under construction properties. Hence tie-ups with builders is not a focus area for us," says Ravi Subramanian.

Ravi Subramanian feels that funding is a bit difficult to come by and is a crisis of confidence and not a liquidity crisis

CROSS SELLING

Cross-selling is the biggest focus area for the company. In its initial days, the fundamental basis of existence for the company was to fill a gap in the product suite which it offers to customers. It has now started putting that in practice. The Shriram ecosystem, according to Ravi Subramanian, spreads across 4000 branches and the company has a credit tested customer base of over 15 million customers. Most of them would have a requirement for a mortgage loan at some point in time. "If I am able to effectively address the needs of these customers, I will be able to build a large, efficient and profitable HFC on the back of these customers alone," says he."

"Do I need to look beyond these customers?". He posts a rhetorical question.

TOP OF MIND RECALL

Distribution and cross-selling are the twin mantras for growth for the company. It intends to build its campaigns and its customer outreach models based on these initiatives. Ravi Subramanian indicates: "As customers get younger, we have to evolve means to be seen wherever our target customer is present."

There is no alternative to being on social media. Platforms like LinkedIn and Facebook give the ability to target the audience in a cost-effective manner. "In the online space, our objective would be to enhance top of mind recall for the Shriram housing brand. So, you would see our digital campaigns in conjunction with SEO & SEM. We are constantly exploring the best way to connect with our customers using the social media platforms and will continue to experiment in this space," says Ravi Subramanian.

DOMINANT ONLINE

The company has been constantly working at improving the quality of underwriting using the 100+ data points that it collects from every customer. It claims to have a very strong and robust loan underwriting and processing model, developed in-house. It also has an online acquisition model wherein customers apply to it through its website and the company fulfils them on a priority. The company also works with a few partners in this space. That said, online acquisition of home loans, says Ravi Subramanian, is only a small part of the total acquisition. The company expects online to become dominant in days to come. As of now, it is an emerging 'watch this space' kind of segment for it.

BUDGET TO BOOST DEMAND

India's GDP is expected to grow at 7.4% in 2019-20. Housing industry contributes about 5-6% to the GDP and needs to grow to keep up the pace. Add to that government has undertaken the mission of 'Housing for All by 2022'. Says Ravi Subramanian: "You should see increase in demand for loans during the next few years. Further, this budget increased interest deduction limit from ₹150,000 to ₹350,000, which should incentivize the first-time buyers. This should boost home loan demands for us as well as the entire industry."

CRISIS OF CONFIDENCE

The NBFC crisis has affected smaller HFCs the most, with liquidity crunch affecting their margins. Most of the tier 2 & 3 home loan funding happens for affordable housing projects. "We expect to report stable loan growth," says Ravi Subramanian, adding: "The current change in HFC norms, specifically on the bar on builder subvention schemes could have a short-term impact on the lending in metros, specifically for those who are focussed on builders and under-construction projects. We however will not be impacted. We should continue to see the growth momentum in tier 2 & 3 markets. Those with holding power and cash in hand are sitting tight."

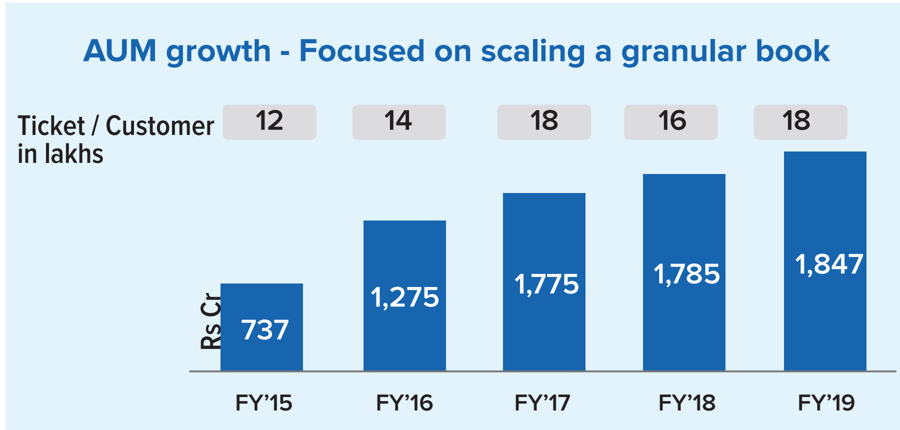
With limited cash at their disposal, most of the HFC have started being choosy about the loans they want to sanction. Hence, it is at times difficult for a genuine customer to get a home loan. Admitting that funding is a bit difficult to come by these days, Ravi Subramanian says it is a crisis of confidence and not a liquidity crisis. "Hopefully things will settle soon, and the industry will come roaring back. One thing I must say is that all the regulatory changes which are being put in place will eventually ensure that the asset quality and the overall health of the HFCs / NBFCs improve," he adds.

Shriram HFC's GNPA stands at 2.5% as of June 2019, which has considerably improved yoy. Its NPAs were higher a year ago but have declined on the basis of focussed collection efforts and legal remedies. Starting 2019, the company does not have even a single overdue case and it plans to maintain its asset quality.

RISK PRICING MODEL

The company does not have the concept of credit camps to increase penetration of home loans. Since it operates across the spectrum, its rates start from 9.5% and go up to 13%. Explains Ravi Subramanian: "We have an effective risk pricing model which makes sure that we don't commit type 1 or type 2 errors."

With slowdown in real estate industry and regulatory changes, there is slight de-growth / price stabilization in most of the geographies. This, according to Ravi Subramanian, will eventually be good for the end user. More real buyers will enter the markets and speculative buyers will be weeded out as real estate will not give the astronomical returns it used to give in the past.



AUM GROWTH

The company's total income for the last FY stood at ₹2.91 billion as compared to ₹2.8 billion in its previous FY. The loan disbursement during the last FY was ₹7.58 billion. The total assets under management (₹18.47 billion), capital adequacy ratio (29.94%) and profits after tax for the FY2019 (₹166.5 million) are indicative of the financial health of the company. It has transferred ₹₹33.7 million to statutory reserve as per the requirement of the section 29 C of National Housing Bank Act, 1987.

As part of its asset liability management, the company strives to diversify the sources of its fund base to achieve suitable maturity schedule and optimize the average cost of borrowed funds. As at 31 March 2019, its outstanding bank loans stood at ₹9.05 billion against ₹5.4 billion a year ago.

TRANSFORMATION PLANS

The company embarked on a transformation plan in 2018 to become a premier housing finance company of scale. The plan included a complete revamp of the operating structure even as it will continue to focus on its core product offering of providing secured mortgages, loans against properties to end users. The company has focused on driving transformation and operating efficiencies. Says Ravi Subramanian: "The overall strategy for the near term – 3 years – would be to concentrate on few key states where the company and the group have a strong presence. We will concentrate on the mid-segment customer which resonates most with the ethos and experience of the company and the group. We will also further granulize the book relying on mortgages on end customers. Cross-selling efforts on group customers are showing traction. It has impacted profitability and branch level productivity, improving with higher disbursements in Q4 FY19 (approximately ₹3 billion, highest quarter in the last FY) and entered steady state from Q1 FY 20."

NPA, ARC

During the last FY, the company's NPA further reduced to 1.7%. It has sold 355 non-performing loans to an asset reconstruction company.

The amount of outstanding loans of ₹769.21 million (including accrued interest of ₹136. 78 million) was sold for a consideration of ₹377.60 million. The ARC sale also led to a reversal of provision, earlier made on those cases.

EXPANSION PLANS

The company is now ready for the next stage of growth. "We have completed a successful transformation exercise and we plan to get to ₹100 bn of AUM in the next 3 years," concludes Ravi Subramanian.

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