"Housing segment has been the most resilient asset class, despite covid"

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*The pandemic has clearly shown that the housing segment has been the most resilient asset class in terms of delinquencies. This has boosted the confidence of lenders and they have realised the attractiveness of lending to the housing sector. To know more about the Indian housing finance market, **G S Agarwal**, Chief Financial Officer, Shriram Housing Finance Ltd, had an interaction with **Rashi Aditi Ghosh** of **Elets News Network (ENN).***

How do you see RBI's adoption of the Co-lending Model for NBFC/HFIs? What opportunities will it bring for the sector?

The co-lending model empowers various stakeholders of the lending ecosystem in multiple ways. While Housing Finance Companies (HFCs) can leverage their strong origination and collection expertise owing to their presence in local markets, commercial banks have the availability of cheaper funds for disbursal. This becomes even more relevant in the current scenario, where all lending institutions are battling elevated finance costs.

HFCs have mastered the art of assessing the creditworthiness of certain niche customer segments mostly those having informal income and the unbanked segments of society, which the banks have been staying away from, primarily due to the differences in their core target segment and credit risk management approach.

Additionally, the co-lending model also solves systemic stability-related issues. It enables the financial ecosystem to consistently supply the credit intermediation and payment services that are needed for the real economy to continue on its growth path. Also, now the RBI regulation ensures a high degree of transparency, standardisation, compliance, fiduciary care, and customer protection.

Co-lending also functions as a superior form of market-making for debt asset generation, with a mandatory skin-in-the-game for the originator and risk-sharing through the 80:20 mechanism as per the RBI guidelines.

Shriram Housing Finance has been selective with whom we partner and has tied up with the State Bank of India, India's largest bank, for co-lending towards priority sector affordable home loans. The two entities will jointly service housing loan customers as per the 20:80 co-lending model (CLM) of the Reserve Bank of India (RBI). Through the co-lending model, we intend to leverage the balance sheet strength of SBI and our underwriting capabilities.

By 2040, it is predicted that the real estate market will reach Rs. 65,000 crores. Does the prediction seem positive for HFIs? How do you access this being a CFO?

The organised Indian Housing Finance market is approx. Rs. 25 Trillion, growing at ~10 per cent year on year. Affordable housing finance companies have witnessed a much stronger growth of 18 per cent year on year. Additionally, it may be pertinent to note that the mortgage penetration till March 2022 was just about 10 per cent of the GDP and 4 per cent in the affordable segment, thus clearly showing a huge room for growth of HFCs in India.

As a CFO, I definitely see this as an immense growth opportunity as the affordable segment of housing finance is expected to grow at a much faster pace than the overall industry. From the funding point of view, Shriram Housing Finance is strategically well-positioned to fund this growth given the strong ratings, the backing of parentage along with support from the National Housing Board.

Post the pandemic, what major changes have you seen in the HFI segment in terms of increased accessibility, greater openness, rising urbanisation, and government incentives?

The pandemic has clearly shown that the housing segment has been the most resilient asset class in terms of delinquencies. This has boosted the confidence of lenders and they have realised the attractiveness of lending to the housing sector. Demand for housing comes hand-in-hand with the demand for housing credit. While banks have remained the key players in the housing loan segment, with more than 60 per cent market share, HFCs are now being considered key contributors to the growth of this segment. HFCs have managed to maintain a share of above 30 per cent by providing an easier, quicker and simpler loan turnaround process, despite charging higher rates of interest. Post-Pandemic, the sector noted a remarkable recovery and the ratio of housing loans in GDP rose to 11.2 per cent. From Rs. 2.6 lakh crores in FY19, the housing loan portfolio of HFCs has grown by over 3 times, rising to more than Rs. 8 lakh crores in FY22. The government's focus on the 'Housing for All' mission and infrastructure-led capex will ensure continued support to the sector thus propelling it higher.

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.

Shriram Housing Finance has seen substantial growth in new business in the post-pandemic era, due to increased access to credit and rising urbanisation. Our average ticket size for affordable home loans stands at Rs 16 Lakhs and customers within this target segment have seen an increase in appetite for self-construction home loans in non-metros, mainly tier 3 and tier 4 towns. The pandemic also triggered the need for larger homes and thus demand for home improvement loans and self-developed properties home loans are also showing strong traction.

Now over the last 2 quarters, there have been some reservations with respect to the fall in demand for housing and housing credit due to the rising interest rate. However, it has been observed that there has been a fundamental change in buyers' expectations and attitudes towards home ownership and this will largely withstand marginal fluctuations in lending rates.

When it comes to reaching out to the unserved and the underserved, what makes HFIs significant? How do you see the role of government in promoting the same?

Housing is a key input in economic, social, and civic development. The Housing Finance Industry contributes directly to achieving broader socioeconomic development goals. Housing investment remains valuable and a major economic driver, both in developed countries and developing countries.

There has been a huge gap in the demand and supply of urban housing in India. The economically weaker sections (EWS) and low-income group (LIG) account for 96 per cent of the total housing shortage in India. Thus, the need for an adequate supply of housing is the most prevalent for the EWS in the urban areas of the country.

HFCs complement the banking segment and make a significant contribution in catering to those who are new to credit and have informal sources of income.

For the government, while the focus on providing low-cost housing has been there in some shape or form even in the past, the Pradhan Mantri Awas Yojana (PMAY) launched in 2015 provided a fresh impetus to the objective. Apart from the various incentives provided to private developers and slum redevelopment authorities, the scheme also had provisions for easy credit availability for the EWS.

Earlier this year, our honourable Finance Minister had also spoken about promoting affordable housing for the middle class and EWS in urban areas and also working with the RBI to expand access to capital along with a reduction in the cost of intermediation.

How was the year 2022 for Shriram Housing Finance? What are your plans for 2023?

Shriram Housing Finance has had a great fiscal 2022, despite the various macro-economic challenges. Some highlights from our Q2FY23 financials include:

- For H1FY23, disbursals stood at INR 1,844 Cr, a growth of 116 per cent
- AUM crossing Rs. 6,500 Cr.
- 90+ DPD below 1 per cent on AUM
- More than 110 branches PAN India

The company has maintained an accelerated growth momentum with AUM growing at 52 per cent CAGR over the last 3 years, coupled with consistent improvement in asset quality. The company is investing in growing the distribution by scaling up its network footprint across the identified key focus states. The branch network stands at 112 branches as on Sep'22.

In FY2023, the company's growth plan has been chalked out with an immense focus on sustained growth. We are looking to disburse about Rs. 4,500 Cr. in the current fiscal and end at an AUM of over Rs. 8,000 Cr. We are also planning to spread our branch network to about 140 to 150 by the end of the year. The policy stimulus, improving infrastructure and better employment opportunities, along with post the pandemic shift in consumer living patterns, with many organisations opening offices in non-metros is leading to higher demand for affordable housing finance. Riding on the back of this largely untapped market, Shriram Housing Finance has steadily moved to become the 4th largest affordable housing finance company in India today and we would continue to outpace the industry growth. Our focus is to enhance our distribution network to widen our presence in the desired markets, which will help us build a continuous growth reservoir.