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AFFORDABLE HOUSING FINANCE COMPANIES

Resurgence in loan growth amid improvement in asset quality to drive profitability

April 2023

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
RoMA	Return on managed assets

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 India Housing [Aviom] and IndoStar Home Finance [IndoStar]

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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

Highlights

Disbursement volumes of AHFCs remain strong, leading to highest growth in loan books during 9MFY2023 since FY2019

Stable asset quality indicators; rollback rates expected to be lower

Bank borrowings and NHB refinance continue to dominate borrowing mix

Margins to be under pressure, going forward; controlled credit costs and improved operating efficiency to support overall profitability

- As per ICRA's estimates, the total loan book of AHFCs stood at Rs. 83,052 crore as on December 31, 2022, registering a robust YoY growth of 25% (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 is estimated at 6% as on December 31, 2022. 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 GNPA reporting with the clarification issued by the RBI on IRAC norms, improved in Q4 FY2022 and have largely remained stable since then, supported by good collection efficiencies.
- 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 ~4% of the loan book as on September 30, 2022 and, incremental slippages from this book remain around 10-20%.
- Banks continue to dominate the overall borrowing mix. The presence of capital market funding has remained largely stable, with only a few higher rated entities tapping the capital markets. The impact of the increase in systemic rates will be visible in H2 FY2023 and Q1 FY2024.
- The profitability indicators for AHFCs benefitted from the improvement in the net interest margins (NIMs) and lower credit costs in H1 FY2023, leading to better overall return indicators. However, NIMs would be incrementally under pressure, which could bring down the RoMA marginally, though the impact could be partly offset by operating efficiency.

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Thank You!