

MARKETS

Sundaram Home may tone down fundraising



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Nation seeing unprecedented change, difficult to estimate demand: MD Acharya

Sundaram Home Finance (SHF) may revise its fund-raising plans downwards by 10% if demand buoyancy does not return to the home loan market in the second half of this fiscal.

“We were looking to raise ₹4,000 crore this year, but given the flattish disbursement growth that the company is seeing we may end up raising ₹3,600 crore,” said the company’s MD, Srinivas Acharya.

He explained that the loan disbursement target may also come down to ₹2,450 crore from the originally intended ₹2,600 crore.

He noted that in anticipation of demand, builders had built a ‘huge’ inventory of homes. “But demand estimation was flawed. The scenario is now changing. The younger generation has become location agnostic and they no more want to be hooked to a single location. Our economy has to adjust to this new outlook of the younger generation.”

Ageing inventory

He also had a word of caution on the ageing inventory of unsold houses.

“Previously, 30% of homebuyers were from the IT sector; NRIs constituted another 30%. These two categories have seen a big dip in recent times. Demand buoyancy is not there currently. A large inventory of unsold new apartments may have buyers thinking twice and they may be reluctant to buy an apartment that has remained unsold for 2-3 years.”

Mr. Acharya also dwelt on the fact that the current slowdown in economic growth is unlike any other that India has faced. “We are currently going through a significant phase in our history – that of transformative change. There are cultural, societal, financial and environment shifts happening all at the same time.”

“Cultural preferences are changing. The demand–supply equation is changing. There was a time when there were severe supply constraints and there were challenges meeting the demand.

'No supply problems'

"In both housing and manufacturing, there are now no supply side constraints. The current slowdown is a result of issues on the demand side. With enormous shifts happening on multiple fronts, it is becoming difficult to estimate (demand numbers) easily."

Asked about SHF's own plans in the changing scenario, he said, "We have to capitalise ourselves carefully. If we over-capitalise, shareholders may not get the desired returns. Given the current scenario in real estate, even shrinking of business is fine as long as profits are there. Focus will be on going after good and profitable business."

Though the talk of the town is affordable housing, he felt that the sector had not yet seen the scale that it deserved yet. "Affordable Housing has not touched a scale yet. There has to be a major thrust on infrastructure and connectivity for affordable housing to take off in a big way. Expansion of the Metro rail network in Chennai will make a big difference to the affordable housing segment in the city."

Transformative disruption

A pack of disruptions has happened all at once in India. Across the world disruptions have always happened one by one in a phased manner. This time around in India, we are witnessing multiple transformational exercises happening in one go at the same time. There is a move to become corruption-free. Compliance, integrity and transparency are all transformative changes happening in the country currently. Actions have been taken to streamline accounting processes.

The good news is that disruptions are generally good in the long term. Consumers usually benefit from disruptions. This is a once-in-a-lifetime situation we are experiencing in the country where disruptions are happening in a manner which no other country has ever faced. It will take time to settle down. The key is not to look for a quick fix.

On the demand for passenger cars, he said, "In the last 15-20 years, a lot of things were woven around ownership of cars. No more will 3-4 million (cars capacity) be a base in the passenger cars segment. Those companies that had expanded hoping for larger volumes are currently facing challenges. Almost one third of those who bought cars as a status symbol are moving out of the segment. Owning a car is no more a story of 'ego' and 'prestige'. Hence the passenger cars segment will have to

settle at a new lower base taking into consideration the one third that is moving out of car ownership. With the new generation focused on effective utilisation of capital, the model is clearly moving from 'own to lease'.

Asked if SHF would go slow on taking deposits, given that demand for loans is muted, he demurred, saying, "With avenues for investment having narrowed down, people have flocked to fixed deposits and trusted institutions. This is reflected in the deposit numbers at Sundaram Home Finance. Our deposit base has grown 27% in the first half of the year to ₹1,495 crore. For us, deposit is a stable source of funding. It is also very dependable."

Liquidity and ALM issues

Mr. Acharya said that liquidity had not been a problem for SHF even at the peak of the issue in last year. "Pricing was a problem and cost of funds did go up. However, this has come back to normal levels now. The larger problem is the non-availability of long-term funding instrument for home finance companies. NHB gives us 15-year funding but other than that there is no long-term funding instrument available in the country. While there is a serious ALM (Asset-Liability Mismatch) issue in this space, we are thriving as an average housing loan is only around 10-11 years.

"Companies with a high exposure (40-50%) to short-term borrowings (less than one year) are likely to face liquidity challenges. Our short-term borrowing is typically only around 10%."

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