

Reliance Home Finance to tap SME segment

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Reliance Home Finance, the mortgage subsidiary of Reliance Capital, plans to increase its assets under management (AUM) from ₹6,500 crore to ₹50,000 crore in five years, most of which will come from disbursing loans to self-employed customers.

The company also plans to issue masala bonds, or rupee-denominated bonds, in the international market in the next financial year to raise capital. It, however, does not require immediate funds given its capital adequacy of 19 per cent, against the regulatory requirement of 12 per cent.

"It took us four-five years to set up our processes and till that time, we were going cautiously. Now we are confident about our assessment tools and skills and we're trying to get into the right spot in the market place," said K V Srinivasan, chief executive at Reliance Commercial Finance, and director of Reliance Home Finance, in an interview.

"We are looking at a very strong takeoff," he said.

Self-employed customers, mostly entrepreneurs of small and medium enterprises (SME), do not readily get loans from banks because most of them do not follow a proper tax record and tend to understate their income. Reliance Home Finance wants to fill this vacuum. The group's immediate target is to boost its AUM to ₹10,000 crore by the end of this financial year and ₹50,000 crore by 2020.

"If you look at the pattern of mortgage financing now, 80 per cent of the loans are given to salaried class. But, about 70 per cent of the real estate market is held by the self-employed class. We want to fill that space and expect 90 per cent of our business to come from the self-employed class," Srinivasan said, adding the lack of proper financial documents was no hindrance.

"We have our own technique of assessment, and it is



not a copy-pasted model, but something we have built up handling our SME clients class in the commercial finance business," he added.

"Cash flows for these customers are easily traceable, even as the profit is frequently under-reported and income tax returns are depressed. Our capabilities have been developed keeping this in mind," Srinivasan added.

The strategy will be to focus on the non-metro areas with low ticket offering that falls in the 'affordable housing' category. The company also wants to lend in the smart city projects that will be coming up in the near future.

Currently, 40 per cent of the disbursements happen in the ₹10-25 lakh bracket, which the group wants to expand. It also wants to give a big push to the ₹5-10 lakh category of loans.

The company has for now tied up with specialised groups such as microfinance institutions and non-banking financial companies to source business from these markets. Going forward, Reliance Home Finance will do the entire assessment job in-house as it expands in semi-urban and rural areas. By 2020, the company will have 2,000 people on its payrolls from roughly 450 now.