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AFFORDABLE HOUSING FINANCE COMPANIES

Resilient performance; growth outlook remains favourable

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List of abbreviations

HFC	Housing finance company
AHFC	Affordable housing finance company
RBI	Reserve Bank of India
NHB	National Housing Bank
NPAs	Non-performing assets
YoY	Year on year
AUM	Assets under management
GNPAs	Gross non-performing assets
LAP	Loan against property
HLs	Home loans
Dpd	Days past due
IRAC	Income recognition and asset classification

For the analysis in this note, ICRA has used the data for the following entities

Classification	AHFCs used for consolidation of financials
Affordable Housing Finance Companies – AHFCs	Aavas Financiers [Aavas], Aadhar Housing Finance Limited [Aadhar], Aptus Value Housing Finance India Limited [Aptus], Home First Finance Company [HFFC], Motilal Oswal Home Finance Limited [Motilal Oswal Home], India Shelter Finance Corporation Limited [India Shelter], Mahindra Rural Housing Finance Ltd [Mahindra], Poonawalla Housing Finance [Poonawalla], Muthoot HomeFin (India) Limited [Muthoot HomeFin], Shriram Housing Finance Limited [Shriram Housing], Shubham Housing Development Finance Company Limited [Shubham], Vastu Housing [Vastu], Fullerton Home [Fullerton], DMI Housing [DMI], Aviom Housing [Aviom] and IndoStar Home Finance [IndoStar]

Highlights

Disbursement volumes of AHFCs touched all-time high in Q4 FY2022, supporting robust growth

Stable asset quality indicators; performance of restructured book remain a monitorable

Bank borrowings and NHB refinance continue to dominate the borrowing mix

Improved margins and controlled credit costs led to improvement in profitability

- As per ICRA's estimates, the total loan book of AHFCs stood at Rs. 74,550 crore as on June 30, 2022, registering a robust YoY growth of 21% (17% in FY2022), supported by the improvement in the operating environment and good demand.
- The share of AHFCs remains small in the overall housing finance industry at ~6%. Nevertheless, the underpenetrated market and Government thrust on 'housing for all' are likely to support growth, going forward as well.
- The reported asset quality indicators, which peaked in Q3 FY2022 mainly because entities aligned their reporting with the clarification issued by the RBI on IRAC norms, improved in Q4 FY2022 and Q1 FY2023 with improved collection efficiency.
- The headline GNPA/stage 3 numbers could remain elevated as it would be difficult for these borrowers to clear their entire overdues and hence come out of the GNPA tagging; however, the overall 90+ dpd is expected to remain range-bound.
- Overall, the restructured book stood at ~6% of the loan book as on March 31, 2022 and its performance would be a monitorable.
- With NHB providing liquidity support to HFCs during the Covid-19 pandemic, the share of NHB funding in the overall mix has increased, though banks continue to have a dominant share. The presence of capital market funding has remained largely stable, with only a few higher rated entities tapping the capital markets.
- While the net interest margins (NIMs) of AHFCs improved in FY2022, supported by the decline in the overall cost of funds, the impact was partly offset by the increase in operating expenses. However, with the moderation in credit costs and some upfront income from direct assignment (DA), the overall return indicators improved in FY2022 and the AHFCs reported a return on managed assets (RoMA) of 2.6% in FY2022. Similar profitability expected for FY2023.

Agenda

1 Market landscape

2 Portfolio growth and asset quality trends

3 Capitalisation, borrowing mix and earnings profile

4 Key risks and mitigants

5 Industry outlook

6 ICRA's ratings in the sector

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Thank You!