



Management Discussion and Analysis

Overview of the Indian Economy

In 2022-23, while global factors are going negative, there is some loss of near-term growth momentum. Domestic growth drivers are steadily improving in the future. As per second advance estimates issued by National Statistical Office (NSO) on real GDP increased by 8.9 per cent in FY 2021-22. But amid the brightening horizons, the growing global tensions cloud our economic outlook. Although India's direct trade exposure to conflict-affected nations is low, the war might stymie economic recovery through increased commodity prices and global spillover channels.

Furthermore, financial market volatility caused by monetary policy normalisation in advanced economies, renewed COVID-19 infections in some significant countries with heightened supply-side disruptions, and long-term shortages of critical inputs such as semi-conductors and chips pose downside risks to the outlook. Taking all these factors into account, real GDP growth for FY 2022-23 is now forecasted at 7.2 per cent, assuming crude oil (Indian basket) at US\$ 100 per barrel in FY 2022-23.

The economic downturn resumed in Q3 of FY 2021-22 and was aggravated by the appearance of the Coronavirus Omicron Variant in January 2022. There was a modest improvement during February, but in March 2022, there was a mixed picture. Despite decreased infections and the elimination of prohibitions, several contact-intensive activities have regained popularity. Several high-frequency indicators, including railway freight, GST revenues, toll collections, energy demand, fuel consumption, and capital goods imports, all increased in February 2022 and March 2022. According to surveys, consumer confidence is rising, and households' optimism for the coming year has increased with feelings. Business confidence is upbeat and supportive of a recovery in the economy.

In terms of non-food products, the recent increase in international crude oil prices offers a significant upside risk to inflation through direct and indirect consequences. A substantial increase in domestic pump prices might set off a broad-based second round of pricing pressures.

A combination of high international commodity prices and increased logistical interruptions may drive up input costs in agriculture, manufacturing, and services. As a result, their impact on retail pricing necessitates ongoing monitoring and proactive supply management. Financial markets are expected to remain turbulent as risk premia rise, trade and capital flows diverge, and central banks respond differently. Inflation is currently anticipated to be 5.7 per cent in 2022-23, based on these variables plus the assumption of a normal monsoon in 2022 and an average crude oil price (Indian basket) of US \$ 100 per barrel.¹

Housing Finance Industry:

In FY22, the overall economy has recovered at a fast pace, the housing finance industry has witnessed a robust demand. Demand for bigger homes to support the work from home & hybrid working model, low and stabilized home loan interest rates have all boosted the demand for housing space. The demand was also fueled on account of the policy emphasis on low cost and affordable housing. As a result, the segment saw good traction and is expected to provide a much-needed impetus to the overall industry.

Home loan demand has grown due to pent-up demand, lower borrowing rates, favourable government incentives, and developer discounts. In Q3 of FY 2021, Indian Housing loan market registered a growth of 9.6% y-o-y, in terms of total lending.² According to CRIF High Mark data, the housing loan market has grown at a CAGR of 6.5% over the last three years.³ HFCs are expected to grow by 13% in FY 2022-23.

As per the report by CRIF High Mark, the affordable housing segment (with ticket size up to ₹ 35 lakh) made up 90 per cent of the market by volume and nearly 60 per cent by value last year. AHFCs (affordable housing finance companies) have a total loan book of ₹ 66,221 crore as of December 31, 2021, accounting for around 6% of the total loan book of housing finance companies (HFCs).⁴ AFHCs are expected to witness strong loan growth as a result of increasing geographic penetration and possibility of increase in ticket size in FY 2022-23.

¹ https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53535

² <https://timesproperty.com/news/post/the-impact-of-housing-finance-on-affordable-housing-blid1446>

³ <https://www.crifhighmark.com/news-events/news/2021/july/growth-of-home-loan-market-is-good-news-for-buyers>

⁴ <https://economictimes.indiatimes.com/industry/banking/finance/affordable-housing-finance-companies-loan-book-to-grow-17-20-in-fy23-says-study/articleshow/91289254.cms?from=mdr>

Management Discussion and Analysis (Contd..)

Growth Drivers

1. **Increase in disposable income-** As disposable income is increasing people are preferring to take a loan for their own homes rather than living in rental properties.⁵
2. **Urbanization-** As more population are settling in urban areas, the demand for homes are increasing, thus increasing the demand for loans.
3. **Low interest-** Low interest on housing loan has increased the affordability of the loans, thereby stimulating demand for the same.

Recent Developments in the Industry

1. In Budget 2022, government has allocated ₹ 48000 Crore under Pradhan Mantri Awas Yojana urban and rural schemes, with affordable housing being the major focus. Around 80 lakh houses are expected to be completed by 2023.⁶ This will give a push to the real estate sector and developers who will help in building affordable homes.
2. Affordable housing has become one of the most dynamic sectors in the real estate industry. It is expected that AHFC will grow by 17-20% by FY23 which would make a significant segment under housing finance.
3. RBI has hiked repo rate by 40 bps in May 2022. This would increase the cost of funding for the banks. This is expected to result in rising of interest rates on home loans.
4. With spread of digitization, many housing finance companies are offering online services for home loans. This has increased accessibility for the consumers.

Challenges faced by the industry:⁷

- **Liquidity**

Excess liquidity in banking system has intensified competition on account of their sharpening focus on retail loans.

- **Gross non-performing assets (GNPA):**

On account of recent regulatory changes in respect of prudential norms on income recognition and asset classification, GNPA's are expected to increase.

- **Rising inflation rate**

High inflation rate raises the cost of funds for the banks as the interest rates for loans increases. As a result the interest rates for home loans also increases.

- **Competition**

Competition from banks and other players in the industry will always prove to be a challenge for the housing finance companies.

Outlook for Shriram Housing Finance Limited:

Shriram Housing Finance Limited has continued to transform itself showing significant improvement in all operational and financial parameters even during the unprecedented situation caused to COVID-19 pandemic. In FY22, the Company was one of the few HFCs in India, straddling segments and products with the help of Technology-enabled processes for efficiency and improved decision making.

The Company's origination yield has increased by 20 bps during the year as the Company focuses on creating a quality loan book and onboarding high credit rating clients. The Company has improved on all financial metrics due to company development, rationalisation of operational expenditures, and high asset quality.

The Company has maintained a quality portfolio growth with its strong leadership team driving its position in significant target states while also expanding its reach by building branches in new areas.

Because of the sustained rise in demand, it will continue to focus on the emerging middle class and strive for an optimal asset balance. The Company will continue to investigate cross-selling opportunities, which will play a big part in the next leg of company's growth since it is backed by the Shriram Group, which has a large, well-established customer base.

⁵ <https://www.zeebiz.com/india/real-estate/news-explained-key-factors-driving-home-loan-market-in-india-135983>

⁶ <https://www.financialexpress.com/budget/budget-2022-gives-a-boost-to-affordable-housing/2422512/>

⁷ <https://www.crisil.com/content/dam/crisil/our-analysis/reports/Ratings/documents/2021/12/looking-up-nbfc-on-revival-path-post-pandemic-blow.pdf>



Financial Performance

Particulars (₹ in Crores)	FY22	FY21
Total Income	549.17	422.34
PBT	109.14	84.24
Net Interest Income	267.67	210.79
PAT	80.34	62.38
AUM	5,355.01	3,929.44
Net worth	1157.59	576.47

Key Ratios

Particulars (%)	FY22	FY21
Return on avg NW	8.51	11.56
Return on Assets	2.11	2.47
CRAR	30.89	23.03

Internal Control

Shriram Housing Finance Limited has implemented the necessary processes to enhance corporate sustainability and a healthy work environment.

It maintains an internal control system designed to give a high level of confidence about the efficacy and efficiency of its operating procedures, protection of assets and promotes openness and accountability while complying with applicable laws and regulations.

Internal auditors assess the effectiveness of the internal control system in collaboration with external audit firms authorised by the Company to perform statutory audits. Internal audit reports are presented to the Audit and Risk Management Committee, on a periodic basis. The Audit Committee reviews the performance of the compliance functions, the effectiveness of controls and compliance with regulatory guidelines and gives such directions to the Management as necessary/considered appropriate.

Human Resource:

Shriram Housing Finance Limited is committed to creating a safe, inclusive, and long-term working environment for its workers. The Company is devoted to attracting and maintaining talent, which is critical to attaining its objectives. It was also granted a 'Great Place to Work' certification for its efforts to build a performance-driven and people-centric franchise. The Company is committed to acquiring the best employees and giving equitable opportunities for professional progress by matching their aptitude, goals, and drive.

Shriram Housing Finance Limited makes every effort to acquire and retain the best talent. The Company's HR recruiting process is extensive, encompassing many evaluation stages to guarantee the perfect fit for the Company's culture and open jobs within the organisation. The Company strives to provide equitable work opportunities for all workers and promote workplace diversity while taking appropriate actions to improve employee happiness and engagement. The Company guarantees that its talent pool is thoroughly assessed through its performance management system.

This enables the Company to provide a proper career path for its employees while also adequately rewarding top achievers.

COVID-19 Initiative

Shriram Housing Finance Limited continues to work proactively in safeguarding the well-being of its employees and providing them all the assistance they require during the ongoing pandemic. The Company has implemented extensive safety measures in the workplace to prioritise the safety of its employees and their family members. The Company has vaccinated all their staff and their immediate family members through mass vaccination drives undertaken at various locations.

In a unique initiative, the Company has taken a step ahead and announced to reimburse the cost of vaccination for all its affordable housing customers. The organisation believes in supporting the welfare of its customers and ensuring their well-being.