

SEWA Grih Rin Limited



Building the Future for
India's Housing Needs



SEWA Grih Rin Limited, India

Problem: A Unique Approach to Addressing the Housing Crisis in India

India is in the midst of a dire housing crisis. According to the last published government estimate of the problem, there is a shortage of 18.78 million housing units which includes those experiencing homelessness as well as those living in kutcha (make-shift or temporary), congested, or obsolescent houses.¹ The problem of housing in India's cities has been exacerbated by urbanization and migration. In cities, those living in poverty are typically working in highly informal jobs and don't have the means to secure a proper title that can be mortgaged for housing loans. They are also often living in slums which are usually cramped dwelling units without proper roofs or sanitation facilities. For many families who conduct home-based work such as stitching or other small business activities, their livelihoods are directly impacted by their quality of housing.

Despite the urgency of the crisis and the fundamental role that housing plays in all our lives, there is a shortage of home loans available in India, particularly for the most vulnerable. Those who are formally employed can access bank loans, and people with formal property titles can borrow against them through microfinance and affordable housing lenders. However, citizens with informal property titles and informal incomes have access only to short-term, exploitatively high-rate loans as their sole credit option.

About SEWA

SEWA began with a group of women working in textiles who were underpaid and wanted to organize their industry in Ahmedabad in order to receive a living wage. They were aided in doing so by Elaben Bhatt, who reported their plight in a local newspaper. Elaben then founded the Self Employment Women's Association in 1972 to improve the lives of the oppressed women. She went on to become the General Secretary of SEWA and a renowned champion of equity, freedom, and civil rights. SEWA is a trade union that now boasts 2.1 million members, and remains dedicated to the vision of full employment and self reliance. In 1974, 4,000 members of the SEWA union contributed 10 rupees each to form the Mahila SEWA Co-operative Bank, which continues to be owned by the women it serves.

Solution: Helping Women Access Credit for their Homes

Leveraging the ethos of the SEWA network and the insights gained from the bank that provided loans to informal women workers in Gujarat, Shruti Gonsalves implemented the concept of a housing finance company that primarily served borrowers lacking formal title ownership.²

SEWA Grih Rin (Sitara) offers a range of financial loans for housing improvements and extensions, like roofs, staircases, and storefronts. The average ticket size of the majority of the loans is around INR 3.2 lakh (~\$3875 USD) and the tenure is approximately 10 years. The interest rate offered is between 18% to 20% which is typically lower than most microfinance institutions. Sitara's underwriting model is built on the ability to assess informal incomes and progressive property tenure. They work to formalize a wide range of property documentation in order to grant loans to those who cannot obtain the land titles required for most financial services.

Story of Acumen's Investment

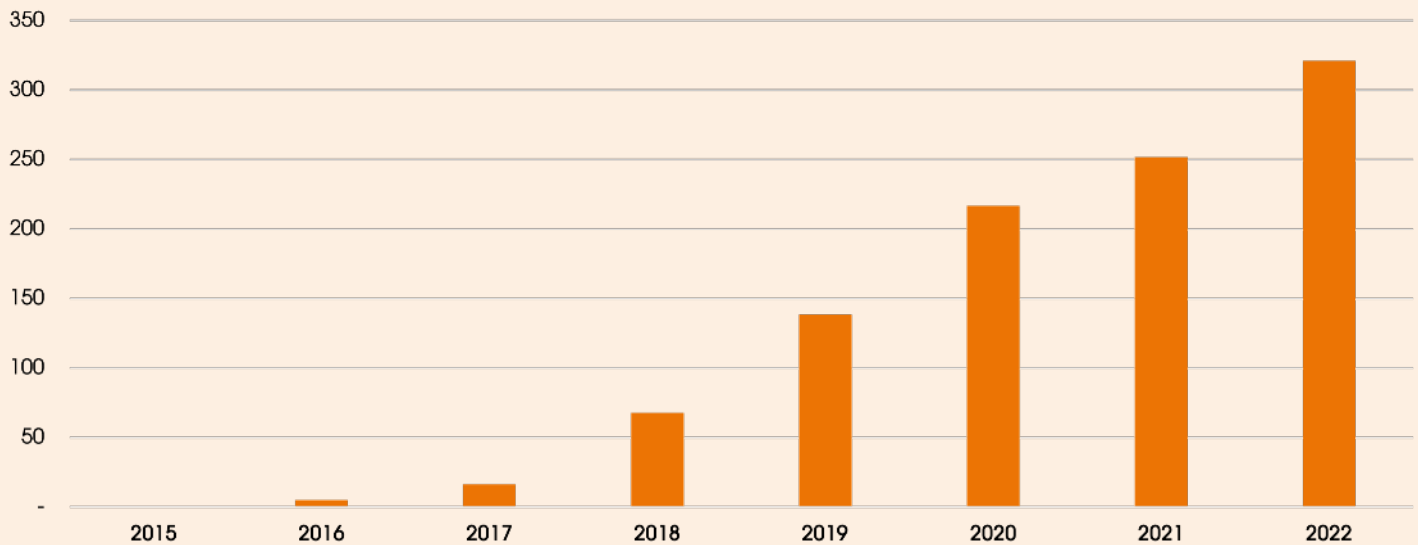
In 2012, Acumen developed an affordable housing thesis and identified a gap in access to finance for incremental housing. Low-income customers who did not have formal tenure and clear mortgageable title were not being served by banks and housing finance companies. It was in this context that the Acumen team met with Shruti and the SEWA group, and became interested in investing in the SEWA Grih Rin model. The combination of the SEWA legacy and the unique target segment which had not been served at scale by other banks or non-bank financial institutions gathered interest from the National Housing Bank (the overseeing

regulatory body for housing finance in India). The backing of the National Housing Bank had a positive effect on other investors considering the opportunity. The Acumen investment team at the time also worked with Shruti to define the opportunity, refine the business plan, and bring together the right set of investors. Within the year, the team had secured commitments from a group of investors including leading banks and funds such as Acumen and Lok Capital.

In order to address regulatory restrictions on setting up a new entity as a subsidiary of a bank, Shruti and the SEWA group created a trust with SEWA members, which then became Sitara's promoter. The members made small contributions of INR 300 each, which amounted to INR 30 million in total constituting the mandated promoter contribution under regulations.

Acumen invested around ~\$300,000 USD in equity in 2014, participating as a board member, and providing strategic accompaniment as Sitara launched its operations. In the initial launch phase, the Acumen team supported the founding team in identifying and hiring the chief financial and operation officers, setting up risk management and control committees, and bringing in international debt funders. Acumen's role reduced significantly as Sitara went on to raise equity from later-stage investors. By 2022, the company had secured an investment of ~\$34 million USD and built a loan book of ~\$46 million USD.³ In their latest Series D round, Acumen exited the investment at an attractive return through a secondary sale to a follow-on investor.

Loan Assets (In INR Crore)



* 1 crore = 10 million

Impact

Sitara has created the first successful housing loan product for borrowers without title. It has reached more than 14,000 borrowers over the last seven years. As of December 2022, ~90% of borrowers belonged to households earning less than INR 35,000 per month, with 41% earning less than INR 20,000.

In India, reliable data on asset ownership among women is not readily available. Yet, research indicates that women own even less land than government estimates of more than 28%.^{4,5} Against this context, Sitara is helping women recognize informal housing titles — almost half of Sitara's loans are registered by women. In a Lean Data survey conducted by 60 Decibels in 2019, more than 70% of customers reported that they felt more secure in their house and that their sense of home ownership had improved as a result. The study also validated that Sitara was successful in reaching those living in poverty.

Lessons Learned from Sitara's Scale and Impact

Financial institutions need to look beyond traditional sources of data to successfully serve low-income populations.

Sitara serves people who have historically been excluded from formal financial institutions. With the exception of microfinance institutions (who offer a different product to Sitara), there is a general lack of understanding of the needs and behaviors of people living in poverty. Shruti and her team were able to draw on years of knowledge through their partnership with SEWA to design loan products and test repayment methodologies that would best serve low-income populations, and women in particular.

At the same time, Shruti and her team invested in systems early on, building strong underwriting processes with the support of investors and regulators. Loan officers at Sitara assess a number of factors when determining whether to underwrite a loan. These include the

potential client's ability to pay, their payment history, standing in the community, and their existing property. These checks and balances are a crucial part of knowing their customers and maintaining a healthy portfolio. A strong referral system and investing in building brand loyalty ensured that Sitara has grown at a sustainable pace, with more than 30 branches operating at a profit. Their model has demonstrated that low-income borrowers, and women in particular are very reliable borrowers.

Building a for-profit institution within the legacy of a nonprofit organization necessitates trade-offs and prioritization.

Since the 1990s, SEWA has worked on housing through institutions such as the SEWA Sahakari Bank, a bank that pioneered microcredit, and the Mahila Housing SEWA Trust, a nonprofit trust organization working on advocacy and awareness.^{6,7} These partnerships were impactful in increasing access to housing, but limited by regulation and funding to a few geographies. There was a need for an organization that could provide housing finance to women in the informal sector, at scale.

Sitara was created to help achieve one of SEWA's fundamental goals: asset increase for the poor. Its initial capital came from SEWA members: they provided INR 1 crore in seed funds for Sitara. But Sitara took a different approach from SEWA, one that involved raising equity from foreign investors and lending money to non-members. There was some initial discomfort with the speed of growth, rates of interest, and the hiring of commercial risk officers.

But this is not a unique problem; nonprofits that rely on for-profit business models to achieve their objectives often find themselves negotiating difficult tradeoffs. Successful organizations such as Sitara embraced the “productive tensions” of the social

and commercial activities, and provided space to negotiate those tensions.

Building a sustainable for-profit institution within this context took a lot of grit — finding the right talent, paying market salaries, and creating appropriate incentive structures. But the focus on commercial rigor has paid returns, as Sitara has been able to grow quickly, but sustainably.

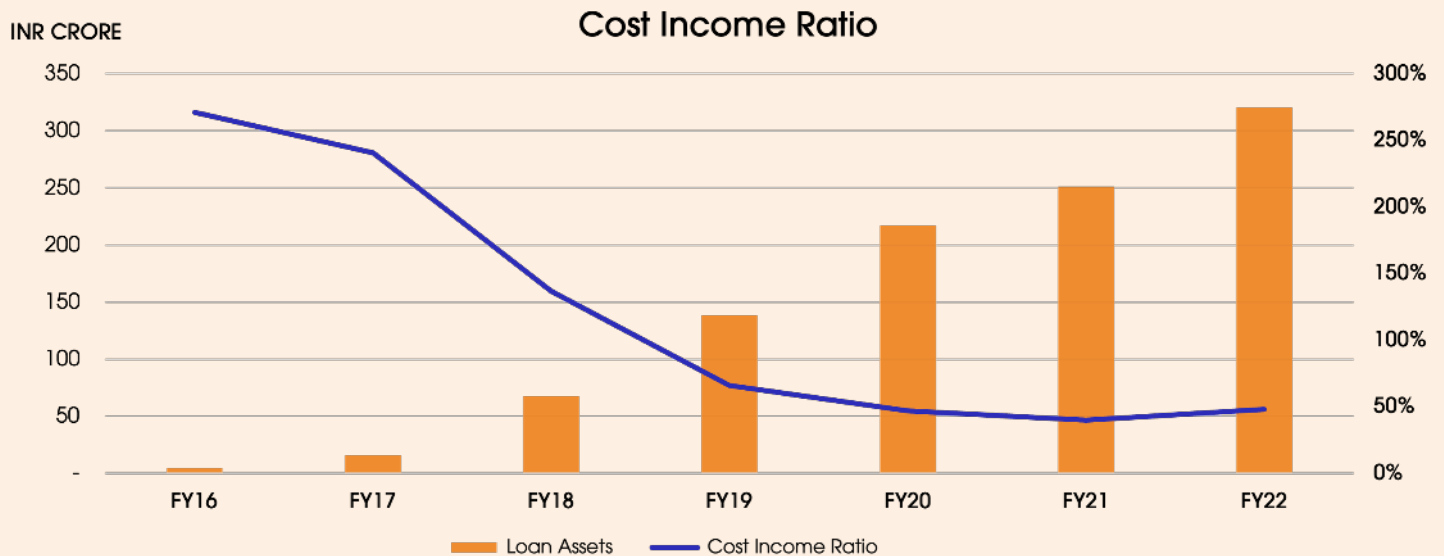
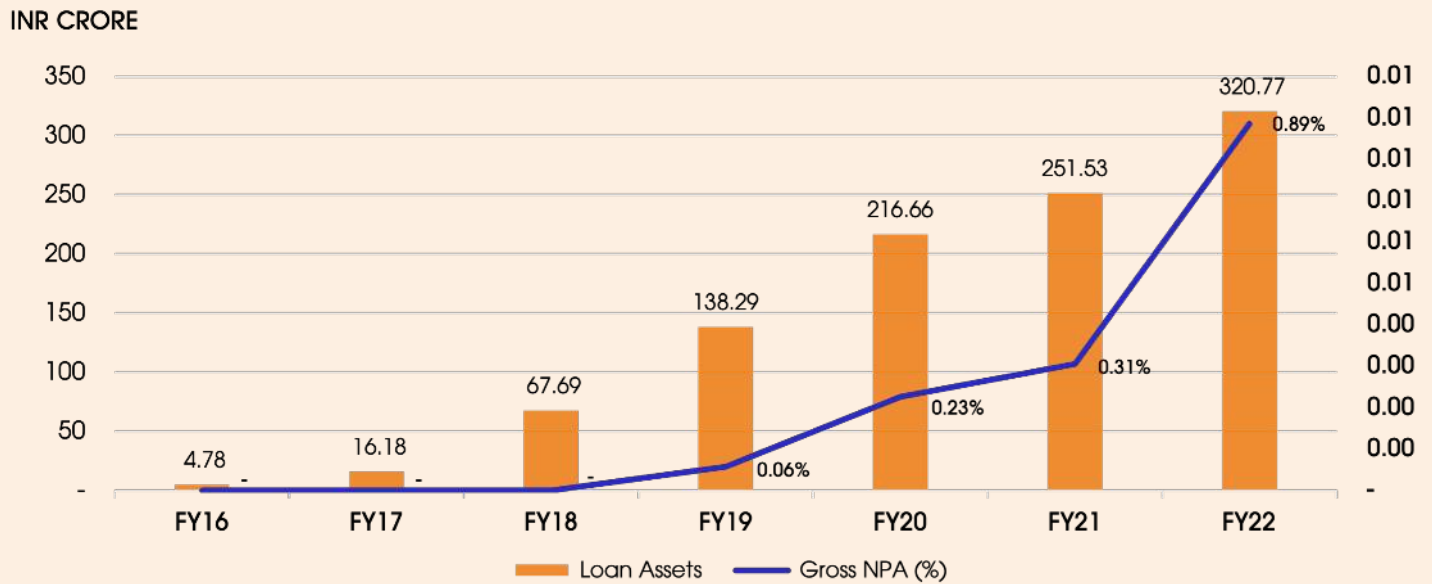
“All the partners are centered on the same ideologies; the core goal of all these institutions is to develop products or solutions that empower women socially or economically. Since the goal was the same, we were mission driven. The differences were with respect to how we achieved the goal.”

– Shruti Gonsalves, MD of Sitara

Scaling a credit model means constantly balancing growth and asset quality, while keeping processes tight and costs low.

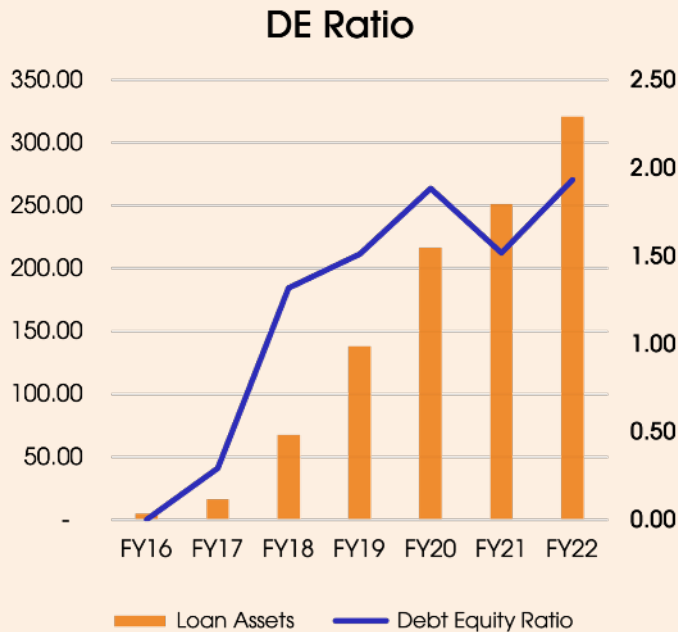
Despite significant macroeconomic disruptions such as demonetization, liquidity crunches arising from big bank or other financial institution failures, and the pandemic, Sitara has consistently been able to grow while becoming more self-sustaining. It has done this by reducing its cost of capital, keeping costs low, and maintaining a healthy portfolio. Its net interest margin (an important profitability indicator that shows the difference between interest income and interest paid to debt financiers) has increased almost three-fold from 3.9% in FY 2014 to 11.9% in FY 2022. The cost-income ratio, which is an indicator of how well the company is leveraging its operations to generate income, has shown a healthy downward trend. However, the most impressive metric of success for Sitara has been their non-performing assets (NPA) ratio which was less than one percent in FY 2022.

Gross NPA% & Loan Book



As a lender who serves people living in poverty, the most difficult balance to maintain is to grow quickly without compromising the quality of loan disbursements, and therefore the health of the portfolio. Critical to Sitara's ability to maintain asset quality is its investment in processes and systems for loan origination and collection despite limited resources. Sitara also designed incentives for its officers in a way that

tied accountability for collection to origination as well. In terms of governance, they put in place strong accountability mechanisms (like separating risk from growth officers) very early on. Except for a dip in FY 2021, Sitara has consistently leveraged its equity to raise debt financing (achieving a debt to equity ratio of 1.93 and ROE of 3.6% in FY 2022) and refinance its loan book with the National Housing Bank.



Lesson for Investors and Philanthropists

Even in a sector rich with venture capital and private equity funds, Patient Capital plays an important role.

The financial inclusion and fintech sectors have seen an enormous amount of venture capital and private equity investment in the last decade in India. These sectors are estimated to have a total deal volume between \$3.96 and \$4.9 billion USD of investment in 2021 alone. An investor like Acumen has had a limited but important role to play as we consciously seek to address the Pioneer Gap: investing in the type of companies who are unable to raise early-stage equity.⁸ The particular nature of Sitara's business — that of providing asset-based loans to those with progressive property tenure and informal income — required Patient Capital to allow for necessary risk taking and experimentation.

While we typically look for demonstrated market traction in our pipeline evaluation,

we took a different approach with Sitara. We were truly backing an idea based on a well-researched thesis, the strength and credibility of SEWA founding members, and the backing of the regulator. Unlike many of our other investments around the same time, we were not the lead investor but were one among a group of investors. Yet, our capital was necessary as Sitara secured its license, built out its senior leadership team, and got the operations underway. The Acumen team's accompaniment was important in building out the credit risk management policies, hiring the right talent, and maintaining a razor focus on customer insight which was critical for this market. At a critical juncture before Sitara's Series B raise, a Lean Data study found that there was low-brand perception among the borrowers informing a significant shift in the company's marketing strategy, which pivoted to building brand loyalty.

Summary

Acumen was privileged to join Sitara early in its journey of developing a financial institution that was built from the ground-up with an ethos to promote women's empowerment.

Sitara is an excellent example of the power of Patient Capital to help scale financial institutions that solve some of the toughest challenges in financial inclusion — reaching low-income households with informal income and promoting asset accumulation among women; one of the most important levers to empowerment.

Endnotes

- 1 Government of India (2011) [*Report of The Technical Group On Urban Housing Shortage*](#)
 - 2 Acumen (2019) [*One Great Idea | To Help Women Become Homeowners*](#)
 - 3 The Daily Check (2022) [*Fintech startup Sewa Grih Rin raises \\$20 million in funding led by Norway-based NMI*](#)
 - 4 Agarwal B (2021) [*How Many and Which Women Own Land in India? Inter-gender and Intra-gender Gaps*](#)
 - 5 Swaminathan H et al (2012) [*Gender asset and wealth gaps: Evidence from Karnataka*](#)
 - 6 [*SEWA Bank*](#)
 - 7 [*Mahila Housing Trust*](#)
 - 8 Acumen (2022) [*Investing as a Means: 20 Years of Patient Capital*](#)
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