



# GLOBAL LEADERS PROGRAMME

## SCALING UP INCLUSIVE HOUSING FINANCE IN INDIA

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# Executive Summary (1/2)

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## Global view

The right to adequate housing, inscribed within the United Nations' Declaration of Human Rights, is recognised as absolute, similar to the right to health or education. Globally, an expected 1.6 billion people, or 1/3 of the global urban population, will be living in substandard housing or will be financially stretched by housing costs by 2025. Rapid and sustained urban population growth in Asia is fueling the demand for well-located, adequate and affordable housing and the Asia Development bank estimates that urbanisation in Asia involves adding 44 million people to the population in cities every year. This growth will require the construction of more than 20,000 new dwellings per day. The challenge is immense in Asia, where 61% of the region's population is expected to be living in slums.

## Housing in India

In India, as with many developing countries, efforts towards affordable housing solutions are primarily urban-focused. Some estimate that the country's urban population could reach 900 million by 2050, placing considerable pressures on urban resources, infrastructure and housing needs. The country's housing shortage is estimated to be 113 million units in rural and urban areas.

Despite the challenges in cities, poverty remains predominantly a rural problem and the housing shortage in rural India is grossly overlooked. Most households do not have the means to take out conventional housing loans to build or repair their home. The main issues preventing low-income rural households from accessing conventional housing in India include a lack of official land titles; a lack of credit history and income documentation; unsuitable length and size of traditional mortgages; and the high costs of collection, administration and delivery of direct loans.

As a result, only 19% of the rural population live in *Pucca* ("solid" or permanent) houses while the remaining 81% live in *Kutcha* ("raw") or semi-*pucca* structures made fully or partially from mud, bamboo, thatches, etc. 87% of homes in villages do not have access to toilet facilities and nationwide, the economic impacts of inadequate sanitation is estimated at US\$53.4 billion. It is estimated that the market size for rural housing finance will be US\$80 billion by 2022.

## Current Business Model

Recognising the lack of inclusive housing financing in rural India, **Swarna Pragati Housing Microfinance (SPHM)** was established in 2011 to specifically provide incremental housing finance to rural low income families and remains the only player in this specific market.

The main features of SPHM's business model seek to overcome the restrictions of conventional housing loans by providing incremental or modular housing finance in one or several modules, partnering with local microfinance institutions (MFIs) for both sourcing clients and collection of payments, using a paralegal mortgage scheme to establish ownership tenure and creating social collateral based on a group approach to housing finance.

The benefits of SPHM go beyond increasing access to housing finance and the company is committed to creating positive social impact on issues including financial inclusion, increased water and sanitation and women's empowerment amongst others.

# Executive Summary (2/2)

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SPHM realizes the great potential to grow and expand its operations to reach more rural communities and has the vision to reach a target of having disbursed one million loans in ten years. However in order to reach such scale, SPHM must rethink its approach to housing microfinance. The proposed business model has been developed to enable the rapid scaling of SPHM and further its ability to create positive social impact across rural India.

## Business Proposal

The model proposes an integrated solution that will provide enhanced value to customers while facilitating greater scale by reducing SPHM's cost of lending, operational expenses and driving overall organisational efficiencies. The four key pillars of the proposed model include:

- A **Community Housing Loan Pool**, where SPHM will lend only to customers that are part of a pool of households in the same community or vicinity.
- A **mobile technology platform** to enhance outreach and facilitate the acquisition of new customers, servicing existing customers and integrating this with loan collection systems to manage payments and the client database. The platform will also provide value-added optional services, such as education programmes, to gain loyalty and maximise retention.
- **Strategic partnerships with service providers**, particularly in construction, to provide access to materials and expertise in rural areas and to lower cost, and increase the speed and scale of growth. The benefits and savings gained from the economies of scale are returned to the borrower.
- **Bundled loan products** will be available as additional benefits to individual households in the loan pool to cater to the varying lifestyle needs and priorities of SPHM customers. These will include education plans, health plans, insurance services, wedding plans, and more.

Establishing a strong partnership with the government to better leverage and influence rural housing finance policies to further focus will also be instrumental to SPHM's ability to scale and secure lower lending rates. The ability of SPHM to lower costs, improve operational efficiency and establish long term partnerships with local stakeholders will keep the organisation resilient against future competitors that will inevitably enter the nascent market following SPHM's success. These strengths also make SPHM a suitable candidate to support the implementation of the national housing policy; the company could receive subsidies to efficiently and transparently channel funds towards rural housing.

## Financial Highlights

SPHM represents an excellent opportunity for investors, locally and internationally, looking to create a significant impact on rural housing finance and socio-economic development in India.

SPHM will finance its loans through a combination of debt and equity. The initial equity injection required in the first three years to jumpstart its growth in customer acquisition totals US\$41 million. As the scale of its loan portfolio grows, the borrowing rate is expected to decrease from 15% to 12%. The company will have an Return on Equity of 24% and a Return on Assets of 5%.





## Introduction & Background



# Global Leaders Programme



- The **Global Institute For Tomorrow (GIFT)** is an independent pan-Asian think tank providing content-rich and intellectually challenging executive education from an Asian worldview.
- The **Global Leaders Programme (GLP)** is GIFT's flagship leadership experiential programme designed for managers from leading global organisations to think critically about the drivers of change in the 21<sup>st</sup> century and develop new business models that address the defining challenges of our time.



# Project Team

- 30+ participants from 14 companies and organisations representing 12 countries, from Asia, Europe, and Latin America, joined the 50<sup>th</sup> Global Leaders Programme in Hong Kong and Tamil Nadu, India in February & March 2017.
- In partnership with **Swarna Pragati Housing Microfinance (SPHM)** – a pioneer in the provision of housing microfinance to low-income households in rural India – participants worked to produce business recommendations for the company to improve its processes and reach its target of one million loans in the next 10 years.



Multi-sectoral global cohort provides fresh perspective and new ideas to strengthen the housing finance sector across rural India

# Scope of Project

The GLP is an internationally-recognised two-week experiential leadership programme combining classroom and field-based learning.

## Objectives of Field Project

- Explore and gain a better understanding into rural India; the challenges faced by low-income households in acquiring (housing) finance and other financial services; and the opportunities for SPHM to explore bundled services such as education, sanitation and ICT to reach a wider customer base.
- Propose a financially viable business model and plan for SPHM to support the company's objective of reaching one million loans over the next decade.

## Methodology for Field Project

- Gain insight from SPHM management and local communities (individual borrowers, NGOs and self-help groups) on the challenges and opportunities in India's rural housing finance sector through household visits and interviews to understand low-income customer segments and to critically evaluate the rural housing sector.
- Information gathering and analysis, business model generation and business planning sessions in-country.



## Outcome

- Development of a business plan with analysis of key areas: sales, marketing & branding; partnerships, enabling policies; operational model; social & environment impact analysis; financial analysis; and governance & risk management
- Presentation at a public forum in Chennai of business plan highlights to SPHM, investors, students, international aid organisations, the government, and the media.



# Country Overview: India



## Background

- Population of 1.3 billion, with a population growth rate of 1.2%
- GDP growth rate of 7% (2016) and a GDP per capita of US\$7,197
- Inflation rate: 4.97%
- GDP composition by sector: Agriculture (16.5%); Industry (29.8%); Services (45.4%)
- 70% of population dependent on agriculture for subsistence

## Housing overview

- Urbanisation rate increasing at 2.8% from 2001-2011
- Urban population expected to reach 900 million by 2050
- India's housing shortage estimated at 113 million housing units (rural and urban) of which 65 million housing units are needed in rural areas alone
- Income of rural households remain low as agrarian economy stagnant at 0.2% growth rate, despite the overall economy projected to grow at 7.6% in 2017.
- Housing remains the most pressing need for households, above food, education and healthcare.
- Market size for rural housing finance expected to be approximately US\$80 billion by 2022.

Housing sector in India presents significant business opportunities for developers, investors and financial institutions

# State of Tamil Nadu



## Background information

- Capital: Chennai (formerly Madras)
- Population: 77.9 million
- GDP of US\$210 billion and GDP per capita: US\$3,000
- GDP composition by sector: Agriculture (21%); Industry (34%); Services (45%)
- Labour force by occupation: Agriculture (45%); Industry (27%); Services (28%)
- Literacy rate: 80.3%
- Poverty rate: 11.3%

Tamil Nadu is the 6<sup>th</sup> most populous state in India and lies in the southernmost part of the Indian peninsula. The state is divided into 30 districts, has English and Tamil as its official languages, and is home to close to 33,000 ancient temples.

Historically agricultural, Tamil Nadu is a large producer of rice, bananas, tea, rubber, and flowers. Heavily reliant on river water and monsoon rivers, Tamil Nadu is currently facing severe water scarcity due to irregular and infrequent rainfall.





Photo credit: Daniel Naegele

## Current Situation & Challenges



# The Global Housing Challenge

- Housing has long been regarded as a fundamental human right, and is frequently regarded as a key indicator of quality of living.
- Access to housing goes beyond the physical structure of four walls and a roof. It satisfies the need for subsistence by offering shelter and a sense of security. It is central to a “household’s functionality and productivity, social harmony and the development of health and sustainable economy”, and provides a sense of dignity and pride.
- Yet globally an estimated **1.6 billion people will be living in sub-standard housing** or will be financially stretched by housing costs by 2025. An estimated 10 million people on average die each year from conditions related to inadequate housing.
- In Asia, housing remains one of the most pressing issues, where more than 500 million still live in slums and where the urban population is expected to increase by 1.4 billion by 2050. Demographic shifts, combined with poor or non-existent land ownership policies and insufficient resources has resulted in a surge of slum creation and further deterioration of living conditions.
- Given the scale, the need for adequate and affordable housing presents significant business opportunities for the private sector, especially for developers, investors and financial institutions.
- Building units for the 100+ million new low-income households by 2025 alone could cost US\$2.3 trillion, **representing a construction market of US\$200-250 billion annually.**





# Housing in Urban India

- In India, the urban population has grown by 2.8% over 2001-2011 and some estimates predict it could reach **900 million people by 2050**. This will place considerable pressures and constraints on urban resources and infrastructure and has placed urban housing and slum redevelopment at the top of the political agenda.
- Amongst the country's total housing shortage of 113 million housing units, approx. 48 million are required in urban areas.
- The Indian Government has ambitious plans to maintain an all encompassing housing policy and has created various schemes to provide affordable housing in both rural and urban areas. But although India has a Ministry of Housing and Urban Poverty Alleviation, there is currently no parallel agency specifically serving the rural sector.

## Housing policies

- The recent housing policy implemented by Prime Minister Modi in June 2015, "*Housing for All*" (Pradhan Mantri Awas Yojan in Hindi) aims to provide affordable housing to the urban poor. In November 2016, the policy was extended to include rural areas and aims to provide adequate housing to India's entire population by 2022.
- By mid-2016, the government had approved investments of INR439 billion (US\$6.5 billion) for the construction of nearly 700,000 houses for the urban poor, but the government has made little progress with only 9,435 houses constructed after a year and a half.



Photo credit: Daniel Naegle



# Housing in Rural India

- In rural areas, where the housing shortage stands at **65 million housing units**, the government's frameworks and past policies aimed at the rural poor have primarily targeted the extremely poor. Rural households that fall in Low-Income Groups (LIG) or Economically Weaker Section (EWS) often fail to qualify for government support.
- Under the current scheme, financial assistance worth INR70,000 (US\$1,000) in "plain" areas and INR75,000 (US\$1,100) in "difficult" areas (high land area) is provided for construction of houses.
- The scheme provides subsidies and cash assistance to people in villages to construct their house by themselves. The government's vision is to replace all temporary housing from Indian villages by the end of 2017. Current barriers and challenges to housing financing and support include the lack of proof of identity, and the lack of official land titles.

## Main players in housing

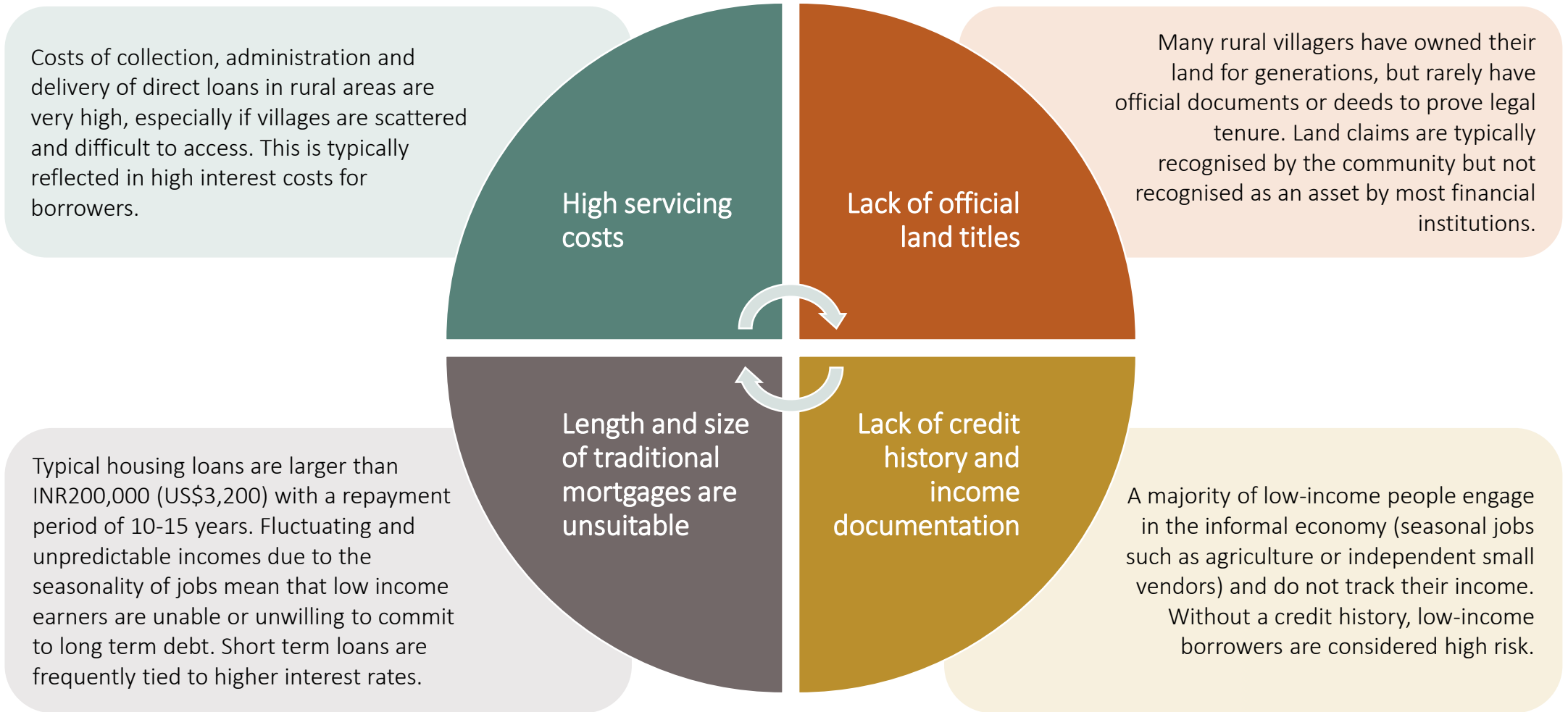
- National Housing Bank (regulatory authority);
- Housing finance companies;
- Financial institutions and banks;
- Housing and Urban Development Corporation (Urban Area);
- Co-op housing finance societies.





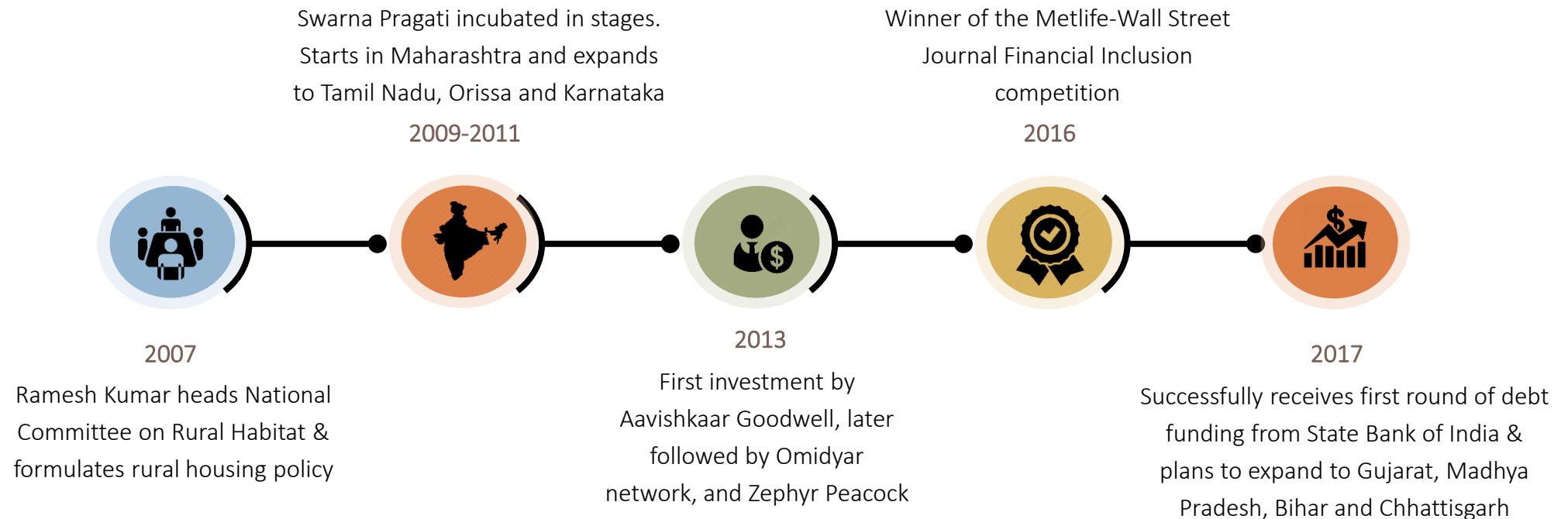
# Challenges to Rural Housing Finance

Low-income rural households face a number of challenges and limitations that prevent them from accessing conventional housing finance. As a result, the demand for financial products to repair and renovate is higher than for new construction.



# Swarna Pragati Housing Microfinance

- **Swarna Pragati Housing Microfinance (SPHM)** is a Microfinance Institution established in Maharashtra, now headquartered in Chennai. It was set up in 2011 by Ramesh Kumar, former Chief General Manager at the State Bank of India (SBI) and Charman of NABARD's National Committee on Rural Habitat.
- SPHM is a pioneer in the provision of incremental housing finance to rural low-income families to support their plans of building/extending their home, and/or repairing different parts of their home. SPHM targets rural customers who cannot access conventional mortgages or financial products and services for home improvements.
- SPHM today employs over 200 employees and has close to 15,000 customers, all women. They are smallholder farmers, landless labourers and/or members of self-help groups (SHG) or Joint Liability Groups (JLG). SPHM has operations in four states – Maharashtra, Tamil Nadu, Orissa and Karnataka – where demand for housing construction and repairs is high and shortage of housing units is a government priority.





# Swarna Pragati Housing Microfinance

## Vision

To become a leader in housing microfinance in rural and peri-urban India and to support households' aspirations of owning a safe and secure home.

## Strategy

Strengthening low-income households' access to affordable housing finance by promoting a pioneering payment scheme that:

- Is centered on borrowers' ability to pay;
- Works to overcome the sector's numerous constraints such as lack of official land titles and difficulty accessing and servicing customers;
- Leverages the strengths and advantages of grassroots community groups;
- Promotes financial inclusion and empowers women by lending exclusively to them.

## Main investors

SPHM has raised **US\$10 million** to date, its three main investors are:



• Aavishkaar Goodwell invests primarily in microfinance and technology related social ventures mostly in India.



• Omidyar Network, founded by eBay founder Pierre Omidyar, which has pledged almost US\$1 billion to both for-profit and non-profit organizations.



• Zephyr Peacock, a private equity firm with operations in India and Sri Lanka targeting fast growing, small and medium market segments.



# Main Features of SPHM's Current Business Model (1/2)

## Partnership with local microfinance institutions

- In order to reduce **high servicing costs**, SPHM partners with NGOs and local MFIs for both sourcing clients and the collection of loan repayments from SHGs. This approach significantly lowers delivery costs and increases SPHM's customer base without inflicting high direct marketing costs. Consequently, the lending rate can be kept slightly below that of MFIs (23% vs 25-26%).
- NGOs and MFIs receive an additional source of revenue from SPHM via a commission for the successful acquisition of new customers, for processing loan applications from borrowers, and for collecting loan repayments (0.25 – 0.5% for acquisition and 3-4% for business associates).
- In locations where SPHM is more established, a direct lending model is also employed allowing borrowers to repay loans directly to SPHM. Acquisition may be achieved via agents or SPHM directly.

## Incremental or modular housing finance

- Incremental housing finance is aligned to the payment capabilities of low income households for whom the **length and size of traditional mortgages are unsuitable**.
- Dividing a house into smaller “modules” such as roof, flooring, sanitation unit, kitchen, etc. allows the customer to finance one or several modules in shorter and multiple financing cycles, which better caters to their existing savings, the unpredictable nature of rural incomes and their unwillingness/inability to take out large and long term housing loans.
- SPHM loans are larger than standard microfinance loans but smaller than traditional housing loans (ranging from INR50,000 – 700,000 / US\$760 – 10,600 for housing loans and INR15,000 – 25,000 / US\$230 – 380 for sanitation loans). Loans are paid directly into borrowers' bank account (a pre-requisite), repaid over 3-5 years, allowing lower monthly installments and flexible repayment terms adapted to the customer's cash flow.



# Main Features of SPHM's Current Business Model (2/2)

- A major impediment to the acquisition of a housing loan is the **lack of official land titles**.
- Many low-income villagers typically own their land through community-recognised communal property ownership institutions, such as the *Village Panchayat* or *Gram Sabha*, who recognise and legitimise claims to land that have been long tenured by a household.
- SPHM is able to issue paralegal documents of ownership based on the communal property ownership institutions that are recognised by regulatory bodies, thereby improving the availability of credit to low-income families who struggle to get loans from banks on account of their lack of formal documentation.

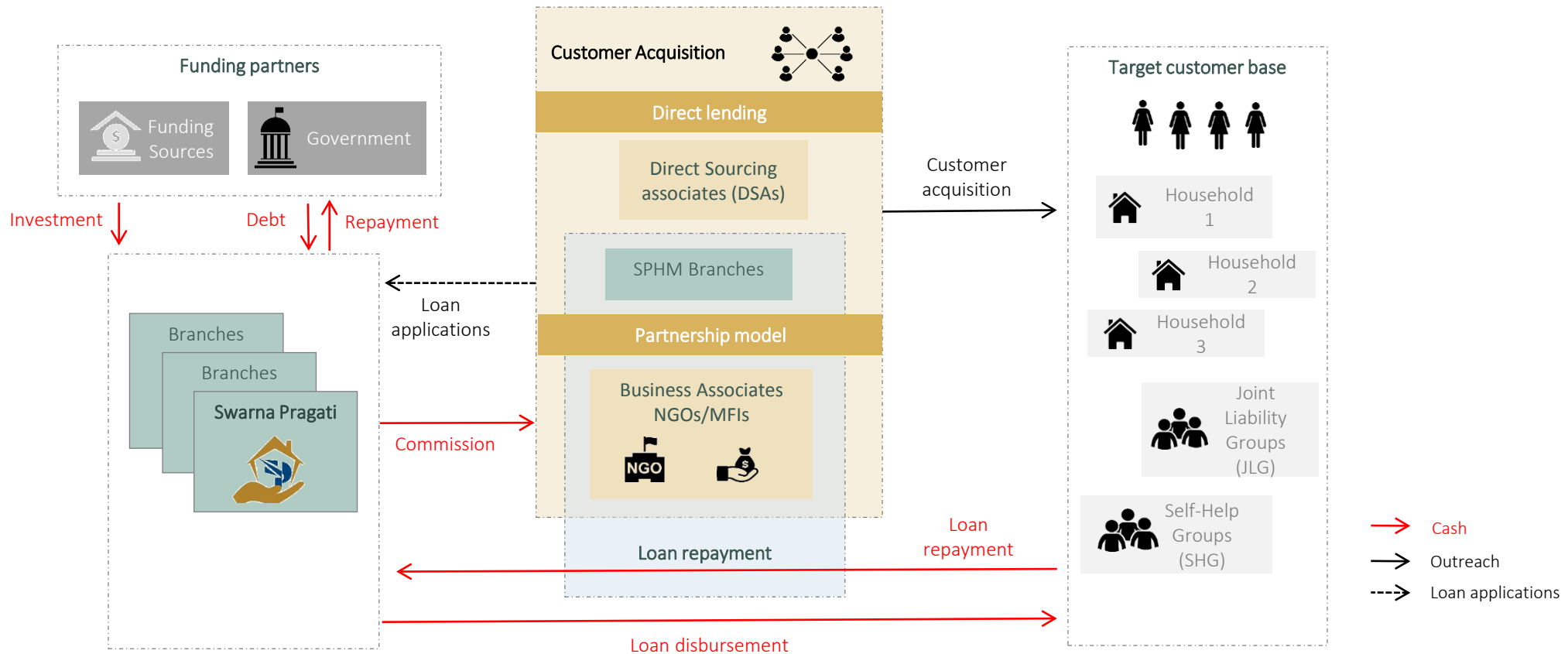
Paralegal mortgage scheme to establish ownership and tenure

- Individuals working in the informal sector and who do not have a formal source of income typically **lack credit history and income documentation**. As a consequence, they are regularly denied access to a housing loan from conventional housing finance providers.
- To overcome this, SPHM lends to members of Self-Help Groups (SHG) whose credit rating is established by the collective repayment rate of the local SHG.
- The SHG partnership model has proven effective in applying constructive peer pressure, character screening and providing social collateral which SPHM suggests is far more effective than physical collateral and encourages members to pay on time.

Social collateral based on a group approach to housing finance

Pioneering business approach overcomes the legal constraints associated to rural housing finance

# Current SPHM Business Model



- SPHM's current partnership model is divided into two streams for sourcing new customers and collecting loan repayments
- **Direct lending:** SPHM uses Direct Sourcing Agents (DSAs) such as individuals, local businesses, etc. to source individual borrowers or local community Self-Help Groups (SHG) or Joint-Liability Groups (JLG). Collection (and sometimes direct sourcing) is then done by SPHM staff. This process, especially the collection of repayments, is both time consuming and requires intensive manpower.
- **Partnership Model:** Existing partnerships with NGOs and microfinance companies (MFI) contribute to 85% of SPHM's loan distribution and SPHM heavily relies on this customer acquisition channel for sourcing new customers. Under this model, business associates such as NGOs and MFIs will find SHGs and/or JLGs within communities that are able to take out larger loans on behalf of their members, process individual loan applications, and oversee the repayment of the loan by individual members. This model is less resource intensive as SPHM only deals with business associates and does not manage individual loan collection. It does however require significant and consistent partner management to check and monitor their performance.





## Business Model

# Summary

The proposed business model supports SPHM's vision to provide financial access for housing in unserved areas and to reach its goal of disbursing one million loans in ten years. The model proposes an integrated solution that will provide enhanced value to its customers while reducing the costs of lending and operations, and also allow the organisation to scale more effectively.

The proposed business model is focused on four key pillars:

- A **Community Housing Loan Pool**, where SPHM will lend only to customers that are part of a pool of households in the same community.
- A **mobile technology platform** to enhance outreach and facilitate acquisition of new customers, servicing existing customers and integrating this with loan collection systems to manage payments and managing the client database. The platform will also provide value-added optional services, such as education programmes, to gain loyalty and maximise retention.
- **Strategic partnerships with service providers**, particularly in construction, to provide access to materials and expertise in rural areas, to lower cost, and increase the speed and scale of growth. The benefits from the economies of scale are returned to the borrower.
- **Bundled loan products** will be available as additional benefits to individual households in the loan pool to cater to the varying lifestyle needs and priorities of SPHM customers. These will include education plans, health plans, insurance services, wedding plans, and more.

An important enabler of the proposed business model will be to establish a strong partnership with the government to be able to better leverage and influence policies to further focus on rural housing finance.





# Rationale for Business Model

- In the context of India's existing housing shortage in rural areas, SPHM is well placed, as the pioneer of microfinance focused specifically on rural housing, to leverage its position and the opportunities for expansion of its business. However, its existing business model is not adapted to grow to **one million loans in the next ten years** and a broader adjustment of its strategy is necessary to achieve the scale SPHM envisions.
- The availability and penetration of mobile technology in rural areas provides a conduit for SPHM to recruit more customers and streamline its collections, and significantly increase the efficiency of its operations and sales & marketing efforts.
- The vast amounts of data collected from a new technology platform would be invaluable to SPHM and of interest to the government, businesses and other finance institutions to assess and predict consumption patterns and financial cycles of rural households.
- Increasing the pace of providing adequate housing will require construction and infrastructure development on a larger scale. Requiring loan applicants to apply as part of a community housing loan pool based on proximity will i) attract construction companies and other infrastructure service providers, leading to increased efficiency and savings through economies of scale and ii) lower the cost to service the loans.



# Rationale for Business Model

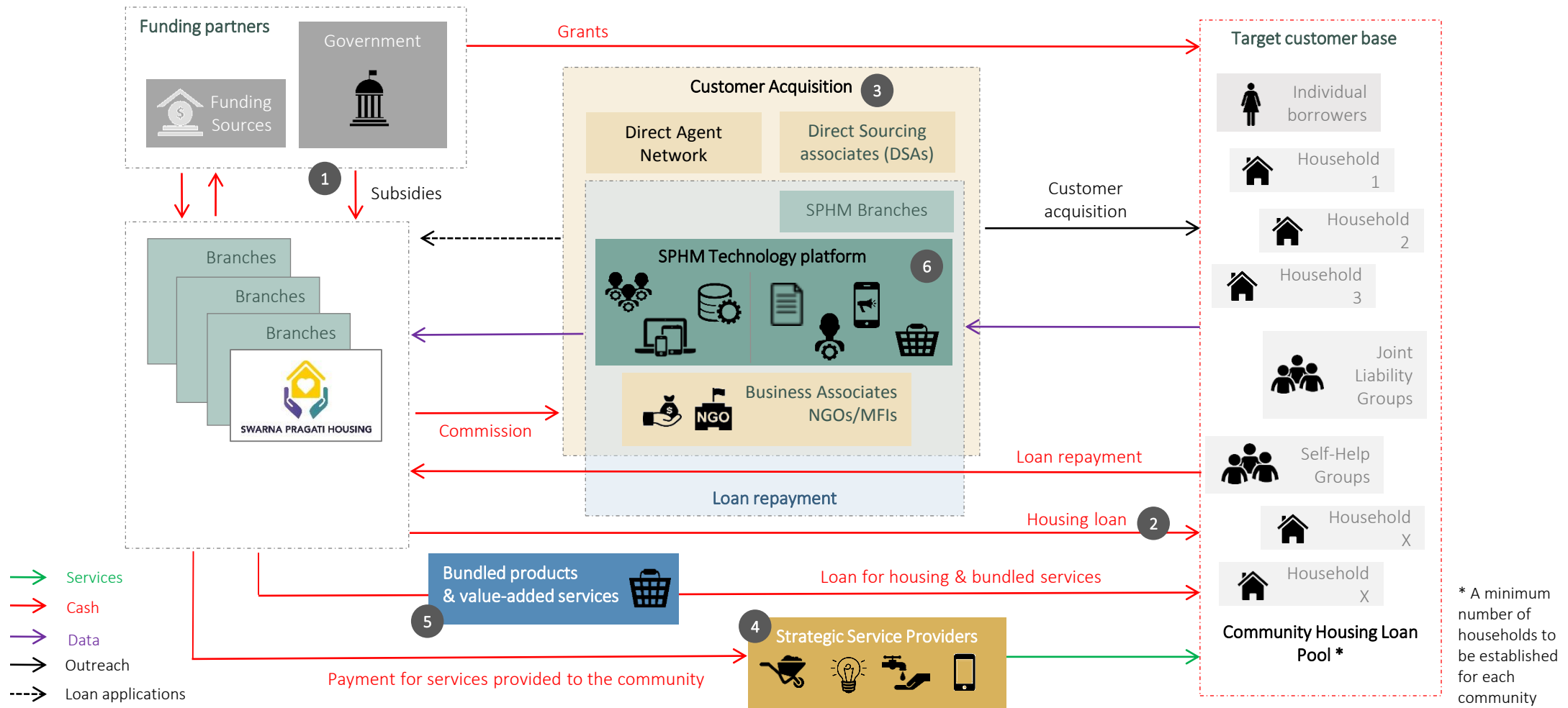
- Bundling additional services with the community housing loan pool will allow other value-added service providers such as health, insurance, wedding savings plans, etc. to tap into this large customer segment and provide critical services, collectively facilitating the improvement of living standards for rural communities across India.
- SPHM is well placed to receive support from the government, who has implemented a number of policies to promote affordable housing development in urban areas for low income groups and is a strong supporter of housing finance for the poor. There are currently limited policies addressing the underserved population in rural areas suggesting great potential for government to support increased funding for rural areas under its Housing for All policy.



Rethinking the business model will place SPHM in an advantageous position to scale its business



# Proposed business model



**1** SPHM will continue to leverage its relationships with funding partners for capital and target to expand its sources of funding. As a selected “contractor” SPHM receives subsidies from the government for the provision of housing loans to low-income rural households.

**2** Loans will now be dispersed to Community Housing Loan Pools only, which can be used for maintenance/repairs, extensions, sanitation and construction of new homes.

**3** Customer acquisition consists of existing recruitment partners, direct agent network, and the new technology platform. Incentives will be paid to customer acquisition partners.

**4** The loan will cover strategic services such as construction, sanitation, infrastructure, and more. Awarding one larger contract to a strategic service provider that covers all works in one loan pool will reduce costs for the households, SPHM and the partner.

**5** As part of the Community Housing Loan Pool, Bundled Products are also available as part of the loan to meet the individual needs of customers.

**6** Loan repayment as well as customer account management can be more easily managed through the technology platform, and important data can be collected and analysed.

\* A minimum number of households to be established for each community

# Community Housing Loan Pool

- In order to reach its growth target within ten years, establishing a loan pooling mechanism allows SPHM to find the optimal minimum number of loans within a community or geographic area to cost effectively service. The proposed business model recommends that SPHM only service housing loans that are part of a community housing loan pool, for example a minimum of 30 households wishing to take out a housing loan could be required before SPHM agrees to service the loans. A representative, such as the Village Head or an NGO, will be responsible for the organisation of the loan pool members and act as the main point of contact with SPHM.
- Having a cluster of homes requiring repairs or new construction will lower construction and operational costs. Any savings gained can be returned to the borrower through lower interest rates.
- The loans within the pool would still be structured as individual housing loans and be available to individual households as well as to Self Help Groups and Joint Liability Groups as part of its social collateral based on a group approach.
- Similar to SPHM's current loan scheme, customers benefit from incremental financing and disbursement of loans in tranches and acceptance of paralegal documentation for the loan application.
- SPHM is recommended to reorganise its customer recruitment channels and incentive structures to better recruit communities to qualify for a community housing loan.
- The new technology platform will help SPHM to access a greater number of customers concurrently.
- The community housing loan pool would be available for a variety of home improvement works such as repairs and sanitation projects as well as new builds and home extensions.





# Corporate Identity and Rebranding



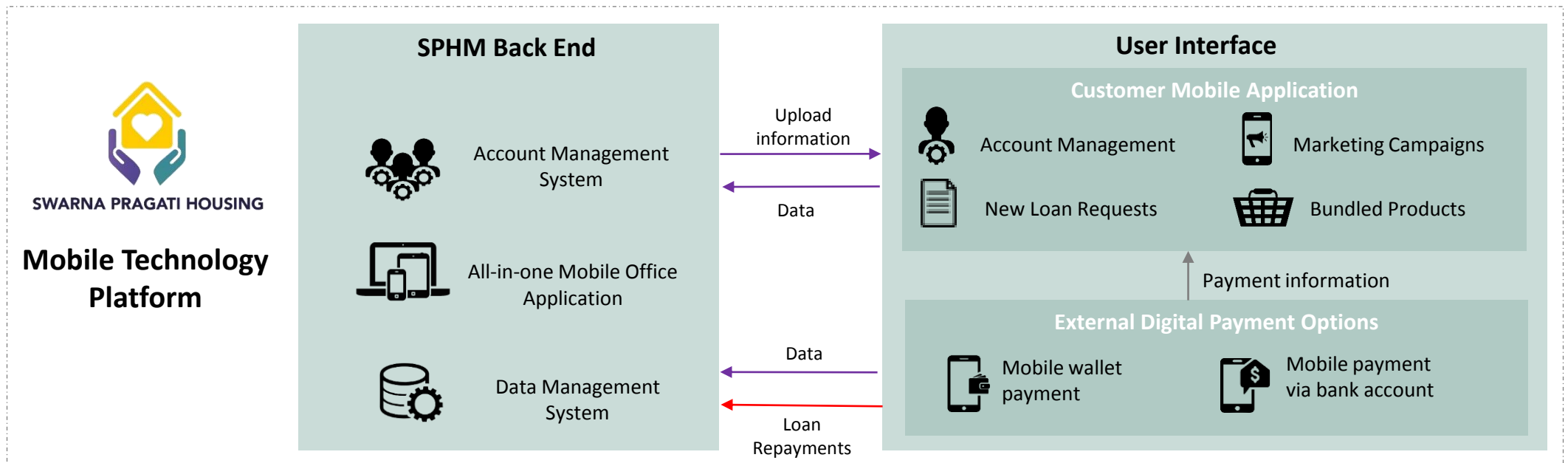
**SWARNA PRAGATI HOUSING**

- In conjunction with the launch of the new business model, it is recommended that SPHM undertake a rebranding initiative that reflects the new brand strategy and marketing direction.
- The logo is proposed to be redesigned to better appeal to an international audience as the company expands to target larger market segments and approaches international investors for future funding. To do so it is important that the brand has an identity that lends itself to an international audience, is unique and arouses viewer emotions.



# Mobile Technology Platform

- SPHM's current operations and processes are predominantly manual, from completing and inputting new loan applications to collecting payment. Internally, an Account Management System is used to manage all customer accounts and loan disbursements are made to customer bank accounts only (customers are required to open a bank account). Going forward, in order to manage one million accounts, SPHM will need a more integrated technology solution to connect to its customers and to manage its operations.
- In the back end, SPHM will be able to better utilise its **Account Management System** to push account updates, promotions and messaging directly to the customer via SMS. An **All-in-one Mobile Office Application** will be developed to facilitate SPHM staff to service numerous clients in the field. The system will include new loan application and data entry directly into the SPHM system via smartphones and tablets, instant scanning and uploading of documentation, etc.
- A **Data Management System** will inform SPHM about customers' preferences, repayment patterns, preferences for products, etc, which will be invaluable to its ability to be more responsive to its customers and adaptable to the market. This data is expected to be useful to banks, other lenders, service providers, the government, etc and SPHM will be able to capitalise on this opportunity in the long run.
- A **customer mobile application** will allow the user to manage her account, apply for new loans, view its status and receive services and promotions directly via an SMS system. Customers will be encouraged to use **external digital payment options** that are well developed in urban India, and beginning to increase penetration into rural areas.





# New Strategic Partnerships

## Strategic Service Providers



Construction



Sanitation



Energy



Technology

## Partners for bundled products and value-added services



Insurance



Healthcare



Education



Wedding and savings

## Government & regulatory bodies



- In order for SPHM to significantly scale its business, the company will need to extend its partnerships beyond MFIs, NGOs and SHGs.
- By focusing on a Community Housing Loan Pooling model, SPHM can attract **key service providers**, especially construction companies, that can execute well-managed construction services in a professional and effective manner. The economies of scale gained from pooling households together can attract companies that would typically not operate in scattered villages, and together with competitive bidding for contracts will result in reduced construction costs. The Community Housing Loan Pool can also attract infrastructure developers and apply for improved sanitation facilities, roads and electrification.
- A captive audience of clients within a Community Housing Loan Pool also presents SPHM with an opportunity to provide an integrated solution for community development by providing loans for **bundled products**. Partners specialized in healthcare, insurance, household saving schemes, etc. wishing to reach the millions of rural low-income customers could partner with SPHM for the delivery of these additional value-added services. Providing a borrower is in a Community Housing Loan Pool, she could apply for a loan that covers her housing/construction needs, as well an insurance plan for her family for example.
- SPHM could also become a key partner for the servicing and implementation of the government's Housing for All policy. By contracting SPHM, the government can channel subsidies destined to low-income groups and individuals through SPHM to ensure that the funds are used efficiently and transparently, for the intended purpose of home construction and that the impact of these subsidies is maximized.

# Business Expansion & Growth Strategy

## Horizon 1: Focused growth

- **Building community loan pools and strategic partnerships (FY1 – FY4)**
- Increase customer base by building Community Housing Loan Pools in existing areas of operation and setting up technology platform
- Form strategic partnerships with service providers to focus on construction capabilities and to provide bundled products
- Diversify customer acquisition channels, build network of direct agents, provide training to existing and new staff
- Work with Government to develop enabling policies for rural housing and receive additional funding

## Horizon 2: Scalable growth

- **Replicate business model to other geographical areas and strengthen strategic partnerships (FY5 – FY7)**
- Extend and strengthen partnerships with service providers to grow the integrated solutions provisions
- Replication and acceleration of core business model into three additional states as customer recruitment network are now familiar with attracting loan pool

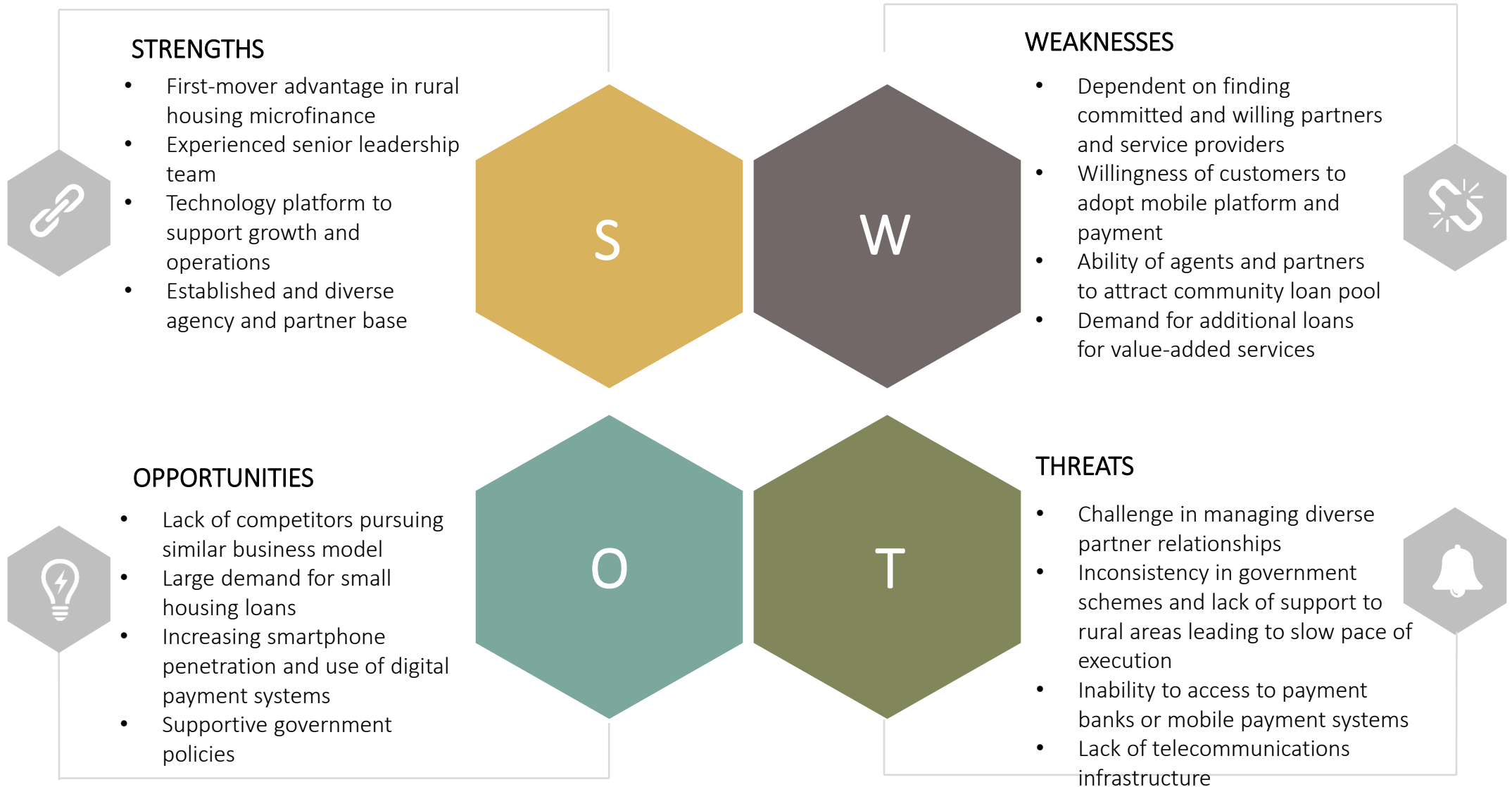
## Horizon 3: Expansion

- **Maximize sustainable geographical expansion with fully developed partnerships (FY8 – FY10)**
- Geographical expansion into 3-5 more states as more customers adopt mobile technology system
- Achieve economies of scale through loan pools and optimizing partnerships
- Consider upgrading technology platform to include partners
- Research into next “game-changer” for housing finance industry
- Reach one million households over the next 10 years

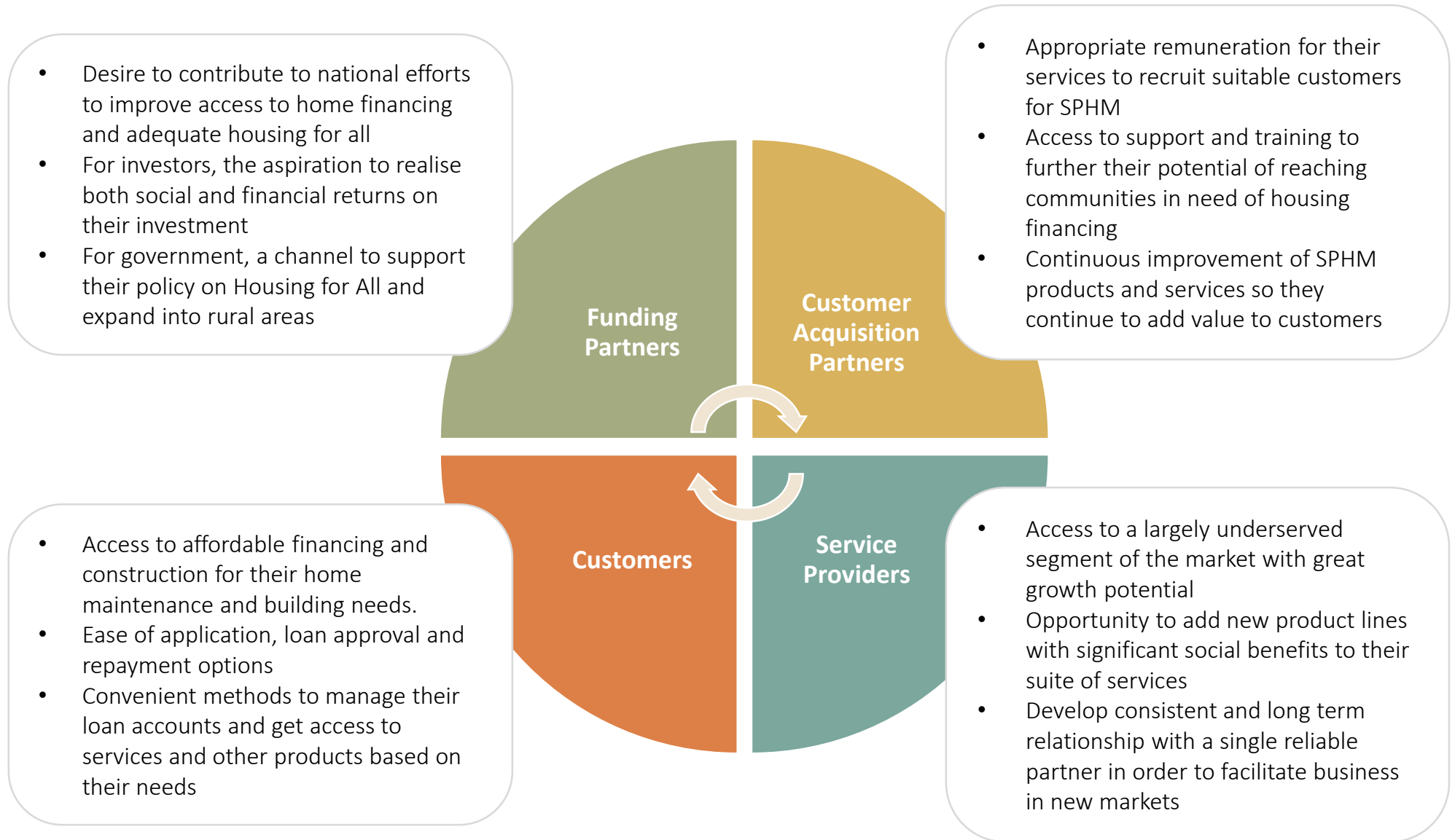
A sustainable path to realise 1 million loans in 10 Years



# SWOT Analysis of Proposed Business Model



# Key Stakeholders & Interests



Opportunity for investors and service partners to contribute to inclusive housing finance through a scalable social business





## Strategic Partnerships



# Summary

## Existing partnerships

- SPHM's current model is based on core partnerships with NGOs and MFIs to identify and acquire new customers, and to collect monthly loan repayments from their borrowers and SHG members. This model has enabled SPHM to reduce its operational costs by leveraging partners' technological (oversight and verification) and administrative capabilities (marketing and outreach, application processing, collection of loan repayments, accounting and reporting).
- SPHM will deepen its relationship with existing partners and work with them to introduce the Community Housing Loan Pool so that partners can support with the identification and clustering of potential borrowers.
- SPHM will also strengthen its relationship with the government, to access favourable lending terms and support the implementation of the government's housing policy and help reach the national target of housing for all by 2022.

## New partnerships

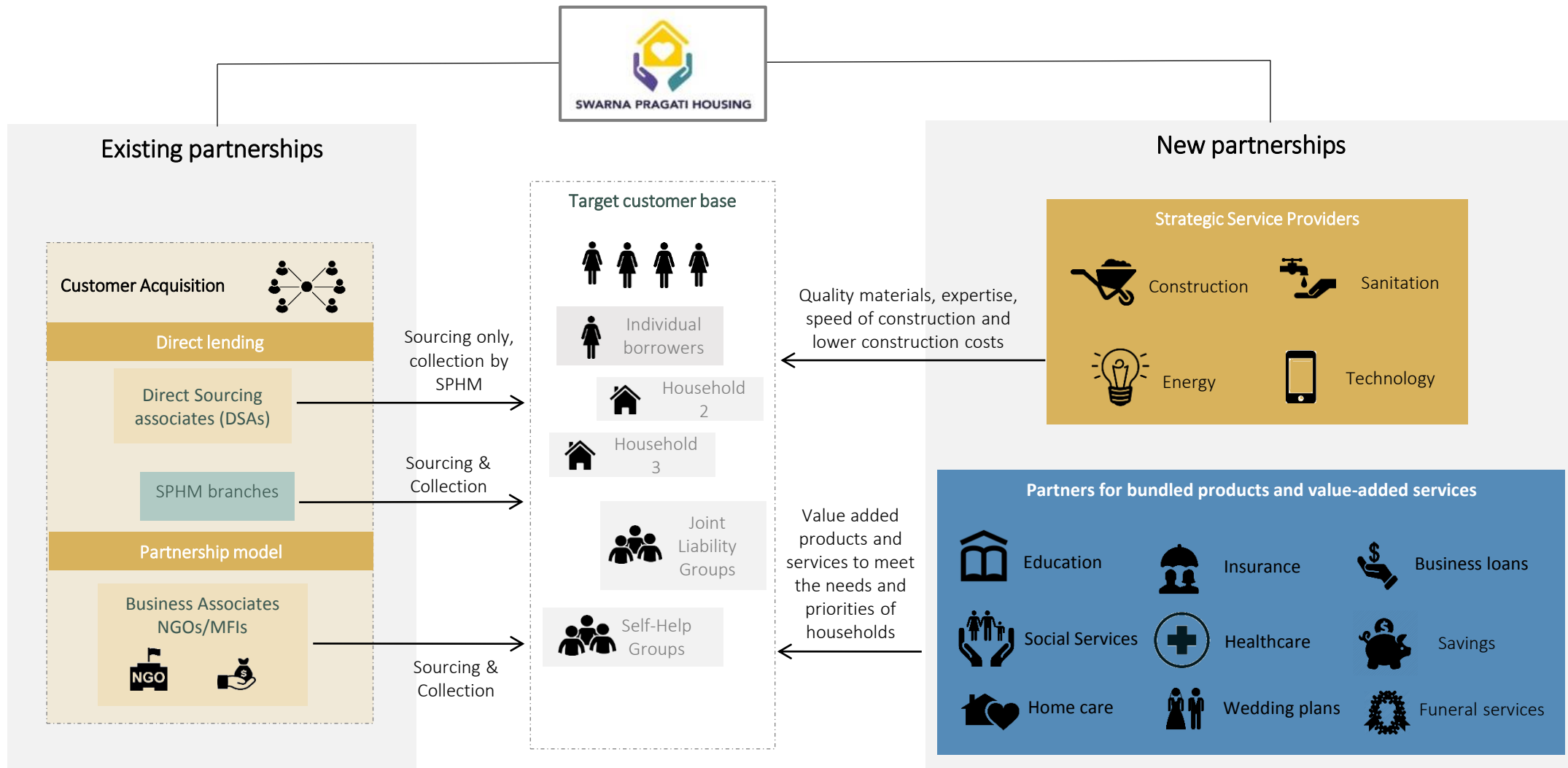
- SPHM will also work closely with Strategic Service Providers, particularly in construction, who can provide access to materials and expertise in rural areas and to lower cost, and increase the speed and scale of growth for SPHM. The benefits and savings gained from the economies of scale are returned to the borrower.
- SPHM will also partner with companies and organisations that can provide additional value-added services to low-income groups to become an integrated solution provider.





# Extension of Partnerships Beyond Today's Business

- SPHM's existing partners are focused primarily on the identification and acquisition of clients (individual and groups) and on the collection of monthly loan repayments.
- To reach scale and support SPHM's branding efforts, new partnerships with service providers can leverage their expertise and know-how for the construction of homes and to enable SPHM to becoming an integrated solution provider for low-income households.



# Strategic Partnerships with Service Providers

- In order for SPHM to significantly scale their business, the speed of housing construction and relevant infrastructure development must be increased. The ability of individual households in rural areas to access well-managed construction services that can complete their home construction needs quickly is currently limited. There remains too great a reliance on individual masons or carpenters and help from neighbours within their village for home construction.
- The ability to develop strategic partnerships with key service providers is strongly connected with the Community Housing Loan Pool framework. The economies of scale gained from pooling loans will make projects in rural areas more attractive for larger, more established construction companies, government agencies and technology providers.

- Engage larger, more experienced construction companies with resources to carry out works on many homes simultaneously.
- Bulk purchase of services and materials will lead to wider variety of choice and lower costs
- Request for bids from several companies results in more competitive pricing

- Access to clean energy and movement away from use of biomass for cooking and heating needs.
- Community loan can promote more reliability of utilities repayment, thereby attracting greater investment
- Potential for development of local energy plants from agri-waste, solar, wind, etc.



- Improvements in water supply and sanitation infrastructure
- Increase access to reliable and affordable sanitation service and technology
- Avenue to discuss affordability and cost contribution from community on infrastructure projects.

- Enable digital banking and loan repayments in rural areas
- Improving internet connectivity
- Enhance smartphone penetration
- Enable access to other credit facilities to boost self-employment opportunities

Partnerships with strategic service providers are critical to the development of one million homes in 10 years



# New Partner Selection: Strategic Partnerships with Service Providers



Potential Partners	Selection criteria	Benefits for SPHM	Benefits for Partner
<ul style="list-style-type: none"> <li>• Construction companies</li> <li>• Building material companies</li> <li>• Logistics companies</li> <li>• Infrastructure companies</li> <li>• Sanitation companies</li> <li>• Information, Communication and Technology (ICT)</li> </ul>	<ol style="list-style-type: none"> <li>1. Support of SPHM vision</li> <li>2. Experience in rural areas</li> <li>3. Service quality and reliability</li> <li>4. Reasonable costs</li> <li>5. Suitable products and services</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduce operational costs</li> <li>2. Sharing the risks</li> <li>3. Speed up the expansion plan to reach scale</li> <li>4. Leverage knowledge</li> <li>5. Expand offerings</li> <li>6. Any savings can be redirected to borrowers: results in good will, social impact and positive PR</li> </ol>	<ol style="list-style-type: none"> <li>1. Expansion of business into untapped and very large market</li> <li>2. Resource &amp; risk sharing lead to cost reduction</li> <li>3. Long term and reliable partner in SPHM</li> <li>4. Opportunity to produce social impact in rural communities</li> <li>5. Positive PR</li> </ol>

Opportunity to attract quality service providers into rural areas

# Bundled Products

- SPHM will move away from its current transactional model of providing housing loans only, to providing an integrated solution for community development in the areas where it operates. There is potential for SPHM to make available services that would otherwise be inaccessible for individual households, either due to lack of knowledge from the households or hesitation to access rural markets from service providers.
- Additional benefits will be available to individual households in the Community Housing Loan Pool, for which any payment for the services can be bundled in together with the loan.
- SPHM will need to identify the suitable partners to provide the additional services. Like the strategic services providers, households can benefit from lower costs if other households from the same community also require them.

## Today: Transactional Model

Offering financing for housing to build and refurbish homes



SWARNA PRAGATI HOUSING

Product Bundling

## Tomorrow: Integrated Solutions Provider

One-stop service to support raising the standard of living of entire communities



SPHM becomes a One-Stop Integrated Solutions Provider



# New Partner Selection: Bundled Product Partners



Potential Partners	Selection criteria	Benefits for SPHM	Benefits for Partner
<ul style="list-style-type: none"> <li>• Insurance companies</li> <li>• Education providers</li> <li>• Healthcare providers</li> <li>• Social service providers</li> <li>• Marriage and savings plans</li> <li>• Business loans</li> <li>• Home supplies</li> <li>• Mobile Clinic services</li> </ul>	<ol style="list-style-type: none"> <li>1. Reputation</li> <li>2. Experience servicing rural areas</li> <li>3. Service quality and reliability</li> <li>4. Support of SPHM vision</li> <li>5. Reasonable costs</li> </ol>	<ol style="list-style-type: none"> <li>1. Leverage knowledge of partners</li> <li>2. Expand product and service range</li> <li>3. Increase loan sizes to achieve greater scale</li> <li>4. Sharing the risks</li> <li>5. Any savings can be redirected to borrowers</li> </ol>	<ol style="list-style-type: none"> <li>1. Expansion of business into untapped and growing market</li> <li>2. Resource &amp; risk sharing lead to cost reduction</li> <li>3. Long term and reliable partner in SPHM</li> <li>4. Opportunity to produce social impact in rural communities</li> <li>5. Improved standard of living will create greater demand for products and services in long term</li> </ol>

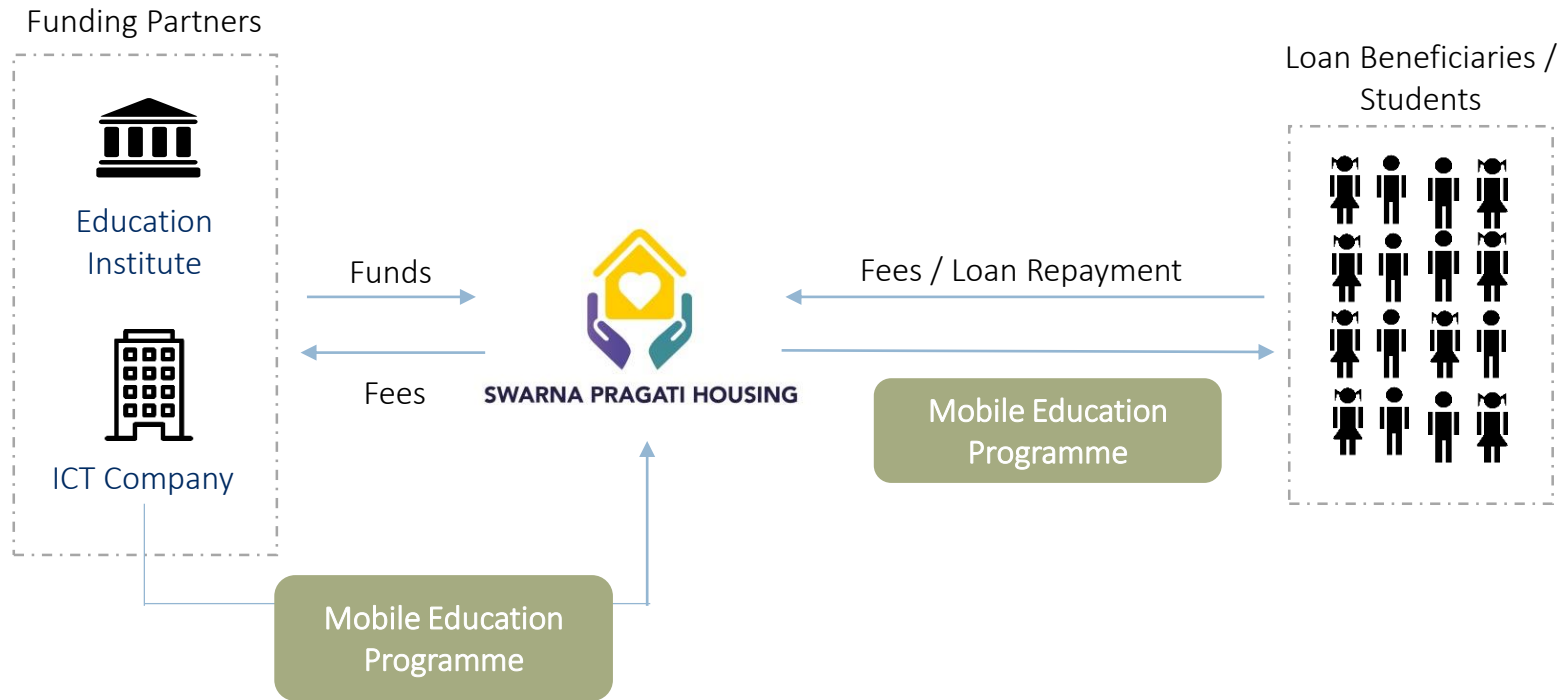
# Social Benefits of Product Bundling

- As a One-Stop Integrated Solutions Provider, SPHM is uniquely positioned to offer a variety of essential services that customers would not otherwise have the opportunity to access, leading to increased social benefits for the community.
- Currently, households have different priorities for the use of their savings and loans, and spending on one important item such as a child's education or a wedding in the near future means that spending on home maintenance will need to be postponed or forfeited. It will take a long time to improve a family's quality of life and the risk of cyclical poverty is higher since entire savings will be used at once, leaving families vulnerable to external shocks.
- The ability to bundle additional products based on the needs of individual households into the loan from SPHM will allow families to better manage their expenses and give them access to numerous important services at once, giving them the ability to improve the general quality of life of all family members.

Example of bundled product	Product benefit	Possible strategic partner
Education plan	Housing + education scholarship	Government, e.g. Ministry of Human Resources Development
Wedding plan	Housing + wedding and marriage funding and arrangements	Community or wedding planning companies Marriage loan MFIs
Health plan	Housing + health and hospital related benefits	NGOs, Hospitals, Insurance companies
Protection plan	Housing + Life and medical protection	Insurance companies
Mobile Education plan	Housing + Mobile education applications + Mobile payment gateway	IT and Telecommunication Companies, universities and colleges



# Product Bundling: Mobile Education Programme



- Education is considered very important in rural households. For many parents the choice between sending their children to school and the working on the family farm is a difficult one.
- One application of product bundling is the opportunity to provide education via an online education software available on SPHM's mobile technology platform, providing a greater flexibility in terms of how to receive education. Classes could be a combination of both in-classroom and online learning.
- Scholarships could be funded jointly by SPHM, an educational institute and an ICT company such as the developer of the education software or the developer of SPHM's technology platform
- Access to the first level online courses could be subsidized or provided free of charge to customers. Thereafter additional courses and education materials would be provided with a fee, which would require the customer to take a loan via SPHM for the mobile education programme.
- This is also a good opportunity to generate positive brand awareness for SPHM



# Operations



# Summary

## Mobile Technology Platform

- Development of the mobile technology platform is an integral part of SPHM's growth and scaling objectives, and will significantly improve the ability to access new and existing home loan candidates.
- There is great potential for the collection and future use of data from the technology platform in order to better profile customers, develop future products and produce more targeted promotions.

## Mobile Offices

- In addition to SPHM branches, vans or trucks equipped with mobile office technology can tour the country side and travel to community housing loan pools to provide customer service, bring loan repayment to borrowers' doorstep and increase direct interaction between SPHM and its customers.
- The deployment of mobile offices in strategic locations can support the company's expansion plans, streamline its operations by creating a nexus between central office and grassroots activities, increase customer interaction, build trust, and support wider sales & marketing initiatives.

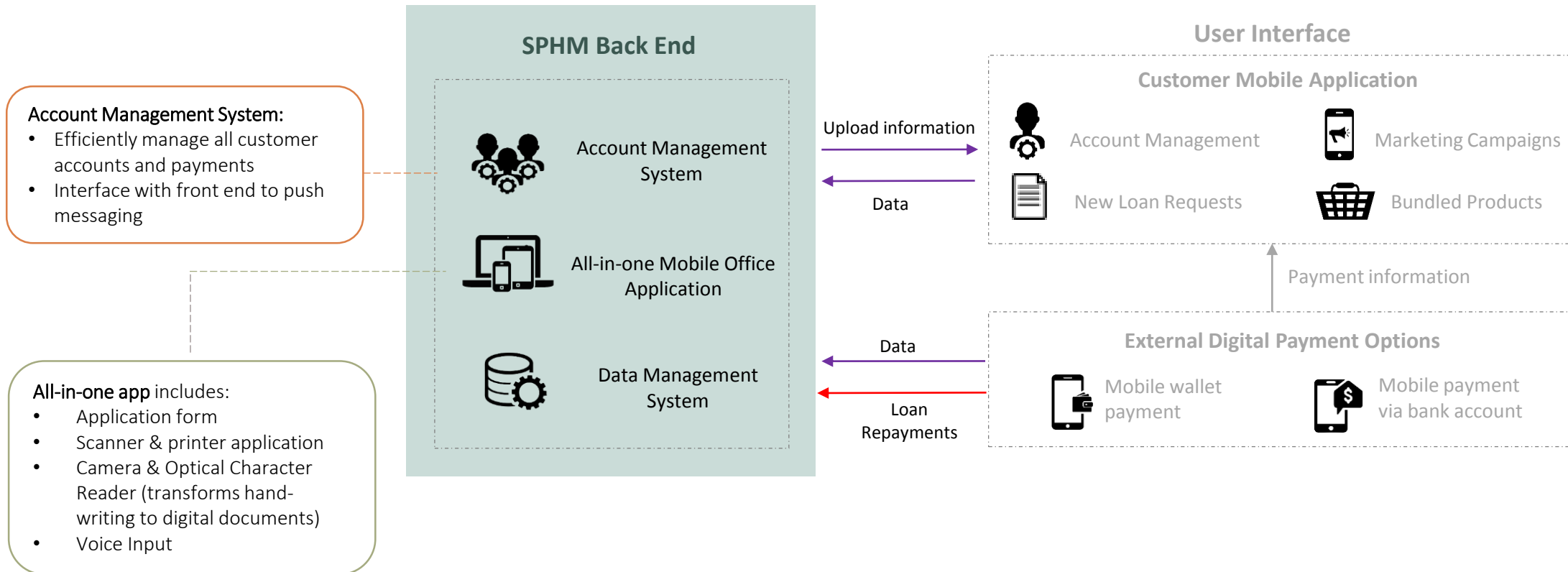
## Training and Development

- It is recommended that comprehensive training and development programme be developed and rolled out at all levels of the company and amongst key partners responsible for customer acquisition. This should include training on the use of the technology platform, understanding its integration into the existing business model and the bundled services that are now made available to borrowers from a community housing loan pool.



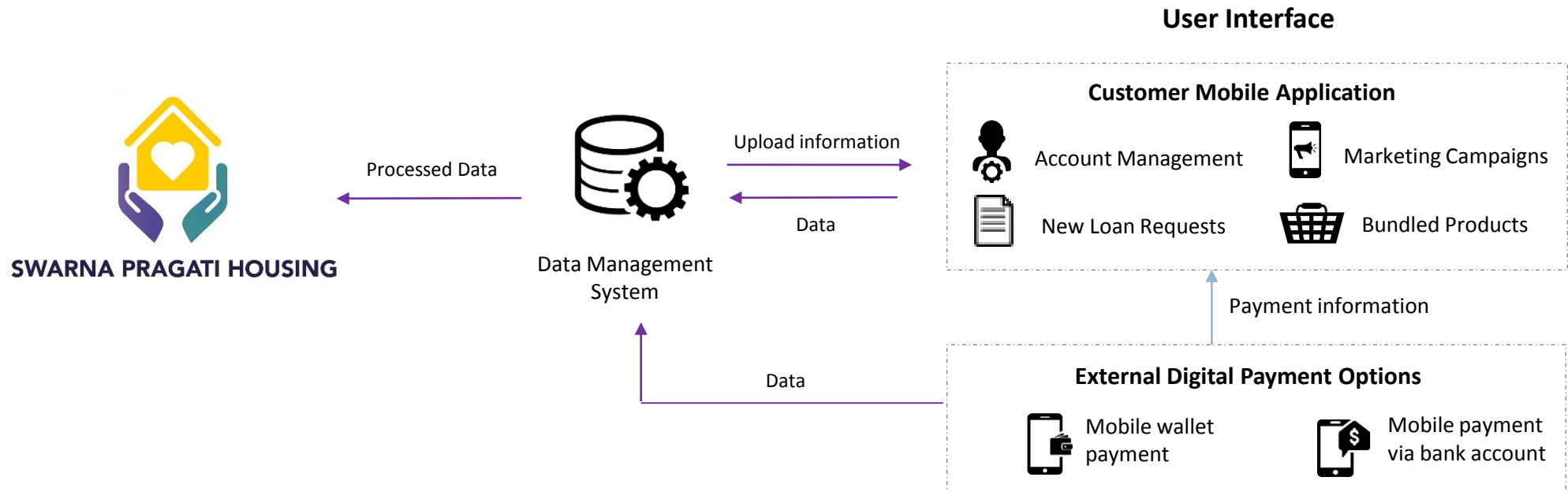
# Mobile Technology Platform: Back End

- An in-house mobile technology platform will be developed with features to enhance operational efficiency for SPHM staff, act as a channel for communication with their customers as well as provide features that add value to customers directly, thereby encouraging them to use the platform and increasing adoption rates.
- The **all-in-one mobile office application** will transform SPHM's current office facilities and allow them to remain in the field with their mobile office vehicle for longer periods of time to recruit more customers. New applications will be completed directly on the tech platform by an SPHM staff via a smartphone or tablet and directly uploaded into the platform.





# Data Management System and Collection



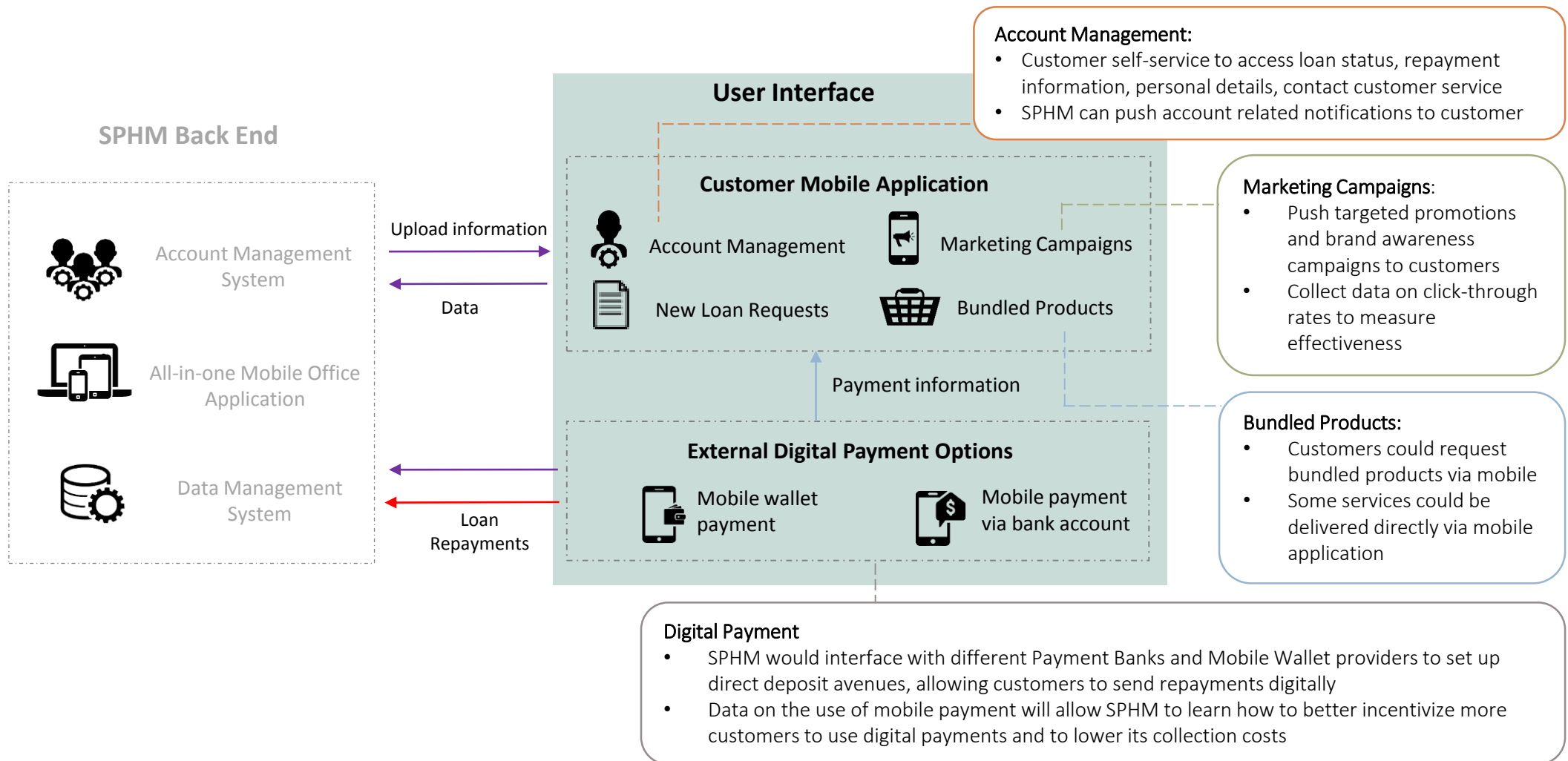
## Data Management System:

- Collects all user and transaction information related to loans and products and services procured
- Data analysed will help SPHM to assess customer profiles, loan statistics, product preferences, promotion click-through rates etc and allow SPHM to tailor different products to suit the needs of a range of market segments to better target and differentiate its products
- This valuable information will help SPHM to stay ahead of the curve even as competitors begin to enter the rural housing finance market
- The data collected will also be invaluable for research, facilitate the development of government policies and measure results, important for investors to assess the market and measure funding requirements. It will also allow partners to better service the rural market.
- Further details on the data management system requires additional due diligence to assess the full potential and scope of its benefits.

The new Technology Platform and collected data can positively serve a variety of players

# Mobile Technology Platform: User Interface and Digital Payment

- The **Customer Mobile Application** will revolutionise the way SPHM can access and communicate with its customers. Instead of relying on in-person contact while payments are collected, SPHM can use the mobile application to share all service information with customers directly, reducing reliance on physical branches and on staff travelling to customers.
- The platform is expected to cost US\$100,000 to develop, with an annual maintenance cost of US\$20,000.
- The adoption of **External Digital Payment Options** by customers will have a significant impact on reducing operational costs as it would automate payment collection, reducing the travelling cost and time for many staff.





# Mobile Offices

- A mobile office will allow SPHM staff, partners and agents to increase their presence within their target communities. As Community Housing Loan Pools require the recruitment and servicing of many customers in the same location, SPHM need on-site resources to service them over a longer period of time. The mobile office coupled with the all-in-one office mobile application will allow SPHM to carry this out.
- The mobile office will also serve as a vehicle for marketing and to increase brand awareness. SPHM will retrofit and deploy four trucks (one per state) in the first year of rolling out the business model, targeting to reach one village or location each week with the goal to reach 200 communities per year. The trucks are expected to cost INR500,000 (US\$7,580) each purchased second-hand plus INR300,000 (US\$4,550) to retrofit the vehicle and an estimated running cost of INR132,000 (US\$2,000) each per month. The fleet will be increased as SPHM expands into new states so that at least one mobile office services each state. Further adoption will be reviewed based on the effectiveness of the mobile offices.

## Services provided via the Mobile Office:

- New Loan Application – completed by SPHM staff via Mobile Office Application
- Direct customer servicing and troubleshooting
- Potential customer enquiries
- Sales and promotions – sharing information on loan products and new promotions
- Promotions of bundled products and a platform for providers to communicate directly with customers
- Promotions of Customer Mobile Application and digital payment options
- Platform for strategic service providers, such as construction companies, to communicate with and service the customers in communities in together with SPHM staff.



Mobile Offices help to increase the physical presence and improve brand awareness of SPHM in rural areas





Photo credit: Daniel Naegele

## Sales, Marketing & Branding



# Summary

The Sales & Marketing strategy will require focus on the following key elements.

- **Brand Strategy** to renew and strengthen the brand of SPHM
  - Vision and branding, including proposed SPHM new logo
  - Mobile office, which doubles as a mobile marketing tool
  - Promoting the brand through different channels such as traditional channels (TV, newspaper, events); news channels (social media, SMS messaging, viral campaigns); Key opinion leaders.
- **Community Housing Loan Pool sales and promotion strategy:** introducing a new and different product will require new modes of driving customer recruitment
  - Strengthening the agency model/incentive programme
  - Agency/sales strategy to be based on partnering with individuals, community players and influential groups with strong network at local community level. The aim is to increase outreach through multiple interconnected channels.
  - Incentive programmes for community agents and sales teams.
  - Sales & Promotion strategy: will include a variety of campaigns including media advertising, online advertising, school events, mobile office advertising, social campaigns and events, etc.



# Brand and Vision

With a new and differentiated product focused on providing integrated solutions to rural communities, SPHM has should take advantage of positive branding strategy coupled with sales and marketing campaigns.

**Vision:** TURN HOPE INTO REALITY

SPHM aims to provide individual households with home loans to construct adequate housing as well as support improved welfare and build solidarity with communities in which they operate.

## Hope and Future

Improved healthcare

Better roads and  
infrastructure

Better sanitation



Better education

Improved livelihoods  
and income

Happy marriages

Enhanced security

Strengthened community  
connections and improved religious bonds



# Corporate Identity & Logo Redesign

- SPHM will need to target larger market segments in the coming years. As the company expands it may also turn to international investors for future funding. To do so it is important that the brand has an identity that lends itself to an international audience and arouses viewer emotions.
- The new logo reflects the proposed new brand vision and market positioning. The key elements of SPHM's corporate identity consists of the logotype, brand colours, typography, print design and advertising, visual language (photography), interactive media, motion design as well as spatial design.



**SWARNA PRAGATI HOUSING**

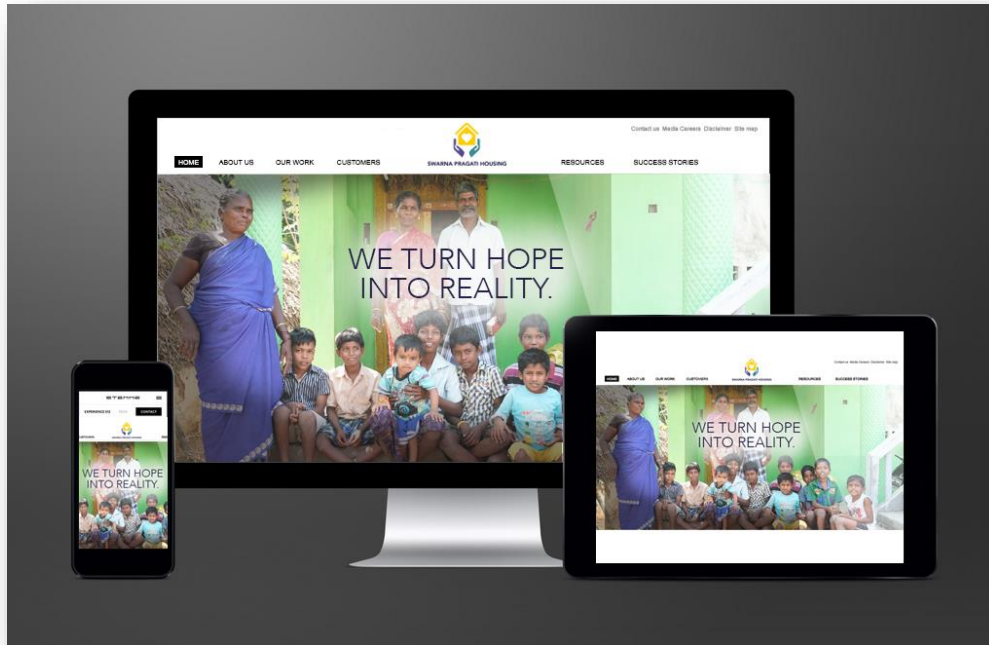
The key elements of the new logo include:

- **Emotional:** represented by the heart in the centre of the home. SPHM is not simply providing a loan to build a house, together with its bundled services and partnerships, SPHM is offering access to a home and to a better life
- **Colourful:** three colours in the logo enhance the visual appeal. Yellow conveys optimism and warmth; purple represents creativity; and teal for comfort and hope.
- **Simple:** the logo is simple, balanced and easily recognisable, reminiscent of SPHM's current logo
- **Unique:** the combination of the different elements makes the logo one-of-a-kind and allows SPHM to stand out from other brands and competitors.

Logo redesign reflects the new branding and market positioning of SPHM

# Interactive Brand Strategy and Promotional Activities

- To reach the target number of loans and customers SPHM will develop an active and attractive website appropriately formatted for mobile devices to inform villagers about its services and upcoming activities.
- Promotional activities would be facilitated with SPHM's new mobile office, which acts as the accessible, physical element for its campaigns. For example, the truck would be wrapped with graphics from SPHM's marketing campaign and bring products and services related to the campaign to the target communities.



## Responsive Website

- Responsive web design is important as the amount of mobile traffic now accounts for more than half of total internet traffic.
- SPHM is recommended to offer solutions for each device: website, tablets and smartphones, in addition to offline and traditional media.
- Contains information about online payment, community events and success stories.



## Mobile Office

- Branded truck acts as a mobile office to recruit and service customers as well as increase brand awareness.
- Regular visits could also provide any products or services related to marketing campaigns or to support SPHM's service partners.
- It is estimated that one mobile office could serve one village per week.



# Channels for Building Brand Awareness



In order to promote SPHM's brand to raise awareness and increase demand for its loans and services, SPHM can adopt the following initiatives to engage customers directly:

- **Social Campaigns and Events** – sponsorship of joint campaigns and events with local NGOs and social service providers that will access SPHM's target communities directly and personally. These could be held once a month in different towns or locations that are the priority of new business expansion. Examples of campaigns or events include:
  - Promotion of local industries such as locally produced food, handicraft, artwork, etc. or
  - Raising awareness about health and welfare such as personal hygiene, financial education training, etc.
  - School events such as arts, sports, interschool competitions, etc.
  - Participate in and sponsor local cultural events such as festivals like Pongal, Gudi Padwa, Baisakhi, etc.
- **Physical marketing and promotional materials** that target and are relevant for households and schools such as small pocket or table calendars with SPHM branding, and printed buntings and banners to be displayed at local shops and schools to enhance brand awareness.
- **Digital Advertising** can be pushed through SPHM's mobile platform and targeted online advertising can increase awareness in semi-urban and urban areas where many villagers are working or studying.
- Marketing expenses for promotional materials and events are estimated to cost **US\$110,000 per year**.

# Sales & Promotions Strategy: Recruitment

- In order to reach more customers, SPHM will have to expand its existing sales strategy and adopt a community-based sales & promotions approach to leverage trusted local networks and the power of word of mouth to ensure effective and responsible client recruitment.
- Use of direct agents and partnerships with larger groups will be important to SPHM’s recruitment strategy. SPHM will need to further its existing partnerships and bring in new partners to strengthen the recruitment of communities for the Community Housing Loan Pool.

Recruitment Channel	Who Are They?	Key success factor	Why this works?	What It Means to SPHM?
<b>Direct Sales Team + Tele-Sales</b>	SPHM Employees / Contract Staff	SPHM staff may have greater credibility and can use established local networks	<ul style="list-style-type: none"> <li>• Direct communication with SPHM staff will allow more personal and professional service and differentiate from other loan products</li> <li>• SPHM vision and products are most likely to be conveyed accurately through this channel</li> <li>• Use of SPHM’s existing network to further promote products means trust exists and barriers to accepting new products can be easily lowered</li> </ul>	<ul style="list-style-type: none"> <li>• Clearly communicate vision and products to customers</li> <li>• Faster customer acquisition</li> <li>• Trust and long term relationships built</li> <li>• Establish credibility in communities</li> <li>• Quality of service is better assured</li> </ul>
<b>Direct Agent Network</b>	SHG leaders, NGO, Agents, Sundry Stores, Insurance Agents, Local Community players	Use the power of the word of month via trusted local networks	<ul style="list-style-type: none"> <li>• Empower local community to share testimonials about SPHM through word of mouth.</li> <li>• Powerful and effective way of advertising and recruitment</li> <li>• Compensation for successful recruitment creates a real incentive</li> </ul>	<ul style="list-style-type: none"> <li>• Organic spread of brand awareness</li> <li>• Engenders trust</li> <li>• Cost effective as do not need to deploy own staff and one’s influence in a community could recruit many customers</li> </ul>
<b>Partnerships</b>	Self-Help Groups, Joint-Liability Groups, NGO, Bank, MFI	Larger networks to access more communities in need of housing loans	<ul style="list-style-type: none"> <li>• Promotes an entrenched partnership and long term ownership that ensures continuous recruitment of customers</li> <li>• Partners will share SPHM’s vision and synergies of driving social impact in communities will motivate them further</li> <li>• Compensation for successful recruitment provides added incentive</li> </ul>	<ul style="list-style-type: none"> <li>• Create long term customer and community relationships</li> <li>• Encourages ownership by partners</li> <li>• Effective customer acquisition</li> </ul>



# Sales & Promotions Strategy: Compensation Structure

- In order to maintain dedicated and motivated individuals and partners to drive customer acquisition throughout the areas that SPHM operates, an attractive compensation scheme will be implemented that focuses on rewards based on developing and managing long lasting and sustainable customer relationships, instead of paying them based on transactional sales.
- While Direct Agents and Partners will receive Commission (as a percentage of the loan procured), SPHM will provide an added annual incentive scheme for both external acquisition channels as well as for the sales staff. The incentive scheme is expected to cost roughly **US\$31,500 per year** in total. An Annual Awards and Recognition Night could also be organized for SPHM staff and acquisition partners to recognise top selling agents and staff at a budget of **US\$12,500 for 500 people**.

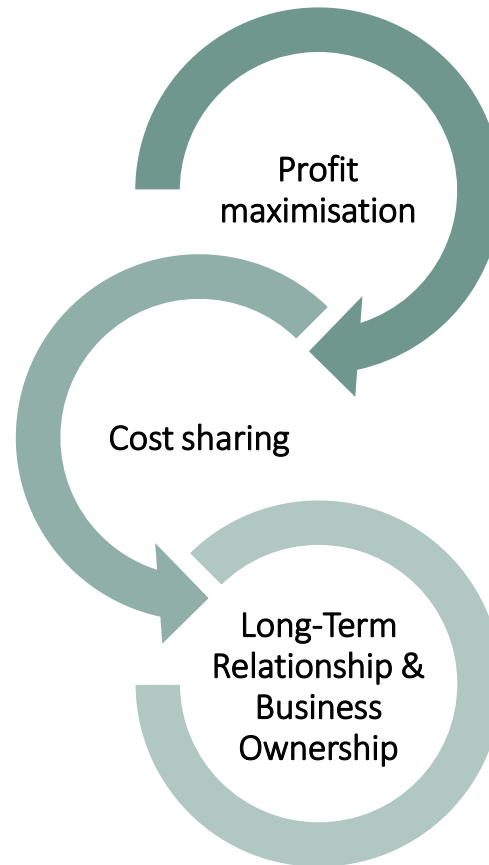
Acquisition Channel	Compensation Schemes			Target Market Segment
	Salary	Incentive	Commission	
<b>Direct Sales Team + Tele-Sales</b>	Yes, variable based on position in company	Cash or non-monetary incentive to top 10 staff	No	<ul style="list-style-type: none"> <li>Communities</li> <li>Statutory Towns</li> <li>Government Subsidy Programme Recipients</li> </ul>
<b>Direct Agent Network</b>	No	Cash or non-monetary incentive to top 10 agents	0.5%	<ul style="list-style-type: none"> <li>Village leaders</li> <li>Individuals within community groups</li> <li>Communities</li> </ul>
<b>Partnership</b>	No	Cash or non-monetary incentive for SHG/JLG partners only	3.1%	<ul style="list-style-type: none"> <li>Village leaders</li> <li>Communities</li> <li>Statutory Towns</li> </ul>

Compensation of recruitment agents and partners will be based on developing sustainable customer relationships

# Sales & Promotion Strategy: Value Proposition for Acquisition

## Value Proposition for Direct Agents and Partners

- Opportunity to diversify product offerings
- Long term business ownership compensation model builds long lasting partnerships and agency loyalty
- Annual incentive programmes and contests
- Non-monetary incentive programmes like scholarships for partners' children
- Joint brand awareness and on-going campaigns
- Continuous training and development from SPHM to enhance skill set and ability to acquire more customers
- Support from SPHM marketing and promotions efforts



## Value Proposition for Sales Staff

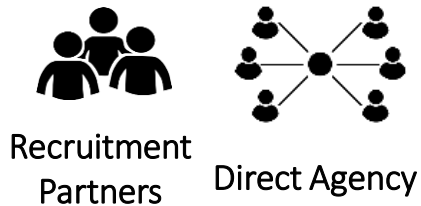
- Incentive programme for self-sourcing initiatives like running customer referral programmes
- Technology support to increase outreach
- Continuous training and development programme to engage and motivate employees
- Nationwide and regional employee contest and recognition
- Special employee recognition programme
- Localised brand awareness campaign and activities
- Annual Recognition Events for employees

Sales and promotion strategy offers value to key customer acquisition partners



# Training and Development

- **Training and Development** will be important to prepare staff and SPHM's existing and new recruitment partners for the implementation of the proposed business model. The new focus on Community Housing Loan Pools means that different strategies and new networks will come into play, and it is important to ensure that all parties involved in customer outreach are aligned with SPHM's vision.



- Regular training on SPHM brand and vision as partners represent SPHM brand when interacting with potential customers
- Technical training related to housing financing, and updates on policy changes
- Ethical guidelines and enforcement training
- Motivate both by involving in decision making for recruitment and incentives
- Operations training related to new loan applications, use of mobile applications, etc.



- Regular training on SPHM brand and vision as staff members represent SPHM brand when interacting with new and existing customers
- Technical training related to housing financing and updates on policy changes
- Operations training related to new loan applications, managing customer accounts and loan repayments, use of mobile application, etc.
- Ethical guidelines and enforcement training
- Regular interactions with strategic services providers and bundled product partners to keep staff informed of products available so they can properly recommend value-added services
- Motivate through involving in decision making on operations and products and suitable incentives

Training and Development of Recruitment Partners and Staff essential to effective operations



© Daniel Naegeler

## Social Impact & Community Benefits



# Summary

The proposed business model shifts SPHM's approach of rural housing finance from a focus on individual households to serving the needs of the community as a whole.

The proposed business model would enable SPHM to achieve scale, reach a large pool of customers and support the construction of millions of homes, which would have far reaching socio-economic benefits to individual families and their communities.

## Benefits include

- Community participation in development process through the involvement of the entire community in building or repairing their homes.
- The provision of additional benefits such as insurance, healthcare, education programmes, wedding saving plans, etc. that can collectively raise the quality of life of the community.
- Economies of scale achieved by the community housing loan pool will decrease costs of borrowing and additional benefits such as insurance.



# Economic and Social Impact of Safe and Secure Housing

## The Virtuous Hierarchy of Housing Needs



Source: *Alternatives Journal*

As the company grows, more households in rural India will gain homes that are safe and structurally-sound, thereby contributing to households' overall wellbeing and quality of life:

- A home is central to a “household’s functionality and productivity, social harmony and the development of health and sustainability”.
- At a basic level, a home offers shelter, protection from the elements, and a sense of financial and social security.
- Access to sanitation facilities and piped water significantly improves health outcomes by reducing the incidence of communicable diseases. A home can also offer employment opportunities, as spaces can be used to produce or store goods and thereby support improved livelihood.
- With improved health and a place to sleep, a good home contributes to higher school attendance and performance. Investments in housing also become an asset for adulthood and in old age.
- In terms of self-esteem and self-actualisation, housing provides an important sense of dignity and pride, and a sense of belonging and connection in one’s community. Friendships, families and intimacy are tied to homes.
- Once their housing needs are met, individuals and households can work towards fulfilling other projects and ambitions, without the fear of not having adequate shelter. Disposable income can be redeployed towards education, employment and building their communities.

Access to safe and structurally sound housing can form the basis for a virtuous circle out of poverty



# SPHM: Driving Positive Social Impact



The proposed business model for SPHM is based on a **community loan pooling model**, which enables SPHM to service housing loans more cost-effectively, whilst offering a suite of products and services to meet the community's needs.

Besides the operational and costs benefits, the pooling of loans can strengthen the community by allowing all those involved to take a participatory role in the allocation of resources (resource sharing) for the construction of public facilities and infrastructure, as well as the management of various community-based projects.

## Benefits to borrowers and the community:

- Concerted effort from the entire community to improve the living standard and quality of life, championed by a village or community head.
- Participatory model to decide on communal public needs (school, clinic, town hall, market, waste collection, etc.).
- Higher likelihood for the community to attract high quality craftsmanship at a lower cost through construction firms (accredited SPHM partners) for their homes and to gain collective infrastructure services such as sanitation, energy, and waste collection for example. Savings on construction costs to be redirected to borrowers.
- Access to additional loans that are supplementary to the basic housing loan to finance other household needs and priorities such as education, wedding or funeral costs, training, etc.
- Access to additional products and services that low-income households would otherwise not be entitled to given their irregular income and lack of credit history.

Loan pooling to consolidate the community and reduce the housing gap between urban and rural areas

# SPHM: Driving Positive Social Impact



- Women are the main target customer group of SPHM. As the company grows, more women will access SPHM's housing financing solutions thereby contributing to more decision making power within their households and communities.
- As households switch from temporary to permanent structures, they are less likely to spend their hard-earned savings on fixing their homes, that are vulnerable to adverse weather conditions (floods, winds, storms). The additional disposable income can be used towards other household needs and/or towards more productive means.
- Housing loans are disbursed to a borrower's bank account, the opening of which is a prerequisite for the sanctioning of the loan. SPHM thereby contributes to increased financial inclusion by bridging the gap between the banked and those who fall outside the formal financial sector. Gaining access to a mortgage or housing loan is the first step for families to start building their credit history, their assets, and their ability to access additional financial products and services, such as insurance, in the future.
- As smartphone penetration surges, SPHM will be a key gateway to affordable housing solutions for millions of people nationwide. By deploying its mobile platform, SPHM can reach users with a suite of products designed to enhance users' overall quality of life.

Swarna Pragati benefits customers, families, and the community through greater social empowerment

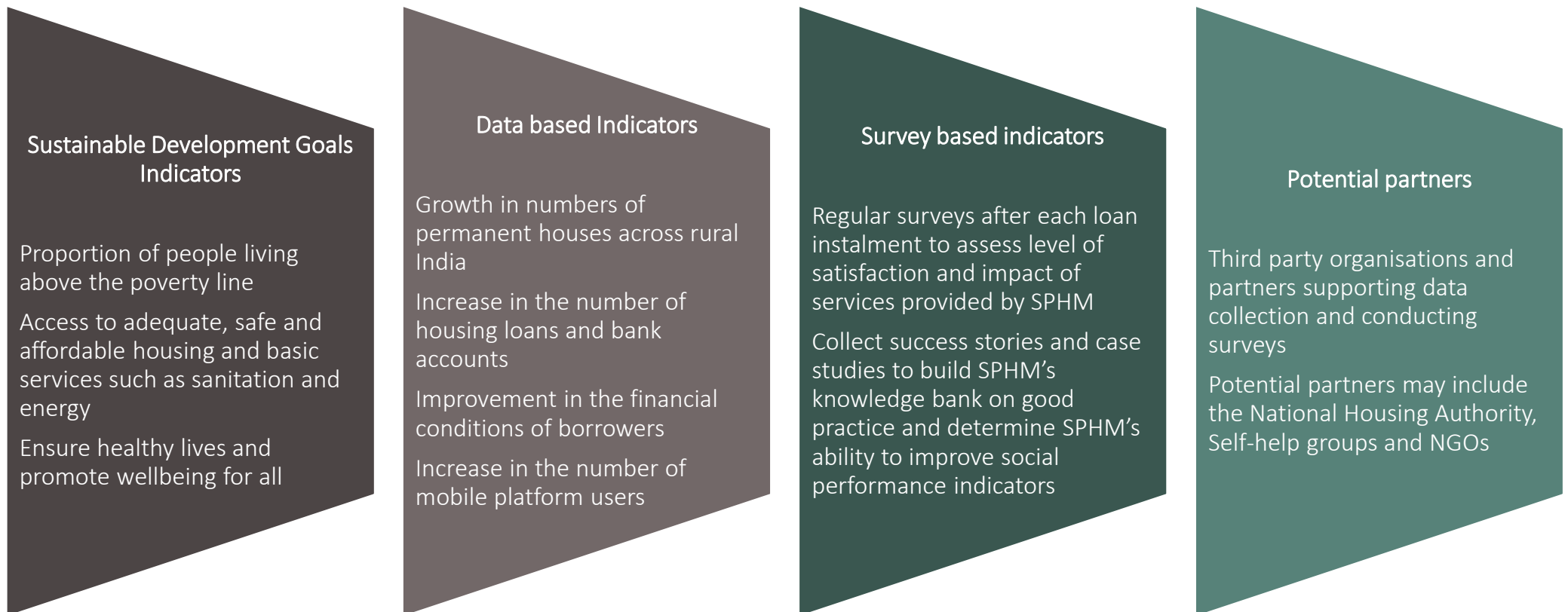


# Monitoring and Measuring Social Impact

As the business expands, a social impact measurement methodology and production of annual reports are proposed to capture and apply the lessons learned to other states in India.

Potential indicators can include but are not limited to sustainable development goals, survey and data based indicators. Strategic third party partners are recommended to support data collection (where possible) to supplement the data to be collated by SPHM's ICT platform.

Reporting social impact and performance (financial, operational and organisational) can serve as a powerful marketing tool and contribute to SPHM's efforts towards social and financial inclusion.



Measuring socio-economic impact to capture and apply lessons learned and contribute to the housing financial sector



## Governance and Risk Management



# Overview

## Governance and Management

In order to protect the interests of all stakeholders, ensure operational excellence and facilitate transparent decision making, SPHM will continue to be led by a core management team and governed by a Board of Directors. Risk management will also continue to be an integral part of good governance and best management practice.

## Board of Directors

The Board of Directors will comprise executive and management members from SPHM, independent non executives, key strategic partners and private investors.

## Objectives of the board

- Create a common understanding amongst all stakeholders and a transparent and accountable governance structure to ensure stakeholder interests are met.
- Provide strategic guidance and inputs to the SPHM management team.
- Oversee the employment of professional staff with experience working in the private sector, strong networks across India and in the financing sectors to guarantee that the company's core activities are adequately managed and undertaken.
- Ensure compliance with all national laws and regulations.

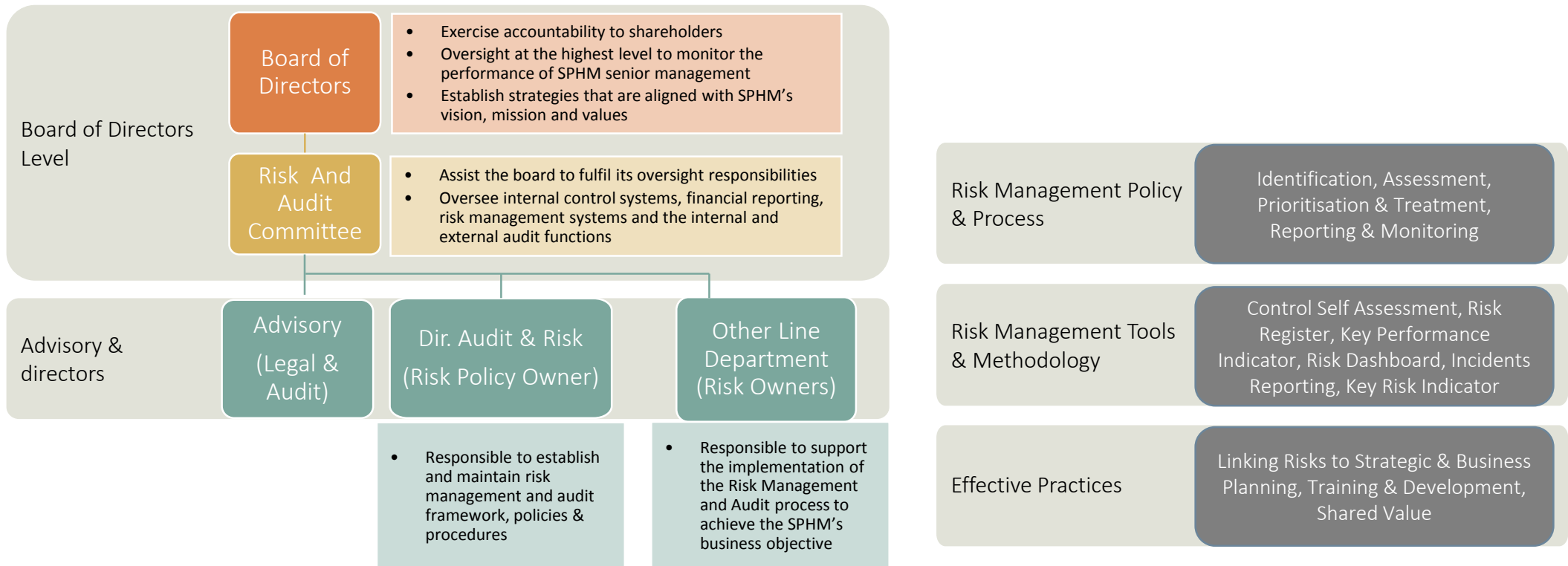


# Proposed Risk Framework & Structure

## Why does SPHM need corporate governance?

Corporate governance is driven by principles such as conducting business with integrity, fairness and transparency and making all necessary disclosures so as to protect the interest of all stakeholders. The proposed business model for SPHM requires strong relationships between SPHM, borrowers, community leaders, and key partners. SPHM will need to address key governance challenges in India related to investor relations, land ownership, mortgages and financial systems.

With funding support from financial institutions and private investors, mechanisms must be in place to deliver information on where their money is directed, what services are conducted, how the company is managed and what social impact is created. This will require regular monitoring of the Board of Directors, internal controls, audits and reporting, and public disclosure (annual report, terms of reference of the board, etc.).

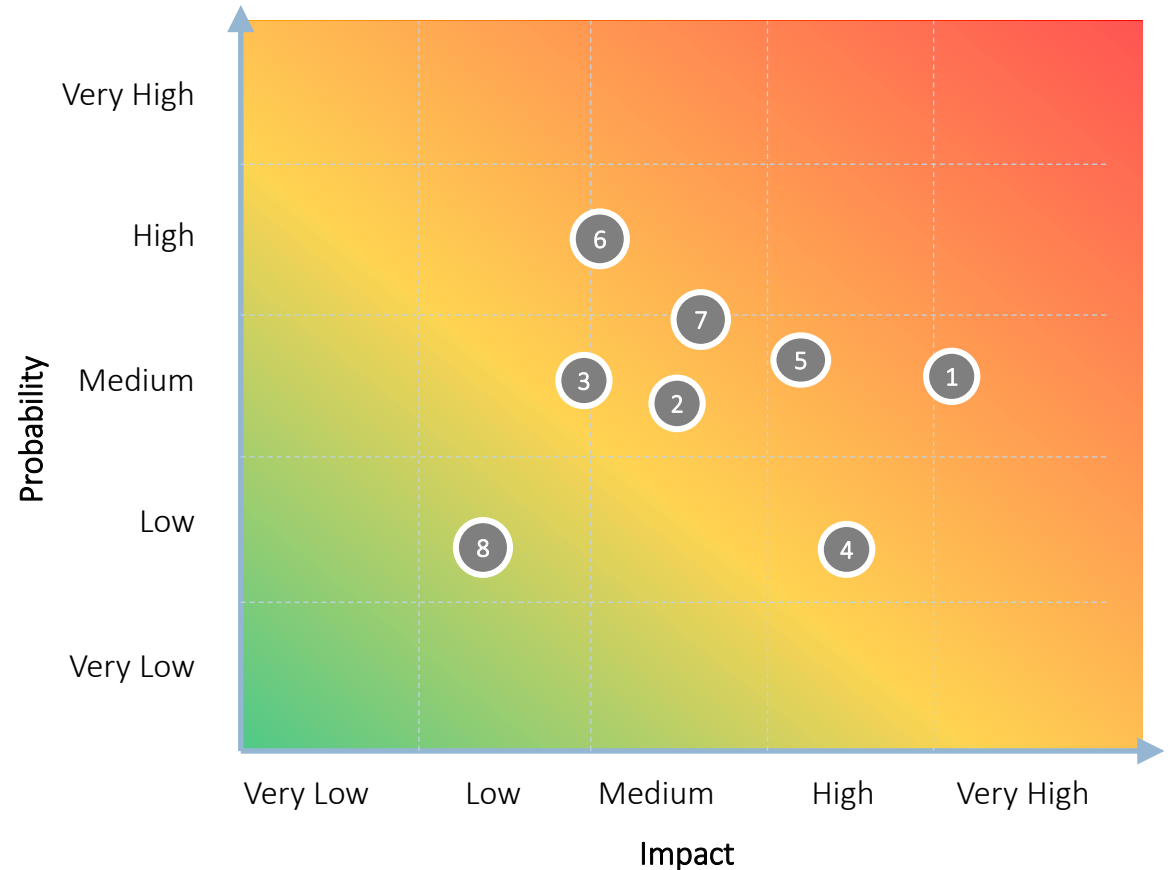


As SPHM scales-up it is increasingly important to supervise the company's adherence to strict audit standards.



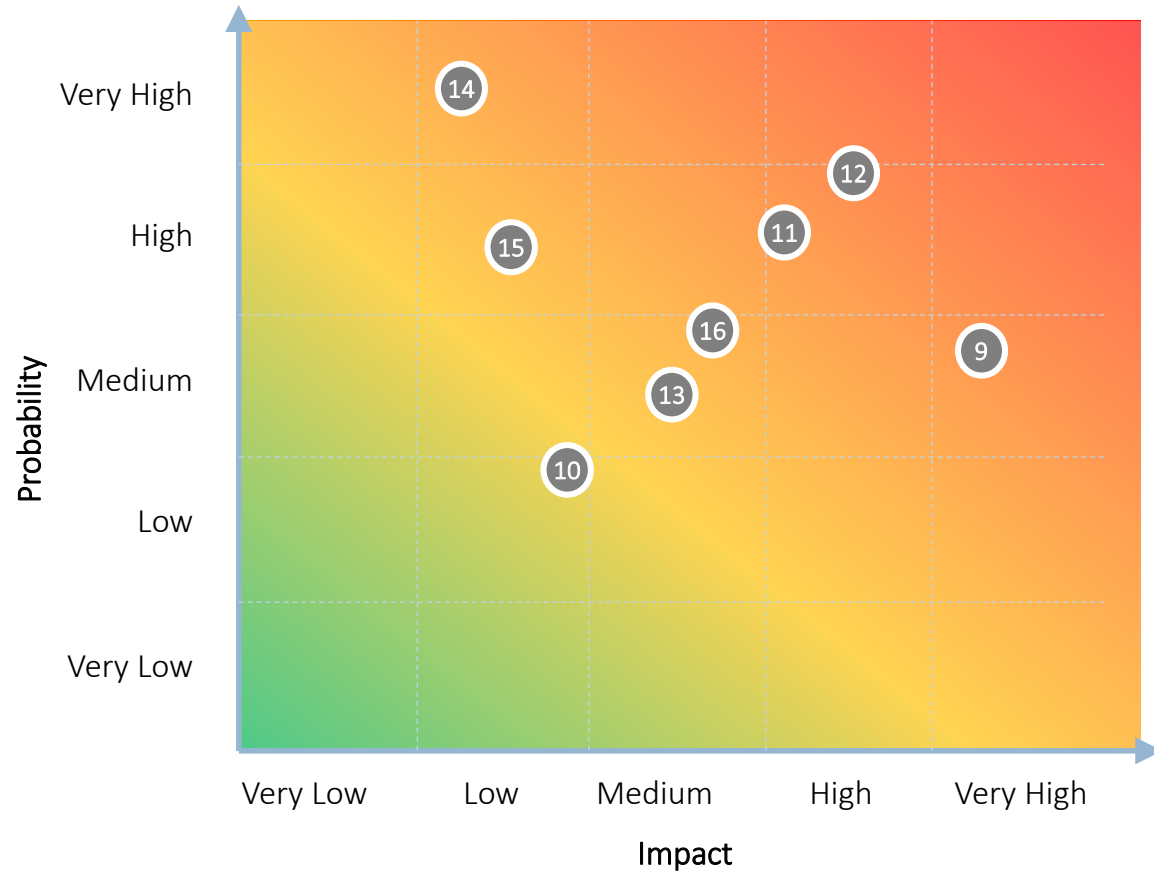
# Risk Analysis & Mitigation (1/2)

- 1 **Risk:** Borrowers reluctant to join housing loan pool  
**Mitigation:** Regular campaigns to raise awareness on the socio-economic benefits of the community housing loan pool. Work with village chiefs and elders to champion the model
- 2 **Risk:** Low brand awareness amongst target customers  
**Mitigation:** Direct marketing campaigns in villages
- 3 **Risk:** Difficulty to recruit independent agents for sales and distribution efforts  
**Mitigation:** Build out a commission structure to incentive agents
- 4 **Risk:** Borrower defaults on payment terms  
**Mitigation:** Develop strong relationship with borrowers through partner network (Self-help groups, NGOs and agent network)
- 5 **Risk:** Low adoption by SPHM employees of the new technology platform (backend for internal processes and as a sales tool)  
**Mitigation:** Provide regular and comprehensive training to all employees to ensure processes are internalised and applied
- 6 **Risk:** Entry of new competition  
**Mitigation:** Increasing the barrier to new entrants by strengthening user engagement through mobile app
- 7 **Risk:** Failure to achieve strategic partnerships as projected  
**Mitigation:** Attract partners by promoting and facilitating service contracts (construction, infrastructure development, energy, utilities) for entire communities (vs. individual contracts)
- 8 **Risk:** Data generated by SPHM tech platform creates issues related to user privacy  
**Mitigation:** Ensure high degree of transparency on type of data collected, usage and anonymity



# Risk Analysis & Mitigation (2/2)

- 9 **Risk:** Difficulty in securing funding to service the loans  
**Mitigation:** Undertake careful cash flow analysis on a frequent basis and diversify funding sources
- 10 **Risk:** Loans taken out by borrowers not used for housing, as specified by the SPHM loan agreement  
**Mitigation:** Disburse loan through installment, with a site visit check by SPHM to ensure loan purpose before disbursing subsequent instalment
- 11 **Risk:** Reputation risk due to poor conduct of agents  
**Mitigation:** Clear recruitment guidelines, roles and responsibilities, regular performance reviews and regular trainings, and establish reporting channels for frequent communication and monitoring
- 12 **Risk:** Unstable and unsecure technology platform  
**Mitigation:** Ensure IT centre conducts regular back-ups and implements standard operation procedures
- 13 **Risk:** Changes and uncertainties in political landscape  
**Mitigation:** Maintain close relationship with government, especially the regulator and local officials
- 14 **Risk:** Different sales and marketing needs across geographies and states  
**Mitigation:** Conduct thorough market surveys, tap into partners' extensive knowledge of customer segments and tailor campaigns to the needs of communities
- 15 **Risk:** Limited impact of digital marketing campaigns due to low mobile penetration  
**Mitigation:** Ensure a combination of mobile and physical presence in communities
- 16 **Risk:** Inability to assess performance and impact of marketing campaigns  
**Mitigation:** Measure data from digital marketing campaigns, track correlation between physical presence and customer conversion







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# Financial Analysis & Investment

# Summary (1/2)

Assessment Year:

10

	Metrics	Results
Investors	Initial Equity Investment	INR2,703,000,000 (US\$41 million)
	Year 10 Return on Equity	24%
	Year 10 Return on Assets	5%
Business Stakeholders	Year 10 Net Margin	35%
	Average Return on Capital Employed	35%
	Debt to Equity Ratio	3.48

SPHM has raised **US\$10 million** in equity investment to date

- SPHM's expansion plans and new model as a One-Stop Integrated Solutions Provider present an excellent opportunity for investors who wish to create significant impact on building a more inclusive housing financing sector in India.
- This section includes the base case financial projections to reach 1 million new loans over a 10 year period of operations.
- Focus for investors and business stakeholders will be on **Return on Equity** and **Return on Assets** to assess the financial health of the company, which are projected to be **24% and 5% in Year 10 respectively**.
- The key indicator of the effects of economies of scale in SPHM's business is the **lowering of the interest rate on their debt**, which is assumed to **decrease by 3% over 10 years from 15% to 12%**. The ability for SPHM to further lower this will depend on its ability to i) secure additional capital from local sources, ii) access global capital markets and international lenders such as The World Bank and large social impact funds, and iii) receive support from the national government to strongly guarantee SPHM's loans. Lowering of its cost of capital can be transferred to its customers via lower borrowing rates.



# Summary (2/2)

- SPHM currently has access to debt financing and will raise additional debt along with the initial equity investment to finance its loans.
- To support the rapid growth, it is recommended that all profits in the first 10 years be reinvested back into the company to strengthen its capital position and pay down debt to control its gearing levels (the debt to equity ratio is projected to drop to 3.48 by Year 10). Investors can realise returns by selling their stake but will not receive yield via dividends.
- The existing model does not account for the potential entry of new players in the rural housing finance market, which may be a likely scenario if SPHM proves the model to be successful and is able to scale at the envisioned speed. The sensitivity analysis at the end of this section will consider the impact of various market conditions to SPHM's performance.



# Key Financial Assumptions

## Revenue Assumptions

- Number of loans to grow to 1 million in 10 years
- Average loan amount is INR125,000 (US\$1,894)
- SPHM Lending Rate to decrease from 23% in Year 1 to 21% in Year 10
- ForEx: 1US\$ = INR66

## Operating Assumptions

- Number of SPHM Branches to increase from 92 in Year 1 to 458 in Year 10
- Number of staff (HQ included) to increase from 414 in Year 1 to 2,132 in Year 10
- Technology Platform annual maintenance cost: US\$20,000 with 3% annual inflation
- Construction cost inflation at 3%

## Scale of Operations

- In Year 5 will expand operations into 3 more states
- One Mobile Office per state (currently in 4 states) at US\$12,120 each, assume addition of 3 more trucks in Year 5
- Growth in number of staff and branches based on number of loans and improved efficiency rate

## Cost Assumptions

- SPHM Borrowing Rate to decrease from 15% in Year 1 to 12% in Year 10
- Registration fee for new loans borne by SPHM at 0.5%
- Non performing asset provisions of 2%
- 5% annual inflation on Marketing Expenses

## Investment

- Initial Required Equity Investments in Years 1 to 3 amounting to US\$41 million
- Loans will be financed predominantly by debt
- ROE at the end of Year 10 is 24%
- Debt to Equity in Year 10 is 3.48



# Income Statement Projection

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>INR mln</i>										
Revenue	741	1,488	2,493	3,759	5,245	6,655	8,604	10,434	13,032	15,970
Revenue (US\$)	11	23	38	57	79	101	130	158	197	242
Interest income	711	1,442	2,428	3,674	5,136	6,516	8,427	10,216	12,765	15,657
Processing fee	31	45	65	85	109	139	177	218	267	314
Depreciation	(25)	(23)	(25)	(21)	(24)	(30)	(36)	(42)	(50)	41
Operational expenses	(255)	(339)	(425)	(547)	(680)	(845)	(1,092)	(1,363)	(1,705)	(1,066)
Financial cost	(404)	(813)	(1,376)	(1,912)	(2,622)	(3,139)	(3,972)	(4,956)	(6,100)	(7,299)
Provision for bad debt	(27)	(72)	(131)	(208)	(296)	(392)	(507)	(649)	(813)	(1,007)
<b>Profit before tax</b>	<b>29</b>	<b>241</b>	<b>536</b>	<b>1,071</b>	<b>1,623</b>	<b>2,249</b>	<b>2,997</b>	<b>3,424</b>	<b>4,365</b>	<b>6,640</b>
Tax	(10)	(79)	(177)	(353)	(535)	(742)	(989)	(1,130)	(1,441)	(2,191)
<b>Profit after tax</b>	<b>20</b>	<b>161</b>	<b>359</b>	<b>718</b>	<b>1,087</b>	<b>1,507</b>	<b>2,008</b>	<b>2,294</b>	<b>2,925</b>	<b>4,449</b>
Profit after tax (US\$)	0	4	8	16	25	34	45	52	66	101
<b>Net Margin</b>	<b>3%</b>	<b>11%</b>	<b>17%</b>	<b>22%</b>	<b>24%</b>	<b>26%</b>	<b>27%</b>	<b>29%</b>	<b>30%</b>	<b>35%</b>
<b>Operating Cost to Revenue</b>	<b>34%</b>	<b>23%</b>	<b>17%</b>	<b>15%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>7%</b>
<b>Total Cost to Revenue</b>	<b>92%</b>	<b>79%</b>	<b>73%</b>	<b>66%</b>	<b>63%</b>	<b>60%</b>	<b>59%</b>	<b>61%</b>	<b>60%</b>	<b>52%</b>

# Cash Flow Projection

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>INR mln</i>										
Beginning cash	83	1,398	2,286	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Beginning cash (US\$)	1	21	35	42	42	42	42	42	42	42
Revenue	741	1,488	2,493	3,759	5,245	6,655	8,604	10,434	13,032	15,970
Operational expenses	(255)	(339)	(425)	(547)	(680)	(845)	(1,092)	(1,363)	(1,705)	(1,066)
Financial cost	(404)	(813)	(1,376)	(1,912)	(2,622)	(3,139)	(3,972)	(4,956)	(6,100)	(7,299)
Tax	(10)	(79)	(177)	(353)	(535)	(742)	(989)	(1,130)	(1,441)	(2,191)
<b>Operational CF</b>	<b>72</b>	<b>256</b>	<b>514</b>	<b>947</b>	<b>1,408</b>	<b>1,929</b>	<b>2,551</b>	<b>2,985</b>	<b>3,787</b>	<b>5,415</b>
Operational CF (US\$)	1	4	8	14	21	29	39	45	57	82
Outstanding on new Loan	(3,060)	(4,527)	(6,460)	(8,545)	(10,900)	(13,889)	(17,745)	(21,766)	(26,735)	(31,376)
CAPEX	(37)	(20)	(17)	(26)	(30)	(33)	(47)	(46)	(56)	226
Principal payment from borrower	317	771	1,439	2,399	3,822	5,707	7,654	10,015	12,748	16,000
<b>Investment CF</b>	<b>(2,780)</b>	<b>(3,776)</b>	<b>(5,038)</b>	<b>(6,171)</b>	<b>(7,108)</b>	<b>(8,215)</b>	<b>(10,138)</b>	<b>(11,797)</b>	<b>(14,043)</b>	<b>(15,150)</b>
Investment CF (US\$)	(42)	(57)	(76)	(94)	(108)	(124)	(154)	(179)	(213)	(230)
Net increase in debt funding	2,708	3,520	4,523	5,225	5,700	6,286	7,587	8,812	10,256	9,735
Equity injection	1,315	888	500	0	0	0	0	0	0	0
Dividend	0	0	0	0	0	0	0	0	0	0
<b>Financial CF</b>	<b>4,022</b>	<b>4,408</b>	<b>5,023</b>	<b>5,225</b>	<b>5,700</b>	<b>6,286</b>	<b>7,587</b>	<b>8,812</b>	<b>10,256</b>	<b>9,735</b>
Financial CF (US\$)	(42)	(57)	(76)	(94)	(108)	(124)	(154)	(179)	(213)	(230)
Ending cash	1,398	2,286	2,786	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Ending cash (US\$)	21	35	42	42	42	42	42	42	42	42
<b>Return on Equity</b>	<b>1%</b>	<b>5%</b>	<b>11%</b>	<b>18%</b>	<b>21%</b>	<b>23%</b>	<b>23%</b>	<b>23%</b>	<b>23%</b>	<b>24%</b>



# Balance Sheet Projection

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>Assets, INR mln</i>										
Cash	1,398	2,286	2,786	2,786	2,786	2,786	2,786	2,786	2,786	2,786
Loan	4,429	8,113	13,003	18,941	25,722	33,512	43,096	54,198	67,371	81,740
Current investments	200	200	200	200	200	200	200	200	200	200
Fixed assets	28	26	18	23	28	32	42	46	53	(132)
<b>Total assets</b>	<b>6,055</b>	<b>10,625</b>	<b>16,007</b>	<b>21,949</b>	<b>28,737</b>	<b>36,529</b>	<b>46,124</b>	<b>57,230</b>	<b>70,410</b>	<b>84,594</b>
Total assets (US\$)	92	161	243	333	435	553	699	867	1,067	1,282
<i>Liabilities + Equity, INR mln</i>										
Capital injected	1,686	2,574	3,074	3,074	3,074	3,074	3,074	3,074	3,074	3,074
Retained earnings	307	469	827	1,545	2,632	4,139	6,147	8,441	11,366	15,814
Dividend	-	-	-	-	-	-	-	-	-	-
<b>Total equity</b>	<b>1,993</b>	<b>3,042</b>	<b>3,901</b>	<b>4,619</b>	<b>5,706</b>	<b>7,212</b>	<b>9,220</b>	<b>11,514</b>	<b>14,439</b>	<b>18,888</b>
Total equity (US\$)	30	46	59	70	86	109	140	174	219	286
Debt	4,049	7,570	12,093	17,318	23,018	29,304	36,891	45,703	55,958	65,693
Current liabilities	13	13	13	13	13	13	13	13	13	13
<b>Total liabilities</b>	<b>4,062</b>	<b>7,583</b>	<b>12,106</b>	<b>17,331</b>	<b>23,031</b>	<b>29,317</b>	<b>36,904</b>	<b>45,716</b>	<b>55,971</b>	<b>65,706</b>
Total liabilities (US\$)	62	115	183	263	349	444	559	693	848	996
<b>Total Liabilities + Equity</b>	<b>6,055</b>	<b>10,625</b>	<b>16,007</b>	<b>21,950</b>	<b>28,737</b>	<b>36,529</b>	<b>46,124</b>	<b>57,230</b>	<b>70,410</b>	<b>84,594</b>
Total Liabilities + Equity (US\$)	92	161	243	333	435	553	699	867	1,067	1,282
Return on Assets	0%	2%	2%	3%	4%	4%	4%	4%	4%	5%
Debt to Equity	2.04	2.49	3.10	3.75	4.04	4.06	4.00	3.97	3.88	3.48

# Scenario Analysis: Assumptions

## Base Case

- Based on achieving 1 million loans with no competition from the market, no access to global capital and minimal support from government to lower borrowing rates
- Agency/partner commission: 0.5% / 3.1%
- Lending rates for customers: Y1 @ 23% to Y10 @ 21%
- Expenditure on marketing and agency incentives: Y1 @ INR10.2M + 5% inflation p.a
- SPHM borrowing rate: Y1 @ 15% to Y10 @ 12%
- Improved efficiency rate over 10 years: av. 7% for direct agency model and 5% for partners

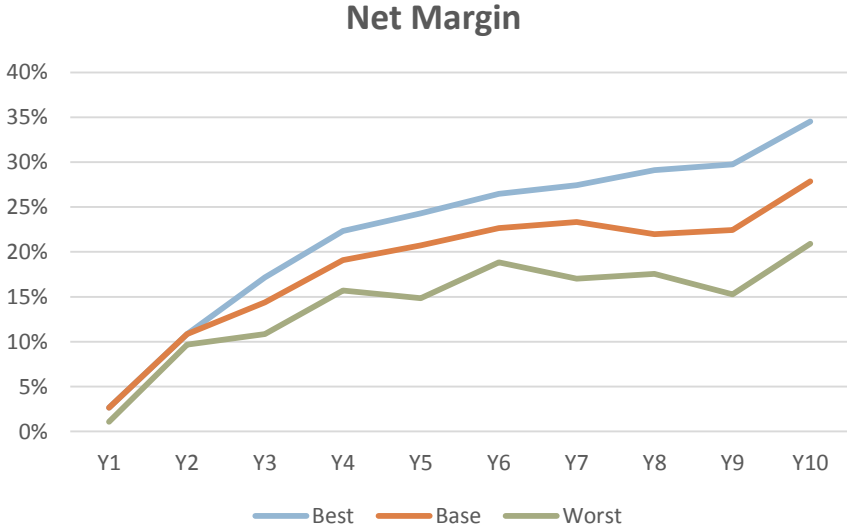
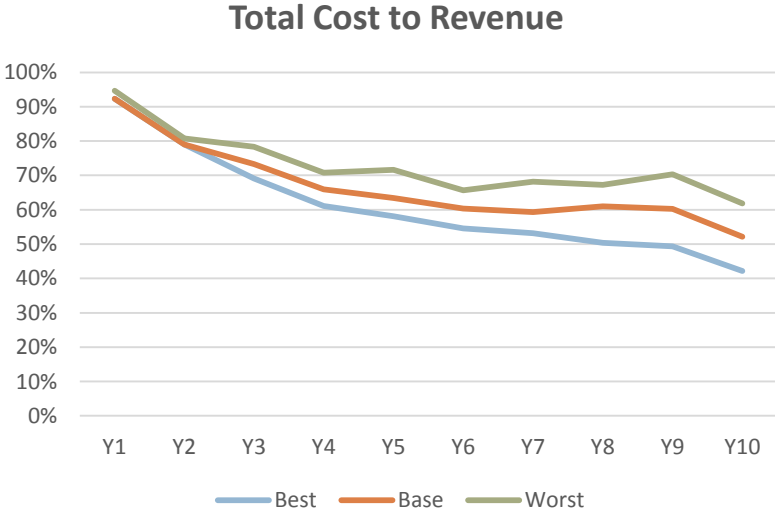
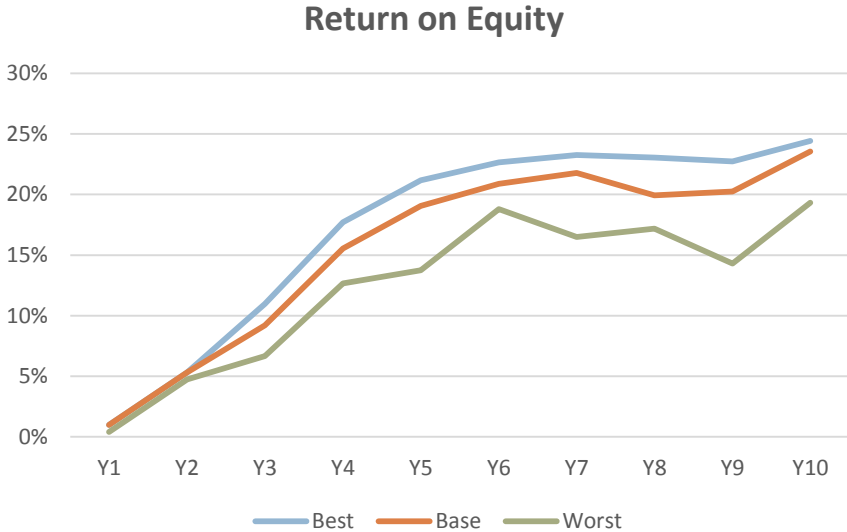
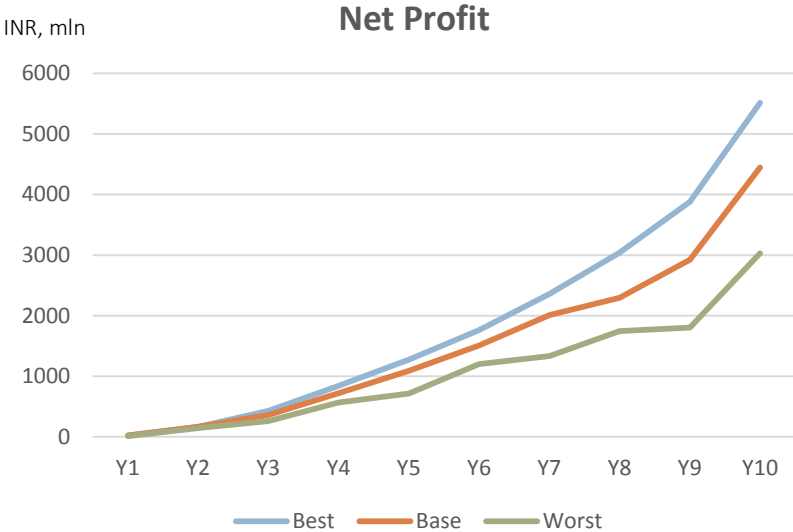
## Worst Case

- Based on entry of competitors from Year 2
- Higher agency/partner commission: 1% / 3.5%
- Lower lending rates for customers: Y1 @ 23% to Y10 @ 19%
- More expenditure on marketing and agency incentives: Y1 @ INR13.2M + 5% inflation p.a
- All other assumptions as per base case

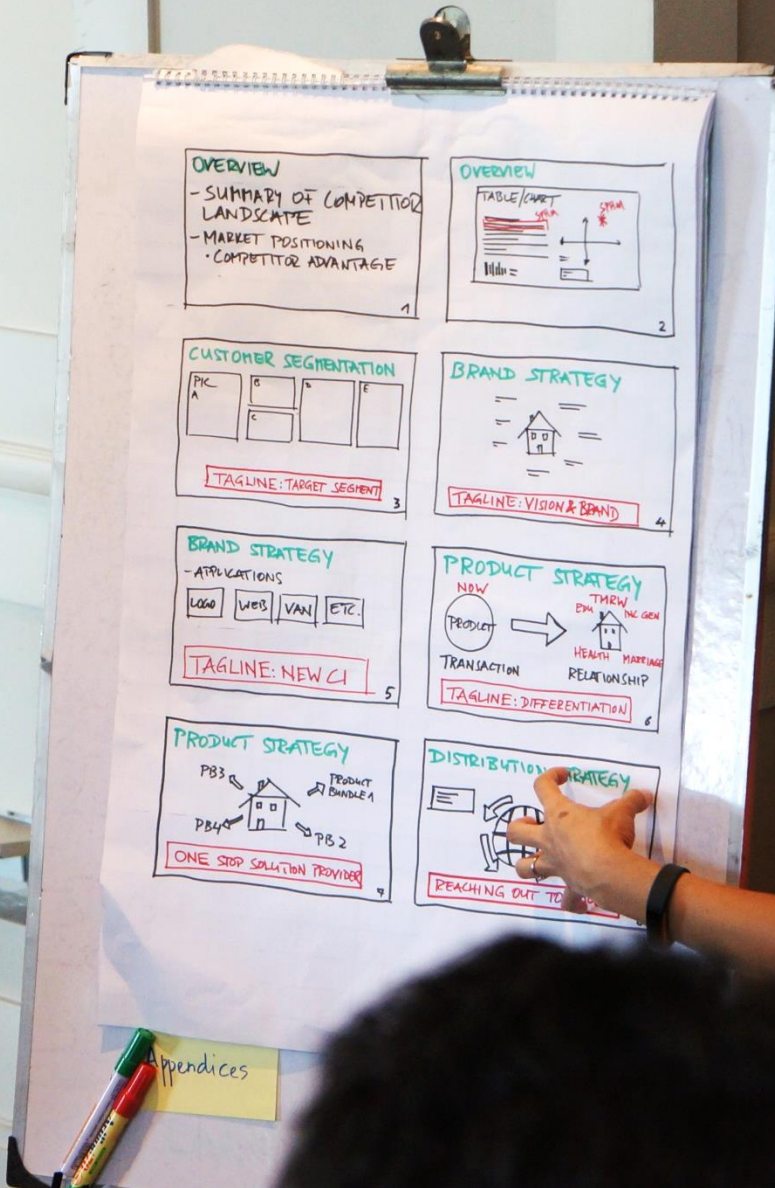
## Best Case

- Based on no competition
- Better borrowing rate for SPHM: Y1 @ 15% to Y10 @ 10%
- Greater economies of scale realised leading to improved marketing and operations efficiency rate: av. 9% for direct agency model and 6% for partners
- All other assumptions as per base case

# Scenario Analysis







# Policy Recommendations

# Existing Policy Framework

A range of enabling policies will be instrumental for public and private sector players involved in the housing sector to reach scale and meet the government target of providing safe and structurally sound housing to every household by 2022. Backing from the central and state governments is critical to lend support and resources to the implementation of the national housing policy.

## Existing Housing policies

- The recent housing policy implemented by Prime Minister Modi in June 2015, “*Housing for All*” (Pradhan Mantri Awas Yojan in Hindi) aims to provide affordable housing to the urban poor.
- Tax incentives and preferential statuses conferred to affordable housing projects are aimed to attract private sector investment and participation. This policy aims to build 20 million pucca housing units, at the rate of 3,000,000 per year, with water and sanitation facilities, and access to electricity.
- Under this scheme, the urban poor will be given a subsidy on home loans for new construction and home extensions (kitchen, toilet, etc.), available for loan amounts up to INR1,200,000 (US\$18,380). Financial assistance is also available for houses built under public-private-partnerships.
- In November 2016, the policy was extended to include rural areas. The budget proposes to complete 10 million houses by 2019 for the homeless and those living in kutcha houses.
- By mid-2016, the government had approved investments of INR439 billion (US\$6.5 billion) for construction of close to 700,000 houses for the urban poor, but the government has made little progress with only 9,435 houses constructed after a year and a half.



## Housing policy provisions

6.5 % interest subsidy for 4000 semi-urban statutory towns

3 % interest subsidy for rural credits

Grant based scheme for 10 million borrowers  
(poorest of the poor)

# Proposed Enabling Policies

Given the scale of the rural housing challenge, the government should continue to push its efforts towards the development and implementation of a rural housing policy strategy that is sustainable, based on community choice and provides households with control over ownership of their assets. Policy areas which could be strengthened include: allocation of **budget and subsidies**, **tax incentives** and the government position on **land titles and land tenure** for rural households.

<b>General recommendations</b>	<ul style="list-style-type: none"> <li>• Prepare a state-wide road map with definite timeframe to provide appropriate and affordable houses and housing finance to low-income groups in rural areas. Local and state-level institutions could be strengthened or restructured for mobilising additional land and finance for housing purposes.</li> <li>• Removal of barriers that prevented credit flow to rural areas and support changes in administrative, legal, fiscal and any other operational changes that would facilitate entry of greater resources thereby bridging the rural-urban gap in quality of life</li> </ul>
<b>Budget allocation and Subsidies</b>	<ul style="list-style-type: none"> <li>• Recommendation for the Government to accredit SPHM as a partner and contractor for housing microfinance to support with the implementation of its national Housing Policy.</li> <li>• Contract SPHM as a key implementer of the Government’s Housing for All policy</li> <li>• Channel interest subsidies intended to EWS and LIG directly to SPHM to:             <ul style="list-style-type: none"> <li>• Reduce public expenses related to the scattered disbursement of subsidies across rural India;</li> <li>• Increase the impact of housing subsidies by pool housing loans in a community thereby reducing construction costs;</li> <li>• Increase transparency and accountability on the use of subsidies with monitoring consolidated at SPHM level</li> </ul> </li> <li>• Recommendation to allocate equitable budget and resources to rural and peri-urban areas as to urban areas</li> <li>• Offer favourable lending terms to SPHM for the provision of affordable housing loans to low-income groups</li> </ul>
<b>Tax incentives</b>	<p>Grant tax incentives to companies (finance, construction, infrastructure development, technology, etc.) operating in rural housing.</p>
<b>Land titles</b>	<p>Allow a state-wide validation scheme on rural land ownership and the recognition of paralegal land titles that have been recognized by community led institutions.</p>





Photo credit: Daniel Naegele

## Implementation

# Implementation Timeline

Focus Area	Phases	Year 1				Y2-7	Y8-10
		Q1	Q2	Q3	Q4		
Governance	Establish Board of Directors and management systems and procedures	■					
	Review and optimise governance/organisation structure			■			
Human Resource	Secure key management in new states					■	
	Recruitment of local staff, direct sales agents and technical support staff			■	■	■	■
	Review recruitment plan and increase manpower as needed					■	■
	Train staff, partners and direct agents on use of technology and new products			■	■	■	■
Operations	Build technology platform (back end and user application)	■	■				
	Establish operation plan, acquire vans for marketing campaigns			■	■		
	Establish branches in new states					■	■
	Process and manage customer data				■	■	
Marketing	Market analysis and strategy development					■	■
	Development and deployment of a new SPHM brand & develop marketing campaign			■	■		
	Expansion to new states					■	■
	Expand product portfolio based on customer needs and priorities				■	■	
Partnerships	Establish communication channels with village heads for the development of community housing loan pools	■	■				
	Approach and strengthen/build relationships with existing/potential strategic partners and service providers		■	■			
Government Policy	Alliance with government for policy support & advocacy			■			
	Lobby to become government partner for the implementation of Housing for All policy			■			
	Obtain government preferential policy and regulatory support			■			





Photo credit: Daniel Naegele

## Conclusion



# Critical Drivers for Success

- SPHM is well-positioned to build on the learnings and success of its business in housing microfinance and leverage the capabilities and networks of its partners to meet the demand for affordable housing finance and become an integrated solution provider for households in rural India.
- SPHM's commercial viability and growth hinges on its ability to identify and establish Community Housing Loan Pools in areas where it has strong relationships with community heads and institutions. This approach will significantly reduce operational and construction costs, enable SPHM to conduct targeted and cost-effective marketing campaigns, and allow households who are part of the Community Housing Loan Pool to enjoy additional value-added products and services. Ultimately the pooling of housing loans will enable SPHM to scale and reach its target of one million loans over the next decade, thereby contributing to the government's objectives to provide housing for all by 2022.
- Besides being a financially viable business, SPHM has the potential to have direct and immediate impact on the lives of borrowers and their families. Business growth for SPHM means more homes that are safe and structurally sound, increased financial inclusion for low-income households and an opportunity for families to take an active part in the socio-economic development of their communities.

## Key drivers for success include:

- Strong focus on SPHM's growth and financial stability without compromising profitability;
- Securing the necessary funding through debt and equity to service loans and to cover capital expenditures and expenses;
- Considering an integrated business that goes beyond housing finance and provides low-income households with affordable solutions to their most immediate needs and requirements.
- Identify and build community housing loan pools to reduce costs and scale operations.
- Creating a recognised and trusted brand for SPHM;
- Work closely with the government to keep abreast of changes in policy, advocate for a more comprehensive housing policy and become a strategic partner of the government for the implementation of its housing policy;
- Stay ahead of industry trends and keep the edge on its competitors by driving innovation for new services and technologies in collaboration with partners;
- Identify risks and develop action plans to address these quickly and efficiently.







Photo: Daniel Naegele

## Appendix



# Appendix 1: SPHM Competitor Data (1/2)

Comparison Parameters	SPHM	Mahindra	Equitas	Aadhar	Gruh
Market Segment	Rural/Semi-urban	Rural/Semi-urban	Rural/Semi-urban/Urban	Semi-urban/Urban	Semi-urban/Urban
PRODUCT NORMS					
Purpose	Const/repair /Renov/Extn /Purchase/	Const/repair /Renov/Extn /Purchase/	Const/repair /Renov/Extn /Purchase/LAP	Const/repair /Renov/Extn /Purchase/LAP/ Plot	Const/repair /Renov/Extn /Purchase/
I. Rate Comparison -	23% H & H+ 24% Sanitation	13% (Flat)+ 2.5% to 3.5% 17% + 3.5% PF	PF 13.5% + 2% Urban 15.5% + 2% Rural	9.75% (regular) 21% (rural)	9.75% (regular) 15.75% (rural)
II. Age					
Min	18 years	18 yrs	18 yrs	18 yrs	21 yrs
Max	55 yrs	60 yrs	60 yrs	60 yrs	60 yrs
III. Customer Segment					
Individual	Yes	Yes	Yes	Yes	Yes
JLG / SHG	Yes	No	No	No	No
IV. Property Type					
Residential	Yes	Yes	Yes	Yes	Yes
Commercial & Investment	No	Yes	No	Yes	Yes
V. Mortgage Style/Name					
Equitable / Registered	Yes	Yes	Yes	Yes	Yes
Para Legal	Yes	No	No	No	No
VI. Tenor					
Maximum Tenor -House	7 yrs	20 yrs	15 yrs	20 yrs	15 yrs
VII. Interest Options					
Floating	No	Yes	Yes	Yes	Yes
Fixed	Yes	Yes	Yes (3 yrs)	No	Yes
VIII. Fees & Charges					
Processing Fees	1.00%	1.75 to 3.5%	Rs. 2000/-	1.5 -2%	1.00%
Admin Fees	No	Rs. 500	0.5% & 0.75%	No	No
Document Fees	No	Rs. 500	Actual	Actual	Actual
Evaluation/Technical Fee	No	Actual	Actual	Actual	Actual
Insurance	Actual	Actual	Actual	Actual	Actual
Insurance funded or Not	Yes	No	No	No	No
Registration fee financed	No	No	No	No	No
IX. Loan Amount					
Minimum Loan	50K / 15K	50K	1 lacs Eqi 3 lacs open 5 lacs Eqi	1 Lac	1 Lac
Maximum Loan	700 K	500K	50 lacs open	12 Lacs	Not mentioned

Source: SPHM



# Appendix 1: SPHM Competitor Data (2/2)

Comparison Parameters	SPHM	Mahindra	Equitas	Aadhar	Gruh
<b>CREDIT NORMS</b>					
<b>I. Underwriting Norms</b>					
Repayment Ratio (DBR)	35% to 45%	40% on Net	40 -50 % on net	40 -50% on net	40-50% on net
Loan to Value(LTV)	Upto 75%	Upto 90%	Upto 90%	Upto 90%	Upto 90%
<b>III. Repayment Options</b>					
Cash	Yes	Yes	Yes	No	No
ECS / PDC	No	Yes	Yes	Yes	Yes
Branch / Coll. Center	No	Yes	Yes	Yes	Yes
Repay Frequency	Monthly	M/ Qty/ Hf yr	Monthly	Monthly	Monthly
<b>IV. Security</b>					
Equitable / Registered mortgage	Yes	Yes	Yes	Yes	Yes
Coll. Security (Group/ind. guarantor)	Yes	Yes	Yes	Yes	Yes
2nd charge	No	No mention	No mention	No mention	No mention
<b>V. Turn Around Time</b>					
Sanction TAT	15 days	20 days	20 days	20 days	20 days
Disbursal TAT	20 days	30 -45 day	30 days	30 days	30 -45 days
<b>VI. Moratorium Time</b>	max 6 month	max 6 month	max 6 months	Max 6 months	Max 6 months
<b>BUSINESS INFORMATION</b>					
<b>I. Reach/Network</b>					
No of States	4 states	9 states	3 states	9 states	9 states
No of Branch / Location presence	BA + 7 Direct	150 +	12	350 +	172
<b>II. Yrs in Mortgage Business</b>	5 years	8 years	8 years	30 yrs	29 yrs
<b>III. Business Structure</b>					
Credit	Centralised	Centralised	Centralised	Centralised	Regional / Br.
Legal /Technical	Internal	Out Source	Out Source	Out Source	Out Source

Source: SPHM

**Mahindra:** Mahindra Rural Housing Finance Limited (MRHFL), [www.mahindrahomefinance.com](http://www.mahindrahomefinance.com), a subsidiary of Mahindra and Mahindra Financial Services Limited (MMFSL) is part of a US \$17.8 billion global federation of companies, mainly in automobile and IT market.

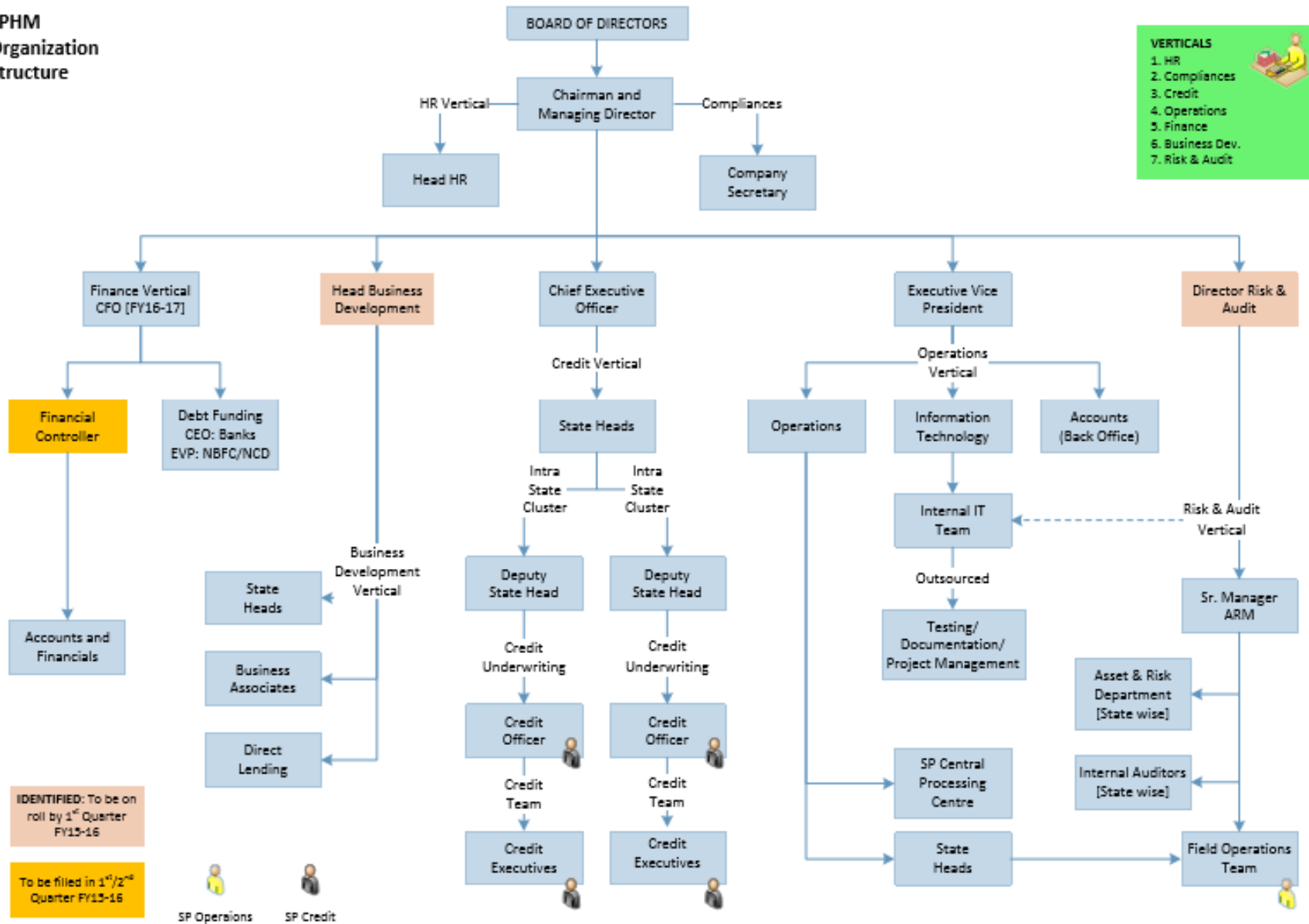
**Equitas:** Equitas Small Finance Bank, [www.equitasbank.com](http://www.equitasbank.com), is a recently formed bank that started as a micro finance company. They offer a wide range of financial services, among them, house financing.

**Aadhar:** Aadhar Housing Finance Ltd., [www.aadharhousing.com](http://www.aadharhousing.com), is promoted by Dewan Housing Finance Ltd. group with equity participation from International Finance Corporation, a member of the World Bank Group. They focus in low income population.

**Gruh:** Gruh Finance Limited, [www.gruh.com](http://www.gruh.com), a subsidiary of HDFC Ltd, a well established housing finance institution in India.

# Appendix 2: SPHM Organisational Structure

## SPHM Organization Structure



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# Contact



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