



INDIAN MORTGAGE FINANCE MARKET

Growth and profitability to remain steady in FY2025; asset quality expected to improve

APRIL 2024



List of abbreviations

AHFCs	Affordable housing finance companies
ARCs	Asset reconstruction companies
AUM	Assets under management
bps	Basis points
CF	Construction finance
CRAR	Capital-to-risk weighted assets ratio
dpd	Days past due
GNPAs	Gross non-performing assets
GS3	Gross stage 3
HLS	Home loans
HFCs	Housing finance companies
IRAC	Income Recognition and Asset Classification
LCR	Liquidity coverage ratio
LRD	Lease rental discounting

LAP	Loan against property
NHB	National Housing Bank
NIM	Net interest margin
NNPAs	Net non-performing assets
NS3	Net stage 3
NBFCs	Non-banking financial companies
NHLs	Non-home loans
NPAs	Non-performing assets
NW	Net worth
RBI	Reserve Bank of India
RoMA	Return on average managed assets
RoNW	Return on average net worth
SCBs	Scheduled commercial banks
YoY	Year-on-year

HFCs included for consolidation of financials

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

Category	HFCs included for consolidation of financials
Large HFCs	<p>Bajaj Housing Finance Limited, Indiabulls Housing Finance Limited, LIC Housing Finance Limited, Piramal Capital and Housing Finance Limited, PNB Housing Finance Limited (AUM > Rs. 50,000 crore as on December 31, 2023)</p> <p>Housing Development Finance Corporation (HDFC: merged with HDFC Bank Limited w.e.f. July 1, 2023) has been excluded from HFCs unless specifically mentioned</p>
Small HFCs (incl. affordable HFCs)	<p>Aadhar Housing Finance Limited, Aavas Financiers Limited, Aptus Value Housing Finance India Limited, Aviom India Housing Finance Private Limited, Can Fin Homes Limited, GIC Housing Finance Limited, Godrej Housing Finance Limited, Grihum Housing Finance Limited, Home First Finance Company India Limited, ICICI Home Finance Company Limited, India Infoline Housing Finance Limited, India Shelter Finance Corporation Limited, IndoStar Home Finance Private Limited, JM Financial Home Loans Limited, Mahindra Housing Finance Limited, Manappuram Home Finance Limited, Motilal Oswal Home Finance, Muthoot Homefin (India) Limited, Religare Housing Development Finance Corporation Limited, Repco Home Finance Limited, Shriram Housing Finance, Shubham Housing Development Finance Company, SMFG India Home Finance Co. Ltd. (erstwhile Fullerton India Home Finance Company Limited), SRG Housing Finance Limited, Sundaram Home Finance Limited, Tata Capital Housing Finance Limited, Vastu Housing Finance Corporation Limited (AUM < Rs. 50,000 crore as on December 31, 2023)</p>
Affordable HFCs	<p>Aadhar Housing Finance Limited, Aavas Financiers Limited, Aptus Value Housing Finance India Limited, Aviom India Housing Finance Private Limited, Grihum Housing Finance Limited, Home First Finance Company India Limited, India Shelter Finance Corporation Limited, IndoStar Home Finance Private Limited, Mahindra Housing Finance Limited, Manappuram Home Finance Limited, Motilal Oswal Home Finance, Muthoot Homefin (India) Limited, Religare Housing Development Finance Corporation Limited, Shriram Housing Finance, Shubham Housing Development Finance Company, SRG Housing Finance Limited, SMFG India Home Finance Co. Ltd. (erstwhile Fullerton India Home Finance Company Limited), Vastu Housing Finance Corporation Limited</p>
All HFCs	Large HFCs + Small HFCs

1 Profitability and Capitalisation



2 Portfolio Growth



3 Asset Quality Trends



4 Funding and Liquidity



5 Market Dynamics and Industry Outlook



6 ICRA's Ratings in the Sector and Annexures





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HFCs reported on-book portfolio growth of 11% (annualised) in 9M FY2024; ICRA retains its portfolio growth estimate of 12-14% per annum for FY2024 as well as FY2025

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

Adequate capital and liquidity support the entity-level risk profiles



- NBFC-HFCs' on-book portfolio grew by 11% (annualised) in 9M FY2024. ICRA expects disbursements to be higher in Q4 FY2024, in line with historical trends. For the on-book portfolio growth of HFCs, ICRA retains its estimate of 12-14% per annum for FY2024 as well as FY2025.



- The share of HLs in the on-book portfolio has been increasing and was 75% in December 2023 (72% in December 2022). While share of NHL has been declining with contraction in CF portfolio, ICRA expects it to remain in the range of 25-30% of the on-book portfolio in the near-to-medium term.



- HFCs witnessed an improvement in their GNPA's in 9M FY2024, driven by recoveries, write-offs and sale to ARCs. This, along with the increase in the provision coverage on GNPA's, shall limit incremental credit costs. ICRA expects further recovery of up to 20-40 bps in GNPA's in FY2025.



- 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 adequate buffer on the required LCR.



- ICRA expects that the sector would need Rs. 1.0-1.1 lakh crore of additional funding (over the refinancing of existing maturing debt) in FY2025 for the envisaged growth. ICRA expects the funding (including off-book) availability to remain adequate.



- HFCs reported higher NIMs in 9M FY2024. However, with some increase likely in the cost of funds, the NIM is expected to contract to a certain extent in FY2025. Nevertheless, ICRA expects HFCs to report RoMA of 1.7-1.9% in FY2024 as well as FY2025 compared to 1.7% in FY2023.



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