

**Assessment of Demand for Home Loan (Secured) in
Sonepat, Panipat and Agra**

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Comments by the Faculty

In a country like India, where 30% of the people live below poverty line and 62% of the households categorized as 'deprived', it is no wonder that 41% of the population is unbanked. However, the needs and aspirations of this unbanked population are growing and they also yearn to invest in assets such as land, houses, cattle, and gold. This need is what microfinance institutions are addressing. In the 2000s, the microfinance industry's objective was to satisfy the unmet demand for finance in the rural areas and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed.

Ujjivan Financial Services is a leading microfinance institution and this research was taken up to assess the demand for housing loan. The project has helped in understanding the difference between a housing loan for the middle/ upper middle/ rich class and poorer segments of the society. Unlike the former segment, which has all the documentation, salaried/ business income, the latter does not have either complete documentation or regular income. Hence the cost of unsecured loan (interest rate) is upwards of 30% since the cost has to factor high transaction cost which includes search and information costs, bargaining costs and policing and enforcement costs. Ujjivan is in the process of launching secured housing loan @ interest rate of 18% and the research was specifically to assess the market potential for this product.

The study resulted in the recommendations that helped the company in 'market development' strategies for secured housing loan. The study also helped map the territory with regard to their income and demographic criteria which could be used by the management for developing the product strategy. The study helped the company to understand the market potential for secured housing loan in the defined territory. The student who has undertaken the study was able to apply the concepts related to Ansoff's matrix, product management, segmentation, promotional mix, competition analysis etc.

The results of the study helped the company to take certain key managerial decisions related to introduction of the new products and marketing of existing products in the assigned territory.

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Assessment of Demand for Home Loan (Secured) in Sonapat, Panipat and Agra For Ujjivan Financial Services Pvt. Ltd.

Introduction

Though banking in India is mature in terms of supply and product range, reach in rural India and among socially and economically weaker sections of the society still remain a challenge. This challenge provided an opportunity for microfinance institutions. The Microfinance Revolution of the 1980s demonstrated that microfinance could provide large-scale outreach profitably. In the 1990s, microfinance began to develop as an industry. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues like inadequate regulation, institutional inefficiencies, limited management bandwidth etc. remain, that need to be addressed for the industry to grow to its potential.

Also the factor that limits the financial inclusion and loan offtake is the exorbitantly high interest rates and fees charged for loans by microfinance institutions worldwide. Thus cost for the loan from a microfinance institution can be anywhere between 37 – 70%. The reason for the high interest rates is not the cost of capital, but the high transaction cost that includes search and information costs, bargaining costs and policing and enforcement costs. According to a recent survey of microfinance borrowers in Ghana published by the Center for Financial Inclusion, more than one-third of borrowers surveyed reported struggling to repay their loans. Some resorted to measures such as reducing their food intake or taking children out of school in order to repay microfinance debts.

In such a scenario, it is imperative that the interest rates are brought down to levels that are affordable by economically weaker sections of people. The government of India is working towards this direction by providing interest subsidy, especially for housing loans. According to government estimate, the housing shortage in India was 18.78 million units in 2012, out of which 95 per cent was in EWS (Economically Weaker Section)/ LIG (Low Income Group) category.

Ujjivan Financial Services

Ujjivan Financial Services Pvt. Ltd. was founded in 2005 by Mr. Samit Ghosh who has been a member of the international banking community for over 30 years and had successfully led the launch of retail banking for Standard Chartered in the Middle East and South Asia, and for HDFC Bank in India. The mission of Ujjivan is to provide full range of financial services to the economically active poor to build better lives.

Ujjivan has a pan India presence with 423 branches operating in 21 states and 3 union territories as of January, 2015. Its registered head office is located in Bengaluru, which also serves as the regional office for the South. It has three other regional offices – Delhi, Kolkata and Pune. The region-wise branch distribution of Ujjivan is: East- 122; South- 118; West- 75; North- 108. Ujjivan is present across India except in Andhra Pradesh, Jammu & Kashmir, Sikkim, Arunachal Pradesh, Nagaland, Manipur and Mizoram.

Though Ujjivan's initial focus was on serving the urban and semi-urban poor, today it serves unbanked and under-banked customers in urban and semi urban areas. It has disbursed over Rs.1,23,381 million of loans with 99.85% + repayment rate and has a customer base of 25,34,149 and outstanding loans amount to Rs. 35,132 million. Ujjivan offers loans from Rs.2,000 to Rs.10,00,000 for income generation activities, emergencies and important consumption needs, such as housing, education, and creation of household assets. The loans offered have been classified as group loan or individual loan.

- **Group Loan** works on the principle of providing joint liability group based financial services. These unsecured loans can be: business loan, family loan, agricultural and allied loan, business top-up loan, emergency loan & education loan.
- **Individual Loans** are given to individual without any group guarantee and to those who have a repayment track record in group loans except in some selected branches where individual livestock loan and business are offered to open market (i.e. to those who don't have repayment track record with the company). It constitutes of around 10% of entire outstanding loans by Ujjivan. These can be: individual business loan, individual livestock loan, higher education loan, individual agricultural loan, secured business loan & secured home loan.

As per the internal data of Ujjivan, it was found that around 15% of group loan customers avail loans of size up to INR 50,000, for housing or related activities. But there is increasing demand for higher value loan of up to INR 150,000. Sensing a business opportunity in the housing segment, Ujjivan started full-fledged Home Loans Division for the housing credit deprived segment. In January 2015, Ujjivan also launched secured home loan of higher value, higher tenure and lower interest rate. Under this program secured home loans up to Rs. 10 lakhs for a tenure of 10 years are offered. The portfolio of different secured home loan products are as below:

Product	Loan Amount up to	Tenor	Int. Rate p.a
Home Improvement Loan(Secured)	Rs.5.00 Lacs	24-84 months	19.75%
Home Loan-Self construction	Rs.10.00 Lacs	24-120 months	15.75%
Home Loan- Ready Purchase	Rs.10.00 Lacs	24-120 months	15.75%
Home Loan- Under construction Purchase	Rs.10.00 Lacs	24-120 months	15.75%

Rationale for the Study

Ujjivan's Home Loan business has seen huge growth in the recent years and hence the company is increasing its focus on this business. The company has test launched its secured home loan in a few locations. However, before a full fledged launch in other locations, the company wanted to conduct a feasibility study and hence this research. Based on the outcome of this research, the company would take a decision as to whether or not to launch secured home loans in that market. This research specifically focusses on the cities of Sonipat, Panipat and Agra.

Objectives of the Study

1. To assess the need for home loans. To know whether it is for home improvement, construction or purchase.
2. To assess the availability status of property documents like title documents, building plan approvals etc.
3. To understand the awareness and customer perception towards Ujjivan among the target population
4. To assess the affordability and repayment capacity of the target market.
5. To analyze the competition scenario in the area.

Scope of the Research

The scope of the research was limited to low income segment in the towns of Sonipat and Panipat and in Agra City.

Research Design

Research Approach

It was a descriptive research. The research provides a snapshot of: -

- Demographic characteristics of the respondents.
- People's needs and demand for home loan and for what purpose.
- Their willingness to accept home loan from Ujjivan.
- Their affordability of this service like repayment capacity and property etc.

Sampling & Data Collection

For this study primary data was collected from three categories of respondents.

Category 1: Target Market : The target market was people from economically weaker sections who are likely to avail home loan. Ujjivan branches in Sonipat and Panipat (one each) and Agra

(three branches) assisted in identifying the respondents in the target market. The data was collected from the target market through stratified convenient sampling. Target market was divided into 3 strata as below:

- Existing GL (group loan) customers of Ujjivan in the area.
- Existing IL (individual loan) customers of Ujjivan in the area.
- Open Market: - The third strata included the respondents, who are not yet the customers of Ujjivan but belongs to the low income segment i.e. urban poor. These respondents were identified from different low income areas in that location.

For the strata of 'existing GL' and 'existing IL', collected at least 10 responses from different areas that comes under each branch; i.e. from 5 branches (one each from Sonipat and Panipat and three branches from Agra), a minimum of 50 responses each were collected from 'existing GL' and 'existing IL' customers.

A common questionnaire was prepared for all the above three strata. The questionnaire consisted of close ended questions and sought information of the target segment with respect to their demographic profile, perception, intention to purchase and information related to their present and future housing. A total of 164 responses were collected from the target market.

Category 2: Suppliers of Raw Materials of Construction : A separate questionnaire was administered to the suppliers. The questionnaire had a mix of close ended and open ended questions. The objective was to assess the buying behavior of the target segment for purchasing materials for house construction. The questionnaire also had questions related to challenges faced by supplier, areas of operation, credit policy etc. A total of 10 responses were collected in this category (2 respondents from area covered by each branch).

Category 3: Competition – Another separate questionnaire was prepared for other home loan players which contained both open ended and close ended questions. The objective was to get the information about the home loan market environment and business by asking questions like number of disbursements done by them on an average in a month, challenges faced by them while dealing with applicants and applications etc. each of the three branch areas. A total of 10 responses were collected in this category (two from each branch and representing two companies).

The study was conducted in two hubs

- HUB 1 (Two Ujjivan branches, one each in Sonipat and Panipat towns) &
- HUB 2 (Three Ujjivan branches in Agra City – Rambagh, Jaipur House and Rajpur).

Findings & Recommendations

Category 1 – Target Segment

HL – Housing Loan

S No.	Basis	Result	Inference/Recommendation	
1	Average Family Income	HUB 1- Rs.33,416	Based on the average family income and average expenses, as per the norm of Ujjivan, the customers can pay an EMI of Rs. 7467 in Hub 1 and Rs. 4318 in Hub 2; While both Hubs are suitable for launching secured housing loan, Hub 1 scores in terms of ability to repay the loan.	
		HUB 2- Rs.25,544		
2	Average Family Expenses	HUB 1- Rs.5,900		
		HUB 2- Rs. 5,900		
3	Will take HL if given?	HUB 1- 74%		
		HUB 2- 77%		
4	Took HL before?	HUB 1 - 12% HUB 2 - Nil		Provides good opportunity to launch secured housing loan
5	HL from Ujjivan if provided?	HUB 1 - 82%		Pointing towards good brand loyalty among the existing customers of Ujjivan and attraction of open market.
		HUB 2 - 88%		
6	Will mortgage with Ujjivan?	50% (approx.) in both the Hubs	This lower income segment is afraid to mortgage, and most of the times wants to discuss with family first.	
7	Loan Requirement	HUB 1- Rs.3.2 lakhs	Very less number of people want HL for above Rs.5 lakhs; Opportunity to launch housing loans of value < Rs.5 lakhs	
		HUB 2- Rs.4.2 lakhs		
8	Average Tenure	HUB 1- 4 to 5 yrs.	Repayment on per rupee of loan is more in HUB 1 and hence suitable for launch	
		HUB 2- 8 yrs.		
		Overall- 6 yrs.		

9	Relation with owner of property	HUB 1- 53% easy & 37% moderate	Better chances for one in HUB 1 to mortgage his property.
		HUB 2- 38% easy & 54% moderate	
10	Years in House	HUB 1- 19 yrs.	It is good that people have emotional attachment with their house. Motivate to pay instalments on time.
		HUB 2- 21 yrs.	
11	No. of Floors	HUB 1- 43% Ground, 44% 1 st	Therefore, great opportunity of HL for construction purpose.
		HUB 2- 53% Ground, 40% 1 st	
12	Property Possession (by himself or by spouse)	HUB 1- 84% purchased	Good possibility of having proper sale deed.
		HUB 2- 72% purchased	
13	Area (FAR)	HUB 1- 1.09	Most of the disbursements would be used for construction.
		HUB 2- 0.97	

Category 2 – Suppliers

The respondents were asked to rate their sale value as “High/ Medium/ Low” as per the season to ascertain the demand for housing. The average of the scores of respondents are as below:

Respondent's shop	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
HUB 1 <i>Total (Sonipat & Panipat)</i>	Medium	High	Medium	Medium
HUB 2 <i>Total (Agra)</i>	Low	Medium	Low	Medium

It was inferred that sales was uniformly medium or high across the year in HUB 1, while in HUB 2, quarter 1 & 3 didn't show much sales. Based on the data from suppliers, HUB 1 is a much better location to launch the secured housing loan compared to HUB 2.

Category 3 – Competition

Ujjivan's Home Loan service faces competition from all financial institutions and banks directly or indirectly. Specifically, the company faces competition from other micro-finance institutions such as Aadhar Housing Finance Ltd., Shriram Housing Finance Ltd., Shubham Housing

Development Finance Company, India Shelter etc. The study covered only two organisations out of the above, who are quite active in the territories surveyed.

1. Shubham Housing Finance Ltd.

Loan size Rs.1-15 lakhs & same segment as Ujjivan's (0 NPA), Interest: 17-18%

	HUB 1	HUB 2
Opened	9 months ago	18 months ago
No. of Monthly files pass	15-20 files	12-15 files
OSP	Rs.1crore.	Rs.20crores
Customer Base	25-30	-
Average monthly Disbursements	-	Rs.25-30 lakhs

2. Aadhar Housing Finance Ltd.

Loan size 1-12lakhs & same segment, Interest: 11-14.5%.

	HUB 1	HUB 2
Opened	Not opened	36 Months ago
No. of Monthly files pass	-	28-36 files
Customer Base	-	500+
Average monthly Disbursements	-	Rs.2 crores

Conclusion

The need for housing in India has been growing. The problem of housing shortage is becoming more acute, especially among the economically weaker section. Financing through the organized sector has accounted for less than 30% of the total housing investment in India. This is where micro-finance institutions can make a huge difference. Ujjivan Financial Services is betting big on housing loans for the poor. This research helped identify the potential market where they can launch the secured housing loan. But it should also be noted that the environment of home loan in lower income segment in the studied regions is highly volatile due to competition, changing government policies, changing demographic profile etc. What is true and worked today may not work tomorrow. Therefore, it is necessary to keep an eye on different environmental factors and to take timely measures to reduce the negative effects of threats.

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