ICRA

HOUSING FINANCE COMPANIES

Key financial and operational statistics of housing finance companies extracted from ICRA's database

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EXECUTIVE SUMMARY

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HFCs reported on-book portfolio growth of 14% YoY in Q1FY2025; ICRA retains its portfolio growth estimate of 12-14% for FY2025.

ICRA expects some moderation in NIMs for HFCs in FY2025; however, contained credit costs and improving operating efficiency will support profitability

HFCs' debt capital market issuances touched multi-year high in H1 FY2025; share of CP funding remains low

The on-book portfolio of the non-banking financial companies-housing finance companies (NBFC-HFC) sector grew by around 14% year-on-year (YoY; estimated) in Q1FY2025. With demand expected to remain firm, ICRA expects the growth momentum to continue during the rest of FY2025 as well. ICRA maintains its growth estimate of 12-14% for HFCs' on-book portfolio for FY2025. With the increase in the cost of funding from banks, HFCs have moved towards the debt capital market to support their funding requirements. Bond issuances reached a multi-year high of Rs. 45,700 crore in H1 FY2025, up 44% YoY.

- **Slight uptick in GNPAs in Q1 FY2025, expected to remain stable by fiscal end:** HFCs witnessed a significant improvement in their reported GNPAs (GS3) in FY2024, which was driven by sales to ARCs, write-offs and recoveries. However, HFCs witnessed a slight uptick in the reported GNPAs (GS3) in Q1 FY2025, in line with past trends. ICRA expects GNPA to remain stable by the end of FY2025 at 2.1-2.3%. Consequently, the credit costs are also expected to remain under control in FY2025.

- **Adequate capital profile and liquidity:** The industry's capital profile is adequate with the same expected to remain sufficient for meeting the growth targets. While no major capital raise is required, some entities would raise funds depending on their capital position with respect to their growth aspirations. Most HFCs are gradually lowering their on-book liquidity to reduce the negative carry thereon. Nevertheless, liquidity remains adequate and HFCs continue to maintain the required liquidity coverage ratio (LCR). ICRA expects that the sector would need Rs. 1.0-1.1 lakh crore of additional funding (over and above the refinancing of existing maturing debt) in FY2025 for the envisaged growth. ICRA expects funding (including off-book) availability to remain adequate for the sector.

- **Outlook remains Stable:** ICRA expects a steady growth in the industry portfolio, driven by buoyant demand for individual loans. ICRA expects some moderation in the net interest margin (NIM) in FY2025, though contained credit costs would support profitability. ICRA expects HFCs to report a return on managed assets (RoMA) of 1.7-1.9% in FY2025 compared with 2.0% in FY2024.

Source: *Financials and investors presentations of HFCs and ICRA's calculations; H1 FY2025 financials wherever not available have been estimated basis past financials for consolidation of H1 FY2025 values*

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- 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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