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AFFORDABLE HOUSING FINANCE COMPANIES

Steady performance; impact of seasoning on asset quality remains monitorable

AUGUST 2024

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
HL	Home loan
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 of the following entities:

Classification	AHFCs used for consolidation of financials
Affordable Housing Finance Companies – AHFCs	Aadhar Housing Finance Limited [Aadhar], Aavas Financiers [Aavas], Aptus Value Housing Finance India Limited [Aptus], Aviom India Housing [Aviom], DMI Housing [DMI], Home First Finance Company [HFFC], Motilal Oswal Home Finance Limited [Motilal Oswal Home], India Shelter Finance Corporation Limited [India Shelter], IndoStar Home Finance [IndoStar], Mahindra Rural Housing Finance Ltd [Mahindra], Muthoot HomeFin (India) Limited [Muthoot HomeFin], Grihum Housing Finance [Grihum], Religare Housing Development Finance Corporation [Religare], Roha Housing Finance [Roha], Shriram Housing Finance Limited [Shriram Housing], Shubham Housing Development Finance Company Limited [Shubham], SMFG Grihashakti Home Finance [SMFG Grih; erstwhile Fullerton India Home Finance], SRG Housing Finance Limited [SRG], Ummeed Housing Finance [Ummeed], Vastu Housing [Vastu]

Agenda

1 Market landscape

2 Portfolio growth and asset quality trends

3 Capitalisation and borrowing mix

4 Earnings profile

5 Industry outlook

6 ICRA's ratings in the sector

Highlights

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Disbursement volumes remained strong in FY2024; loan book continued to grow at a high rate of 29% YoY n FY2024

Asset quality indicators improved marginally in FY2024; marginal uptick expected as the portfolio seasons

Bank borrowings and NHB refinance constituted 76% of the overall borrowing mix

Stable operating expenses and controlled credit costs to support overall profitability

- As per ICRA's estimates, the on-book portfolio of AHFCs continued to report strong YoY growth of 29% in FY2024 and stood at Rs. 1,13,364 crore as on March 31, 2024, and above Rs. 1,17,000 crore as on June 30, 2024, supported by good demand. The underpenetrated market and the Government's thrust on 'housing for all' are likely to support growth, going forward. ICRA expects the on-book portfolio of AHFCs to grow by 22-24% in FY2025.
- The share of AHFCs in the overall HFC loan book was meaningful at 14% as on March 31, 2024, following the change in the HFC market size due to HDFC Limited's merger with HDFC Bank. Earlier, the share in the overall HFC pie used to be 6-7%.
- The reported asset quality indicators of AHFCs improved marginally in FY2024, supported by controlled fresh slippages, recoveries and the base effect. Good collection efficiency is likely to keep delinquencies range-bound.
- The restructured book was ~1.7% of the loan book as on March 31, 2024, while incremental slippages from this book could be around 10-15%, in line with past trends.
- Bank borrowings and NHB refinance formed 76% of the overall borrowing mix as on March 31, 2024. Capital market funding has remained limited, with only a few higher rated entities tapping this market. The overall cost of funds is expected to remain high due to the impact of the elevated systemic rates.
- As entities continue to expand their network, the operating ratios will remain elevated vis-à-vis traditional HFCs, but shall stabilise at the current levels.
- The profitability indicators of AHFCs were supported by stable net interest margins (NIMs; ~6.9%) and controlled credit costs (~0.3%) in FY2024, despite high operating expenses (~3.8%) because of continued branch expansion. NIMs are expected to remain under pressure, going forward. This would weaken the profitability profile with RoMA of 2.5-2.7% in FY2025 (compared to 2.8% in FY2024), despite controlled credit costs and stable operating ratios.

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Thank You!