

'Dumbed-Down Solutions Won't Work in Rural India' (also see in [Jpeg](#))

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• Interview  Anuj Mehra

# 'Dumbed-Down Solutions Won't Work in Rural India'

*As a company focused on rural housing, your profile and business is very different...*

We are a profit making company, a subsidiary of Mahindra Finance. We are 87.5% held by Mahindra Finance and 12.5% held by NHB which itself is a new thing because NHB is my regulator and is a subsidiary of RBI. They are my largest refiners and they are the shareholders. We consider ourselves to be a business engaged in creating shared value. So we would like to do good work and at the same time make money. And the good work we have identified is housing for the poor, especially in the rural areas.

*You see rural as a huge opportunity and is that why you have a subsidiary to build this business?*

Absolutely Mahindra Finance has been in rural areas for the last 15-odd years and anecdotal evidence said there is a potential and that is why we decided to set this up. Also, housing is regulated by NHB, Mahindra Finance is regulated by RBI. So the regulators are different. And it's a new business; the skills required are very different. So a different company was set up in April 2007. We got our license from NHB in Aug 2007 to started operating but effectively began the business in 2008-2009.

*We hear all kinds of stories about the blooming of rural opportunity and a large number of corporates see a big growth story in rural. Is this for real? Do you feel it, see it or experience it?*

One hundred per cent. We feel the opportunity, we see the opportunity but if somebody thinks that dumbing down an urban product can give you success in rural, you are asking for disaster. The rural customer has his own rational way of thinking. Sometimes, we think it's stupid but he has his own extremely wise way of coming to a certain decision and he will use that, no matter what you say or do. If you are able to identify that, if you are able to understand that, the potential is huge. But if you think *usko sasta karke bech do*, it won't happen.

So our product is totally different from urban products. Take repayments. All home loans are supposed to be EMIs, or Equated Monthly Installments. But a lot of our loans are half yearly or quarterly repayments because we realised that a farmer gets money once in six months. What's the point of EMIs when he doesn't have monthly cash flows?

Earlier, most people used to charge a pre-payment penalty. We actually encouraged pre payments because we realised if a farmer has had a good harvest, it is better to take money from him instead of putting it under the bedding. So if he wants to reduce his liability we say: Welcome.

Everybody gives a floating rate of interest. We are the only ones who give a fixed rate of interest because we realise that a farmer cannot understand a floater. So you have to be



**Anuj Mehra, the Managing Director of Mahindra Rural Housing Finance Limited says he spends a lot of time travelling across rural India and away from his comfortable office at the Mahindra headquarters building in Mumbai. It's this ground level effort that is helping him lead a business focused on the rural market, full of opportunity as well as complexity. In this interview with Business Editor Jagdish Rattanani, he explains what works in rural India and why.**

mindful of what the customer can understand, why he is doing what he is doing and if you tailor your product accordingly there is success. If I had taken the same home loan and gone to rural areas, I would have failed and that holds I think for all products.

*So how much of this business is built moving around meeting people across rural India and how much can it be managed from an office like yours in the Mahindra HQ?*

I personally travel two to three days a week and initially it was much more. The amount of

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miles I have clocked going and sitting in villages...we've actually sat down under trees, I myself (and because I was the first employee of the company) have attended gramshabhas, we have appointed sutradhars who are our brand ambassadors in villages and that's how we have slowly and steadily built up this business.

*What is your geographical reach and spread now?*

Today we are in nine States - all southern States, Maharashtra, Gujarat, Rajasthan and very recently we've also gone into Bihar. But we cover five to eight districts except for TN and Maharashtra where we are present across the State.

*How do the actual operations work across such vast distances?*

We see which are the relatively better off rural areas, then plot that against Mahindra Fi-

nance tractor sales, which is another surrogate for rural demand, and using that we identify certain branches. We make sure that branches are in a cluster so that control is easier. In every branch that Mahindra Finance is there in that district, we will appoint six to eight customer managers, who actually go to a village and generate business.

*You do only housing finance?*

In fact, we do more of home completion loans. When we first entered, we thought like all good MBAs that each person will make 800 sq foot area home, we multiply by cost of construction and we give 75% of that - we came to a nice figure of Rs.5 lakh per house as the figure we would give out. What we realised later, much to our disappointment and horror, is that there is nothing like making a full house at one go. A villager, when the harvest is good, will make four walls. He will put a tin sheet on top because he's run out of money. And in the next harvest, he will remove the tin sheet and put a RCC structure. The next harvest he will perhaps put a toilet. So in rural areas, a house is constructed incrementally. So now what we're doing basically is helping them complete the half finished house and then over a period of time, when you do 10-20 loans in a village and then people start getting confidence and start taking loans and maybe somebody will go for constructing a full house.

*And the loan ticket size is...*

Rs.90,000. As of 31 March last year, we were at Rs.550 crores outstanding and this year we will be close to doubling that.

*So the common perception that smaller loans over a vast area makes for higher risk...is that how you see it or not?*

When we realised we were not doing the Rs.5 lakh loan and were instead doing Rs.90,000 and even Rs.50,000, our heart sank. We realised we were making a mistake...we changed our business strategy. Initially, we were chasing Mahindra Finance customers and they could be in spread out areas. With a 90K loan rather than a higher amount, you can't service them.

So we said forget Mahindra Finance cus-

tomers and we go village by village. We go to a village, work with a Mahindra Fin customer and then we do 20-30 other cases in that village. And then we do the same in the next village and move on so that the cost of servicing goes down dramatically. In that village, we are now not servicing one 90k case, we are servicing 10. We find that word of mouth is critical in rural areas. So if you do 10 loans, then going from 10 to 30 is not difficult as is going from zero to 8 or 10. So over a period of time that is what is giving us growth.

*So you have to sell your brand and build...*

We are creating a new market. The need is there. You can't build a need. The problem is most of these customers have been treated so badly by banks. If somebody goes to them and says take a home loan, his first thought is no. We tried radio, it failed. We tried movies, it failed. Because when they see the ad, they think it's not for me. So you must sit with people and convince them that we mean business. We go to their doorstep and give a loan.

*But banks have deep presence and targets.*

This business is effort intensive. No bank will put in that much effort; they can beat me in cost, reach but they can't beat me when it comes to my field force which is dedicated and comprises people hired locally.

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The biggest disservice the bank is doing is three years of compulsory rural work. So the bank guy posted there sees it as kaala pani. The employee is waiting to leave that post. So what commitment will he bring to the table?

*How are you on pricing?*

We are higher than banks but much lower than the moneylender. It varies by State, tenure and to some extent will also vary by the kind of documentation that the customer is able to get. The lowest would be like 12%; the highest would go to 18-19% but these are fixed rates, not variable and having said that our return on asset is not too high - it's around 2-2.5% which is an acceptable rate of return on asset as far as housing finance companies go.

*What's your experience with NPAs?*

Our NPAs are in line with most other companies, maybe a little higher. Last year we closed around 1.7% of total. Assessment is important but more so is follow up. It is very extremely effort intensive. If you let things be, thinking people will come and pay, then it will not work. You have to go and collect. For Rs.2,000, my man might go there many times so the cost of operation is very high and so the rate is high.

*From what you suggest, it's a very difficult business?*

Strategically, it makes a lot of sense for me. We see a reasonably high penetration of hous-

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ing finance in urban areas. In rural, this penetration is zilch. On the other hand if you look at my parent and us, strategically our skill set, our knowledge, our expertise, it is in rural and semi urban areas. It makes eminent sense to leverage our strength and get into an area where the potential is high. Let us build a huge mammoth organisation in rural. Our vision statement says transforming rural lives. Our mission is to be the HDFC of rural India.

*On the one hand, there is the story of growth and on the other we see stagnating argi growth?*

Incomes are not agri any longer. Overall, not more than 40-45% of income is agri though cash flows are still dependent on agriculture. Slowly services are coming there. We have places where jersey cows have good shelter with a cooler but the person who owns the cow lives in a hut. Similarly, in a place like Nashik, cash crops like grapes and horticulture are important. While I agree that overall agri growth is not exciting, but down the line the village income growth is much higher. Most families will also have one son in a nearby town working in insurance or some such sector.