

AFFORDABLE HOUSING FINANCE INDUSTRY

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

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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).

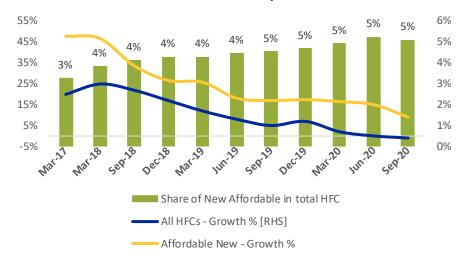


EXHIBIT 1: Share of AHF in overall HFC industry

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).



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