OPINION

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How Shriram Housing Finance's CFO is driving growth through robust risk management

***G. S. Agarwal, CFO at Shriram Housing Finance**, recently engaged in an extensive discussion with CFO India centered around his company's strategic financial management approach and its anticipated avenues for future growth.*

In the context of the ever-evolving landscape of financial services in India, this conversation sheds light on the strategic initiatives and forward-looking perspectives Mr. Agarwal has embraced to effectively navigate challenges and capitalize on opportunities within the sector.

Below are the edited excerpts!

Q. What strategies have you implemented to manage the company's financial risk and ensure its long-term stability in the face of changing market conditions? What will be the key driver of your growth going ahead?

G. S. Agarwal: Shriram Housing Finance Limited (SHFL) has achieved the significant milestone of surpassing INR 10,000 Cr in AUM and has now positioned itself as the third-largest affordable housing finance company. This achievement is attributed to our steadfast commitment to robust risk management practices. The growth-oriented strategies we have implemented will further expedite our journey toward establishing market leadership.

We have established and implemented robust risk management policies designed to mitigate and effectively handle various risks, including asset-liability mismatches, interest rate volatility, credit risk, and currency risk. Moreover, regulatory bodies such as the RBI and the NHB have undertaken measures to safeguard NBFCs and HFCs from dynamic market conditions.

SHFL maintains a robust Risk Management Framework that delineates our risk appetite, risk tolerance levels, and the roles and responsibilities of different stakeholders in risk management. Our credit risk assessment processes gauge the creditworthiness of borrowers and the asset quality on our balance sheet. We establish credit limits, conduct routine credit evaluations, and monitor portfolios for signs of stress.

Operational risk management: Identify and address operational risks associated with internal processes, systems, and human factors. Introduce internal controls and risk mitigation measures to minimize the chances of operational failures.

Compliance and regulatory risk: Ensure compliance with all applicable laws, regulations, and industry standards. Stay current with regulatory changes and adjust the company's risk management practices accordingly.

By implementing these strategies and consistently refining risk management practices, SHFL is positioned strongly to enhance its resilience to financial risks and maintain stability in the face of changing market conditions. At SHFL we strive to strike the right balance between risk management and risk-taking in order to navigate change and drive sustainable growth.

Q. Could you provide an overview of Shriram Housing Finance's capital structure and funding sources? How do you optimize the cost of capital and maintain a healthy liquidity position?

G. S. Agarwal: SHFL operates as a subsidiary of Shriram Finance Limited, with a substantial 85% shareholding held by the latter. The remaining 15% ownership is attributed to Valiant Partners, a Mauritius-based private equity firm. Valiant Partners has demonstrated their commitment as investors for over 8 years.

On the front of fundraising, we have effectively utilized term loans and securitization facilities from a diverse range of financial institutions. This includes public, private, and foreign banks, with whom we have cultivated strong relationships. We have established connections with more than 35 lenders. Notably, the regulatory authority NHB has approved competitive refinance facilities for SHFL.

We also engage with the debt capital market for both secured and unsecured Non-Convertible Debentures (NCDs). Furthermore, we actively issue Subordinated Debt Bonds to cater to our funding requirements.

Noteworthy in our recent accomplishments is the triumphant procurement of $50 million through our inaugural External Commercial Borrowing (ECB) endeavor.

In terms of financial management, we maintain a healthy mix of long-term and short-term borrowings. This strategy serves to optimize our cost of funding. Our favorable AA+ credit rating, coupled with the robust relationships we have cultivated with investors and lenders, contributes significantly to sustaining a competitive cost of funds.

Q. How do you assess the creditworthiness of potential borrowers and manage the company's loan portfolio to minimize credit risk? Are there any specific measures in place to mitigate non-performing loans and maintain healthy asset quality?

G. S. Agarwal: SHFL has implemented a robust underwriting and credit policy, which plays a pivotal role in mitigating credit risks. Our primary target demographic consists of self-employed individuals located in Tier-II and beyond towns, many of whom lack traditional proofs of income such as bank statements or income tax returns. Consequently, we employ alternative methods to assess the borrower's creditworthiness. These methods involve credit officers visiting the borrower's business premises to gain insights into their cash flows and income patterns.

To proactively prevent Non-Performing Assets (NPAs), we have established an inbound operation focused on minimizing losses. This operation revolves around offering pre-approved treatment strategies and personalized communication to our customers. Through this approach, we encourage customers to engage with us proactively. The outcome of this strategy has been twofold: not only has it resulted in a more individualized and effective customer service experience, but it has also allowed us to achieve these benefits at a larger scale.

Q. What role does technology play in your financial operations? How have you leveraged digital tools and data analytics to enhance efficiency, streamline processes, and drive informed decision-making within the organization?

G. S. Agarwal: Technology plays a pivotal role in all aspects of our business at SHFL. We have successfully integrated and unified platforms that enable us to seamlessly carry out a wide range of activities. These activities encompass essential functions such as cost management, payroll processing, financial & regulatory reporting, and various other services.

One of our notable technological achievements is the development of the "Griha Poorti" application, which operates on tablets. This innovative app has revolutionized our sales processes, facilitating a seamless customer onboarding experience. Additionally, we are proud to introduce the SHFL ACE App, which empowers customers to effortlessly complete their loan applications through a digital platform.

To enhance our customer portfolio management, we leverage cutting-edge tools like Video PD and have deployed tools such as the " Bounce Estimate Predictor". These tools work in synergy to efficiently manage our customer portfolios, ensuring optimal performance and a smooth operational flow.

Q. Considering the recent stability in the repo rate and the anticipated easing of inflation, how do you foresee the evolving consumer behavior? Do you have a strategy in place to assess it and respond accordingly?

G. S. Agarwal: The Treasury Team within our company diligently monitors the ratio of fixed-to-floating assets and liabilities at regular intervals. As a mortgage lending company that specializes in affordable housing, we operate within a highly competitive environment characterized by narrow profit margins. In regard to assets featuring floating interest rates, we promptly pass on any upward or downward adjustments in rates.

Out of the total 250 bps increase in the RBI repo rate, we have successfully passed on 210 bps to our customers. Remarkably, despite these rate hikes, we have not witnessed any increased attrition or higher rundown rates. In fact, our figures have either closely aligned with or even demonstrated slight improvements when compared to previous timeframes.