

No Need for Fresh Capital for Five Years: Shriram Fin CEO

With the infusion of ₹40,000 crore by MUFG, Shriram Finance now has the required balance sheet strength to compete more aggressively in new commercial vehicles and potentially EV leasing, while retaining its focus on retail customers rather than large corporates, **Parag Sharma** MD & CEO, tells **Rozebud Gonsalves and Sangita Mehta**. He expects the company, India's second-biggest non-bank lender by market value, to sustain 18-20% credit growth annually and maintain 8.5% margins, without having to raise capital every few years to expand its asset base.



How has MUFG's investment changed things for Shriram Finance?

It has changed in two significant ways. For financial services, the biggest constraint has always been capital. Earlier, while focusing on growth, there was always a concern at the back of our mind about the availability of capital. Every two-three years, that question would come up. With MUFG coming in, that concern is settled. Secondly, there was no single large shareholder with deep pockets in the Shriram Group. Now, with MUFG putting in ₹40,000 crore, there are no concerns on the partner's capability to put in money if required.

How long will this capital comfort last?

Earlier, we grew at 12-15% annually. Now, for the next five years even if we grew at 18-20% as per our own guidance, we do not see any requirement for fresh capital.

Will Shriram continue to focus on used vehicle finance?

Our comfort is in used commercial vehicles. These are often new-to-credit customers or aspiring customers, such as drivers who want to become owners. It is seen as a risky segment, and not many want to venture into it. But we are comfortable with it.

Would you consider financing new vehicles and farm equipment?

Yes. With lower cost of funds, we can now look at newer commercial vehicles, where rates are around 10-11%, com-

pared with about 16% for used vehicles. Earlier, our cost of funds made this segment less attractive. There may be some shift towards new commercial vehicles, though vehicles will remain our main focus. We also want to increase farm equipment financing, especially used tractors and equipment. Repayments there need to be structured around crop cycles, sometimes over three or six months, rather than monthly.

With MUFG coming in, will Shriram look at lending to large corporates?

No. We do not understand large corporates. We understand retail, rural India and semi-urban India. We understand only a few products, and we do not want to venture into large corporate India. The book will broadly remain the same. The difference is that we will grow faster than before and look at new initiatives within retail lending.

What new initiatives are you evaluating?

Electric vehicles are one area, especially leasing models for large operators with two-three year contracts. We are exploring this, but leasing needs capabilities to maintain and redeploy assets. Large customers have approached us for EV leasing. We also see opportunities in short-term financing, including supply chain, logistics operators and warehouses. But we will only finance warehouses, not own them.

How much has your cost of funds declined after MUFG's investment and the rating upgrade?

Our incremental cost of funds is down by about 60-70 basis points. We have not prepaid existing facilities because nearly 80% of our liabilities are fixed-

rate and will mature over the next 2-2.5 years. As these deposits, offshore borrowings, capital market borrowings and securitised liabilities get replaced, we expect overall liability costs to decline by about 100 basis points over the next 2-2.5 years, assuming rates remain at March levels.

Is the current NIM of 9.04% level sustainable?

The ₹40,000 crore investment income is giving us an additional NIM benefit of about 0.5-0.6 percentage point. The steady-state NIM should be around 8.5%. It may continue at 9-9.5% for the next two quarters, but after that we would still want it to remain above 8.5%. That is the level we will be conscious about.

Should more NBFCs be allowed to take public deposits?

RBI initially did not stop anyone from taking deposits, but after some failures, it stopped giving fresh permissions. NBFCs can do public issues of bonds and launch them regularly. Deposits have a different marketing route, with agents, branch networks and direct outreach although digital has made it easier. But just because deposits are allowed does not mean they will be available. Banks themselves are struggling to get deposits.

Has Shriram missed the gold loan opportunity?

No, I do not think so. We were already present in gold financing through Shriram City Union, but it was restricted largely to south India and accounted for only about 2-3% of the book. Maybe our focus was limited earlier.

What is your view on the RBI's draft norms on revolving credit?

For us, the impact is insignificant. Supply chain financing is a very small book for us. It is a short-term revolving credit product where the credit is typically for 80-90 days. The broad understanding is that the facility will continue for two-three years, but every 90 days the bill matures, repayment happens and the limit is reset. The product has been doing well and there are no concerns as such.