Shriram Finance in no hurry, but open to universal bank licence

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Mumbai, July 27

SHRIRAM FINANCE MAY revisit its plans to apply for a universal bank licence if market conditions become favourable and its new strategic investor, MUFG Bank, supports the move, a top company executive said.

The non-banking financial company (NBFC) had applied for a universal bank licence in July 2013, but did not pursue the application. "We don't have any immediate plans, but if the situation changes, we can reconsider it. However, for at least the next one or two years, we have no such plans," said Umesh Revankar, executive vice chairman of Shriram Finance.

Revankar said converting into a full-service bank would bring several regulatory and operational challenges. These include compliance with cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements, building a strong deposit franchise to match the asset book, and potential pressure on margins.

"Shriram Finance has always been a specialised lending institution. That was one of the reasons we did not pursue the banking licence after applying in 2013," he said.

UMESH REVANKAR, EXECUTIVE VICE CHAIRMAN, SHRIRAM FINANCE

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Any future move would require broad consensus within the company and the backing of MUFG Bank, which acquired a 20% stake ₹39,618 crore in the largest cross-border investment in India's financial sector.

"We need to evaluate it carefully and proceed only when there is complete comfort. We will also have to discuss it with our new partner, MUFG Bank. They need to be on the same page," Revankar said. While a banking licence would lower the company's cost of funds, he noted that building a low-cost current and savings account (CASA) franchise has become increasingly difficult.

"Banks now face challenges in mobilising low-cost CASA deposits. With digital payments, customers can move money instantly, so they do not need to maintain large balances. That is something we will have to work on," he said.

Revankar said MUFG's investment has strengthened Shriram Finance's position in vehicle financing by helping it retain customers and leverage the Japanese bank's relationships with original equipment manufacturers (OEMs) such as Honda, Suzuki and Toyota.

"With MUFG bringing in capital and our credit rating improving, our borrowing costs have come down. We can pass on part of that benefit to customers, which should support business growth," he said.

The firm's incremental borrowing cost has declined to around 7.8% from about 8.3%. However, Revankar said it would take around 18 months for the lower funding costs to be fully reflected in the balance sheet as existing liabilities are repriced.