PRESS RELEASE

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AHFCs' sector AUM to reach Rs. 2.5 trillion by FY2028: ICRA

- Mortgage loans by NBFCs and AHFCs to expand at a CAGR of 17-19% and 20-22%, respectively, over the next three years

Rating agency ICRA projects retail mortgage-backed loans offered by non-banking financial companies (NBFCs) and housing finance companies (HFCs) to expand to Rs.20 trillion by FY2028, from ~Rs.13 trillion as of March 2025, of which the share of affordable housing finance companies (AHFCs[1]) would rise to Rs. 2.5 trillion from Rs. 1.4 trillion. ICRA forecasts mortgage loans by the NBFCs and the AHFCs to expand at a CAGR of 17-19% and 20-22%, respectively by FY2028.

A M Karthik, Senior Vice President & Co-Group Head - Financial Sector Ratings, ICRA Limited said "*Over the next three years, retail mortgage loan growth will be driven by robust demand and the restricted availability of alternative credit options due to ongoing issues with unsecured lending. This sector has traditionally demonstrated strong performance, marked by low loan losses and healthy business returns.*"

The HFCs[2] accounted for about two-thirds of these overall mortgage loans, and within this, AHFCs constituted 11% of the overall AUM (Rs.13 trillion) as of March 2025.

The AHFCs have a higher share of self-employed borrowers and loans against property in their portfolio compared to other large HFCs focused on the prime borrower segments (prime HFCs). The AHFCs have a sizeable share of smaller ticket loans, and their AUM growth has been quite steep in the recent past, resulting in low portfolio seasoning. *"Given their borrower characteristics, the AHFCs will have an operationally intensive business model compared to prime HFCs. This would require an extensive network of branches and staff to manage loan origination and handle collections in case of overdues. While they mitigate the credit risks arising from this with a conservative loan to value (LTV) and have higher business yields, sustained stability in operations and prudence in credit policies would be crucial for operating at a larger scale,"* **added Karthik**.

Based on the ICRA sample of some leading AHFCs, accounting for close to 70% of the AHFC industry AUM, non-performing assets (NPAs) have remained under control at 1.1-1.3% over the last three years, with average credit cost as proportion of average managed assets being around 0.3% over this period. The AHFCs have an average LTV of around 55% and have a sizeable share of loans extended for self-construction of homes (~40% of AUM), which is expected to keep its credit quality under control.

Healthy business margins and low credit cost support AHFC earnings with their return on average managed assets at 3.5-3.6% (based on ICRA sample of AHFCs), even as their operating costs remain elevated compared to their prime loans-focused peers. Competitive pressures, however, will increase steadily going forward from larger players, making improvement in operating efficiency critical when yields moderate and margins shrink with steady increase in leverage. Nevertheless, the AHFCs appear well positioned, given their current capitalisation (managed gearing of ~3.5 times) and earnings to support their growth plans over the next three years. In view of the above reasons, ICRA has a Stable outlook on the AHFC sector.

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[1] *HFCs with more than 2/3rd of their housing loan book under the ticket size of Rs. 2.5 million*

[2] *HFCs = Prime HFCs + AHFCs*

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