Shriram Housing Finance to raise Rs 300-500 cr via NHB refinancing: GS Agarwal, CFO

The company is looking to raise around Rs 1,000-1,100 crore through bank loans, NHB refinance and debt capital market instruments, added Agarwal. Of this, NHB refinance has the highest share, he said

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GS Agarwal, CFO, Shriram Housing Finance

Shriram Housing Finance plans to raise Rs 300-500 crore through the refinancing scheme of National Housing Bank (NHB) in Q2FY24, Chief Financial Officer GS Agarwal told *Moneycontrol* in an exclusive interview on August 2.

In Q1FY24, the company raised Rs 740 crore through NHB refinancing, out of a total borrowing of Rs 2,000 crore.

NHB refinancing has the highest share in the company's borrowing throughout the financial year.

Agarwal further said that the company's cost of funds will increase by 15-20 basis points (bps) in Q2FY24 as the higher cost of debt raised 2-3 years ago is due for maturity. One basis point is one-hundredth percentage point.

Edited excerpts:

Your cost of funds has increased over the last year. Why? How much do you think it will rise in Q2?

Globally, we are seeing a rising interest-rate scenario. This has led to higher cost of funds for Shriram Housing Finance. Despite that, we have contained our cost of funds, to a large extent, by booking fixed-rate loans at lower levels and/or booked loans with annual resets.

While loans with annual resets are up for reset in Q1 and Q2 of FY24, we don't see a major rise in the cost of funds as new loans are being booked at slightly lower levels. Also, higher-cost debt, which was raised 2-3 years ago (pre-COVID), is due for maturity. Thus, we believe that the cost of funds in Q2 would go up by 15-20 bps.

Why did the company's 90+ days past due (DPD) increase marginally, in percentage terms, in April-June from January-March? Also, why is there an increase in gross Stage-3 assets?

Our Gross Stage 3 assets have marginally gone up from 0.93 percent, as on March 2023, to 1 percent, as on June 2023. This is due to the industry cyclicality where delinquencies are usually higher in Q1 since Q4 numbers always represent the best performance.

However, we are confident that asset quality will be much better in the next 2-3 quarters.

Why has the company reduced its dependence on bank borrowings and increased fundraising through the debt capital market?

Shriram Housing Finance is a fast-growing HFC, and it is important for us to diversify our sources of funds. Even though the percentage of bank borrowings has reduced, it has only increased in absolute terms. With the increased disbursements of the company and higher requirements of funds, we have consciously increased the share of funds raised through NHB refinance and debt capital market instruments.

Why has the company's housing loans, top-up, construction financing and corporate loans share of the total loan book come down in the June quarter, whereas the share of LAP has increased? What is the rationale behind this?

We have made significant investments in human capital on account of the induction of the new mortgage team, which is primarily loan against property (LAP). The minor increase in the LAP portfolio is a result of the same.

However, we are using direct assignment and co-lending of the LAP portfolio as a long-term stable and diversified funding tool. Additionally, the new team is being trained to source home loans, along with LAP. Thus, we see this HL-LAP ratio stabilising, going forward.

Can you give us the breakdown of the company's funds raised in Q1FY24? Also, how much funding are you planning to take from NHB in Q2?

The company has raised over Rs 2,000 crore during Q1FY24, which is the highest quarterly fund-raise for us. This is from a combination of sources, such as bank term loans, accounting for 17 percent of total borrowings, NHB refinance (37 percent), debt capital market instruments (16 percent), direct assignments & co-lending (16 percent) and pass-through certificates (13 percent).

Shriram Housing Finance plans to raise around Rs 300-500 crore via NHB refinancing in Q2FY24.

How much, in absolute terms, are you planning to raise via bank loans and debt capital market in Q2?

The company has recently raised $50 million through its maiden External Commercial Borrowing (ECB) in this quarter. Additionally, the company is looking to raise around Rs 1,000-1,100 crore through bank loans, NHB refinance and debt capital market instruments.

Also, we will be continuing our direct assignment & co-lending programmes at similar levels as that of last quarter — of around Rs 300-350 crore per quarter.

Your cost of funds has increased by 91 bps in one year. How much have you passed it to customers?

Our average cost of funds has increased by 91 bps from June 2022 to June 2023. However, with loans coming up for reset, we are expecting the cost of funds to rise by 15-20 bps from the current levels. Additionally, it may be pertinent to note that the company's cost of funds for new borrowings raised during this period has gone up by 130-150 bps.

Shriram Housing Finance has cumulatively increased its PLR by 210 bps in the last year, as against the 250 bps hike in the RBI's policy repo rate. Customers in the affordable housing segment have been able to absorb the higher rates.

What is your guidance on margins in FY24 and why?

Our net interest margins (NIMs) will remain stable between 7.50 and 7.75 percent during the current fiscal, as we have successfully passed on the rate hikes to our borrowers without any negative impact on the loan book.

Shriram Housing was in talks to hit the IPO market after touching an AUM of Rs 9,500 crore. Now that it is close to that figure, what are your plans and when can we expect it?

The company has crossed the Rs 9,500 crore AUM mark, well ahead of our planned timelines and expects the current run rate of over 40 percent CAGR to continue over the next 2-3 years. The company is currently adequately capitalised and has not yet finalised any IPO plan.

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