

‘We are MUFG’s strong retail arm’

TWO-WAY ROAD. Shriram Finance chief spells out the terms of the NBFC’s mutually beneficial tie-up with Japanese bank

K Ram Kumar
Mahesh Ravidas Nayak

Shriram Finance Ltd (SFL) is working on a synergistic relationship with MUFG Bank. The non-banking financial company (NBFC) will fund the clients of the corporates supported by the Japanese banking major.

This way SFL, which at last count had assets under management (AUM) of ₹3,13,798 crore, will gain business while MUFG Bank can strengthen its relationship with corporates in India, said Umesh Revankar, Executive Vice Chairman, SFL, in an interaction with *businessline*.

In April, MUFG Bank, which is Japan’s premier bank, picked up 20 per cent stake in SFL for ₹39,618 crore via a preferential issue of equity shares. Revankar observed that SFL is building capabilities to lend to mid-sized corporates, with ticket sizes of ₹30–40 crore. This business will start in October.

Edited excerpts:

Could MUFG Bank eventually encourage SFL to convert into a bank?

I don’t think that is necessary. MUFG is already a bank, particularly a wholesale bank, and what they want is a strong retail arm... which is why they invested in us. My sense is that they believe SFL is a better vehicle for retail lending than a bank because an NBFC has much greater flexibility. With MUFG investing substantial capital, resources should not be a problem.

How long will the capital infused by MUFG Bank last without you needing to raise additional capital from the markets?

Technically the capital should support us until around 2030. Our CRAR (capital to risk-



LAST-MILE LENDING. Umesh Revankar, Executive Vice Chairman, Shriram Finance Ltd

weighted assets ratio) is currently around 34 per cent. This capital should support 18–20 per cent annual growth. We can operate comfortably down to around 20 per cent without raising additional capital.

What synergies do you see from your partnership with MUFG Bank?

The synergies will work both ways. MUFG is primarily a wholesale bank, lending to corporates. They have relationships with some of the largest companies, including Japanese companies such as Suzuki, Toyota, Honda and Yamaha, as well as Indian corporates such as Tata Motors.

These corporates also have significant retail distribution networks. If we finance the retail ecosystem around the products manufactured by companies that have relationships with MUFG, their relationship with those corporates becomes even stronger. So, there is both a direct and an indirect benefit.

Many foreign companies may have a strong presence in India but may not have adequate reach into the last mile,

particularly in towns and villages. Financing can play a major role in enabling that reach.

What opportunities are you seeing in company ecosystem financing?

These companies have an entire ecosystem comprising dealers, sub-dealers, stockists and multi-product dealers. Take consumer durables such as refrigerators or air conditioners. Large Japanese brands such as Toshiba, Panasonic and Hitachi may have strong relationships with major dealers, but reaching smaller towns and smaller dealers is a bit difficult.

In India, everyone needs credit. You cannot expect dealers and stockists to pay upfront cash and maintain large inventories. This is where we can play a major role through supply-chain financing, dealer financing and inventory financing.

For example, a small dealer may stock 10 air conditioners and need two months of credit. The requirement may only be around ₹2 lakh, so the ticket size is small, but there could be thousands of such

transactions. We can do this with our large distribution network of 3,225 branches.

How will the composition of your loan book change by 2030?

The new products should grow faster because they are starting from a smaller base. Our MSME book includes supply-chain and dealer financing, among other businesses. Today, MSMEs account for around 13 per cent of the total book. We expect this to rise to 20–22 per cent by 2030.

Passenger vehicle financing should grow faster because shortage of credit is particularly significant in deep rural areas. I expect passenger vehicle financing to grow at 20–22 per cent annually. Commercial vehicle financing should grow at 12–15 per cent annually. Two-wheeler financing could grow at around 15 per cent. These are dynamic estimates, not fixed targets.

What is your outlook for the gold loan business?

Gold loans should grow significantly, although they will remain a small part of the overall

book. We currently have around ₹8,000 crore of gold loans and expect the book to reach about ₹20,000 crore over the next three years. That would be around 5 per cent, compared with approximately 2.5 per cent today.

Given that non-vehicle loans are growing at a faster clip, what will be the share of vehicle loans in your AUM by 2030?

Vehicle (commercial and passenger) financing currently accounts for around 69 per cent of the AUM. It could decline to 64–65 per cent. However, it is difficult to fall much below that because passenger vehicle financing is expected to grow strongly. These are all dynamic businesses. My expectation is that vehicle financing could decline by 4–5 percentage points.

If we are to become larger in non-vehicle lending, we have to enter large-ticket corporate lending, which we are not thinking of. We are, however, looking at financing MSMEs and mid-sized corporates, potentially with ticket sizes of ₹30–40 crore. There is a good opportunity in this segment. We are building our expertise and hiring people to develop this capability. We expect to start lending to this segment by October and build it carefully. However, over time, we expect a meaningful portfolio within the MSME business.

How is the opportunity in electric vehicle lending?

We started EV financing around one and a half years ago. Initially, our lending was around ₹13 crore per month. Today, it is around ₹250 crore per month, and we expect to touch ₹500 crore a month within about a year.

Our EV receivables are currently around ₹2,500 crore, and we expect them to reach approximately ₹5,000 crore by the end of 2027.