ICRA

A MOODY'S INVESTORS SERVICE COMPANY

AFFORDABLE HOUSING FINANCE INDUSTRY

Long-term growth outlook remains positive; funding availability remains key

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Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545316
manushrees@craindia.com

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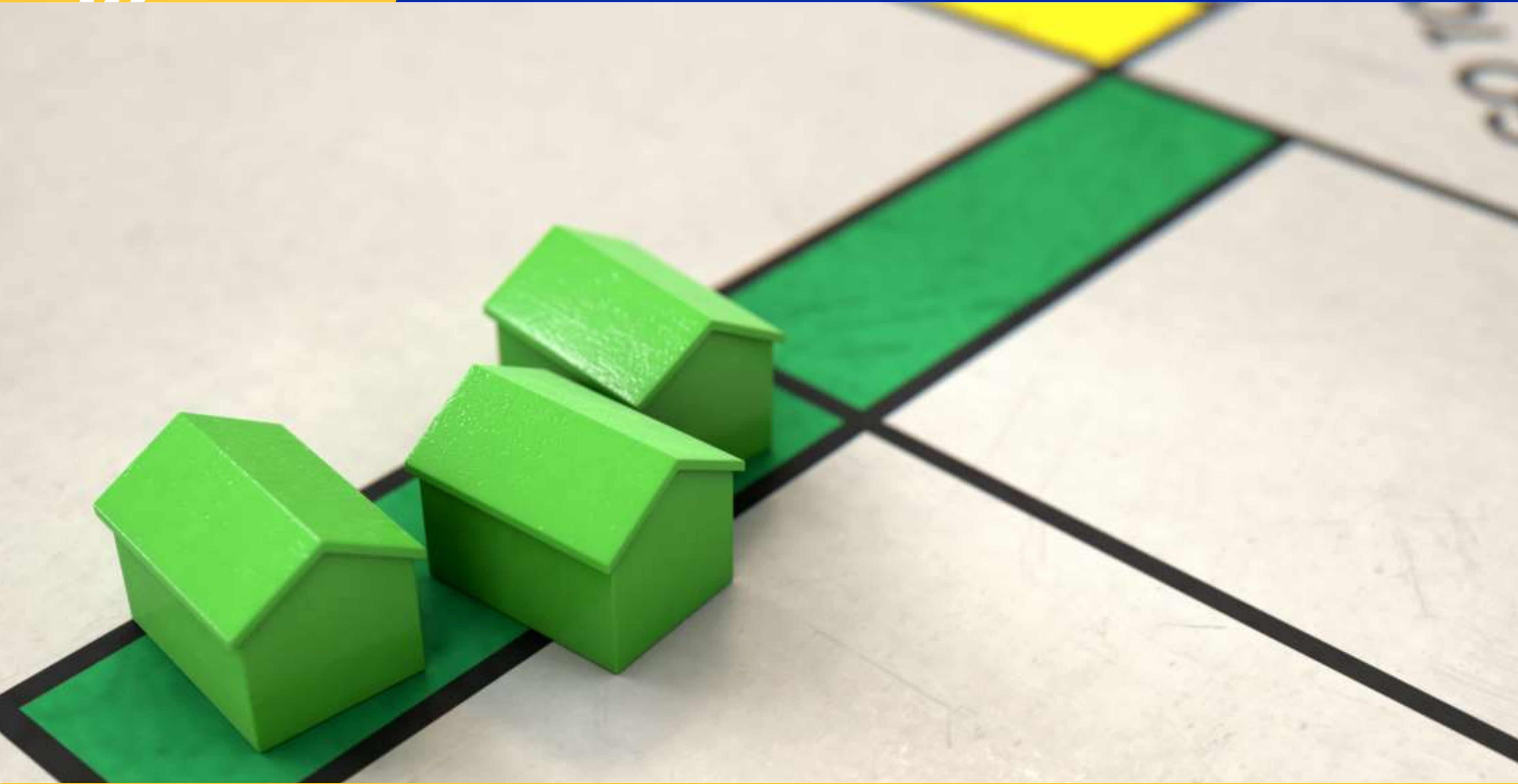


EXECUTIVE SUMMARY

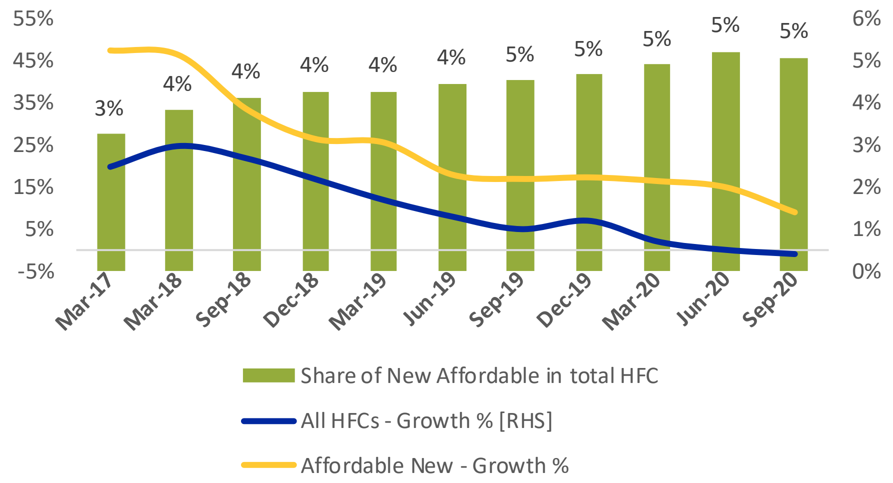
Over the last decade, several new players have emerged in the housing finance space, focusing primarily on the affordable housing segment. The property cost in this segment is usually below Rs. 20 lakh and borrowers have relatively low income and usually do not have any formal income proof. Earlier, most large players did not cater to this segment. However, over the last couple of years, even large HFCs have set up dedicated verticals focused on the affordable housing segment. While banks are also present in the smaller-ticket home loan market, their lending to the economically weaker section (EWS) and low-income group (LIG) segments and borrowers without any formal income proof is limited. These specialised HFCs are trying to tap this underserved market segment. They have been growing at much higher rates than the industry, albeit on a small base, and accounted for around 5% of the overall HFC market as on September 30, 2020.

As per ICRA's estimates, the total portfolio of the new affordable housing finance companies (AHFCs) in the affordable housing space stood at Rs. 55,061 crore as on September 30, 2020, registering a year-on-year (YoY) growth of 9%, much lower than the 3-year average of over 30%. The HFC industry, as a whole, witnessed a marginal degrowth in the six months ended September 30, 2020. In terms of the portfolio mix, individual housing loans continue to dominate the mix, constituting 79% of the book with the balance largely comprising loans against property (LAP) with very limited project loans/construction finance loans. While the long-term growth outlook remains positive, supported by the favourable demographic profile, under-penetrated market, tax sops and Government thrust on "Housing for All"; access to adequate funding would be critical for these AHFCs to scale up.

The segment's asset quality indicators registered a marginal improvement with a reported gross NPA% of 3.1% as on September 30, 2020 (3.6% as on March 31, 2020), supported by the standstill on the bucket movement during March 2020-August 2020 and the adjustment of the EMIs received during the moratorium period against past overdues. Nevertheless, the asset quality numbers remained weaker than the industry levels (2.40% as on September 30, 2020), reflecting the inherent weakness associated with the segment. However, adjusting for two AHFCs who have higher NPAs, the gross NPA%/Stage 3% was lower than the gross NPA% of all HFCs at 1.5% as on September 30, 2020, but comparable to the gross NPA% of 1.4% for the home loan segment of all HFCs as on September 30, 2020. This was partly attributable to the relatively lower portfolio seasoning and the higher share of home loans in the portfolio of AHFCs compared with larger peers.

On the funding side, these entities were traditionally dependent on the banking channel and larger non-banking financial companies (NBFCs) for meeting their funding requirements. However, in H1 FY2021, the share of funding from capital markets in the form of non-convertible debentures (NCDs) and National Housing Bank (NHB) refinance increased to about 36% of the total borrowings as on September 30, 2020 primarily driven by special funding schemes of NHB to support the liquidity of HFCs and the targeted long-term repo operations (TLTROs) of the RBI. The liquidity profile of these entities is also supported by their relatively moderate gearing and substantial balance sheet liquidity (~13% of total assets as on September 30, 2020).

EXHIBIT 1: Share of AHF in overall HFC industry



Source: *ICRA research*

While the net interest margins (NIMs) of these AHFCs were largely stable in H1 FY2021 and the opex ratios moderated due to lower business-related expenses owing to the lockdowns, the lower fee income due to curtailed loan originations and income from direct assignment (DA) transactions led to stable profitability (return on assets (RoA) of 2.3% for H1 FY2021). ICRA expects the profitability indicators of these HFCs to be lower with ROAs of 2.2%-2.4% in FY2021, given the expected impact of the pandemic on new business (cost-to-income ratios could remain elevated) as well as the asset quality (higher credit costs).

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
+91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: Jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: Communications@icraindia.com
Tel: +91 124 4545 860

Registered Office

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg, New Delhi - 110 001
Tel: + 91 11 2335 7940-50

Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

4th Floor, 'Shoban'
6-3-927/A&B. Somajiguda
Raj Bhavan Road,
Hyderabad - 500 082
Tel: +91 40 4067 6500

Hyderabad 2

No. 7-1-58, 301, 3rd Floor, 'Concourse',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

Email: Info@icraindia.com
Helpdesk: 9354738909
Website: www.icra.in/ www.icraresearch.in