

## Management Discussion and Analysis

### Overview of the Indian Economy

FY 2023 began on a recovery mode leaving behind the under currents of the post pandemic era. While the recovery turned broad-based and domestic demand returned fast, especially for contract-based services. However, there were fresh headwinds with respect to inflation and slowdown of global growth.

Globally, central banks have been hiking interest rates sharply in response to inflation and economic slowdown. From February 2022 to March 2023, the US Federal Reserve raised interest rates by 450 basis points, while the European Central Bank raised rates by 300 basis points during the same period. The Reserve Bank of India (RBI) has also been increasing rates since May 2022 with a cumulative increase of 250 basis points to curb inflationary trends.

In comparison, to the US 10-year Treasury yield the India 10-year G-Sec yield increased by around 70 basis points from 6.77% in February 2022 to 7.46% in March 2023. However, it is worth noting that the level of yield is still lower than the levels seen in October 2018, which were around 7.85%. Moreover, the US has experienced a sharper increase in interest rates over the last 12 months, while in comparison, interest rates in India have risen at a lower rate and continue to remain lower than the rates prevailing during 2018. Indian banks have an adequate cushion to absorb interest rate change.

Therefore, Indian banks have better resilience towards interest rate risk driven by these market shocks.

### Housing Finance Industry

In FY23, the overall economy has recovered at a fast pace and the housing finance industry has witnessed a robust demand within the lending business. Size of real estate market is expected to reach 50 lac crore by FY 2025 and with more and more people accessing credit, the size of home loans is expected to reach ~20 lakh crore.

Our country consists of a young population, which is capable and more eager to invest in the real estate market than ever. Demand for bigger homes to support the improved standard of living and lifestyle of individual has boosted the demand for housing space. Increasing population and the work from home culture have pumped up the demand for bigger homes. Thus we have seen a surge in need for housing finance.

The growing importance of home loans can also be gauged from the fact that the ratio of outstanding individual home loans by Banks and HFCs in India's GDP has grown substantially in the last ten years.

India has seen a substantial growth in new business in the post pandemic era, due to increased access to credit and rising urbanization with wide reach to the unserved and underserved consumers.

### Challenges faced by HFCs

Some of the key challenges faced by the housing finance companies are as under:

- **Compressed NIMs:** During FY23, RBI has hiked its policy repo rate by 250 bps cumulatively. However, the transmission to end borrowers has been to the tune of 150-170 bps across the financial services segment. This has led to compression of NIMs of lending institutions.
- **High costs:** Delays in completion of housing projects, cost overruns due to the unavailability of labour and delayed investments by buyers in the affordable housing sector are affecting the housing market relatively.
- **High Customer Attrition:** HFCs are facing more and more difficulty in retaining customers. Borrowers with good track record are easy targets of banks who have the ability to lend at much more competitive rates as compared to HFCs.
- **Increased Competition:** New regional housing finance companies are giving stiff competition to the established players and at the same time, banks have stepped up efforts in increasing their presence in housing finance space. This would put additional pressure on the productivity and margins of housing finance companies.

### Positives for HFCs in the near future:

- **Growth Remains Steady:** Growth for HFCs has remained strong during the pandemic with adequate regulatory and government support. Incrementally, growth has been seen across mid to large players, driven by parentage aiding their funding cost thereby driving overall competitiveness. The affordable category has seen strongest growth in the housing finance industry. The government thrust through Credit Linked Subsidy Scheme and Pradhan Mantri Awas Yojana schemes has



been instrumental in driving the demand. Affordable players are expected to grow 16% yoy in FY24, almost at similar rate as FY 23. The demand from home ownership aspirations in tier 2 and 3 cities will drive the growth.

- Improving Funding Environment, NHB Pool to Have Wider Reach with Large Player Merging:** While the borrowing avenues differ across large and affordable players, funding for HFCs has remained largely stable. Mid-to-large players borrow through multiple channels, although the rising interest rates has increased the dependence on banks. Capital market borrowings have remained muted across players as pricing has remained high due to liquidity tightness in the system along with a moderation of funding appetite from mutual funds. A large incumbent merging with a bank would free-up fund availability from NHB side to existing incumbents, thus aiding funding cost. Also, affordable players have significant share of their funding coming from NHB, as it is lower in cost and this drives customer retention by withstanding competition from banks and SFBs.
- Home Investment Plans:** Covid-19 made people rethink about their home buying and investments plans. The concept is to invest in a home, either to live or to leverage it as an asset that could generate an extra source of income, mainly to be used in a crisis period. More potential home owners are switching to the periphery areas for larger homes and a healthier lifestyle at more competitive rates with a viable work-from-home alternative.

### Outlook for Shriram Housing Finance Limited

Shriram Housing Finance Limited has continued its growth story despite all the macro economic challenges. The company has seen improvement in all the operational and financial parameters. The Company has been able to increase the loan asset base in FY23 by more than 50% while significantly improving on asset quality. With business growth, rationalization of operating expenses and improved asset quality, the Company has improved on all the financial parameters. In spite of RBI Policy Repo being hiked by 250 bps and Bank MCLR going up by 150-170 bps, the company's cost of Borrowing has increased only by around 90 bps.

The Company has continued to deepen its presence in key states under focus and has also increased its footprint by opening branches in new geographies. It will continue to focus on the affordable and mid-tier segment due to steady growth in demand and will also strive to have a well-placed granular book. Backed by the Shriram Group, with its huge, time-tested customer base, the Company will continue to explore cross-selling opportunities that will play a major role in the next leg of business growth.

### Financial Performance:

Particulars (₹ crore)	FY23	FY22
Total Income	793.6	531.6
PBT	170.0	109.1
Net Interest Income	401.3	252.0
PAT	137.8	80.3
AUM	8,047	5,355
Net Worth	1,299	1,158

### Key Ratios:

Particulars (%)	FY23	FY22
Return on Avg. NW	11.2	8.5
Return on Assets	2.4	2.1
CRAR	25.5	30.9

### Internal Control Systems

Shriram Housing Finance Limited has put in place adequate mechanisms to promote business sustainability and maintain a healthy work environment. It maintains a system of internal controls designed to provide a high degree of assurance regarding the effectiveness and efficiency of its operating procedures, safeguard its assets, and financial controls that ensure transparency and accountability while complying with applicable laws and regulations.

The efficacy of the internal control system is monitored by the internal auditors, working in tandem with external audit firms appointed by the Company to carry out concurrent audit. Internal audit reports are placed before the Audit Committee along with significant audit observations and suggestions of follow up action. The statutory auditors also present their suggestions to the members of the Committee for improvements in control and compliance.

## Management Discussion and Analysis (Contd.)

### Developments on the Human Resources Front

Shriram Housing Finance Limited believes in providing a safe, inclusive and sustainable work environment for its employees. The Company is committed to acquiring and retaining talent, which plays a significant role in achieving its desired goals. The Company is focused on hiring the finest talent and providing its people with equal opportunities to enhance their professional growth by matching their ability, aspirations and drive.

It is the endeavor of Shriram Housing Finance Limited to ensure that it continuously attracts and retains the best talent. The Company's HR recruitment process elaborately covers various levels of assessment to ensure the right fit to the Company's culture and roles available within the organization.

The Company aspires to provide its employees equal work opportunity and ensures diversity in the workplace while taking adequate steps to increase employee satisfaction and engagement. This year, SHFL introduced the SHEFirst

initiative, in order to provide a safe, flexible and supportive workplace for all its female employees. The women workforce in the organisation has been doubled in percentage term in this reporting year.

Through its performance management system, the Company ensures that a thorough assessment is undertaken of its talent pool. This helps the organization design a suitable career path for all its employees and adequately reward the high-performers.

Due to the above initiatives, Shriram Housing Finance Limited has been recognized as one of the Top 25 India's Best Workplaces in BFSI by Great Place To Work India. It has also been certified as 'Great Place to Work' for the second year in a row. The organization has been recognized for its excellence in both equitable people practices crafted for the employees and consistency in workplace experience. The organization will strive further to maintain highest levels of work place environment and nurture the human resources in a sustainable manner.