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AFFORDABLE HOUSING FINANCE COMPANIES

Business growth continues; near-term profitability to stabilise around current levels

October 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
HL	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	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], Poonawalla Housing Finance [Poonawalla], 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

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1 Market landscape

2 Portfolio growth and asset quality trends

3 Capitalisation, borrowing mix and earnings profile

4 Impact of rate hike on AHFC borrower

5 Industry outlook

6 ICRA's ratings in the sector

Highlights

Disbursement volumes of AHFCs remain strong; loan book continues to grow at high rate of 24% YoY in Q1 FY2024 (23% in FY2023)

- As per ICRA's estimates, the on-book loan portfolio of AHFCs continued to report strong YoY growth of 24% in Q1 FY2024 and stood at over Rs. 92,000 crore as June 30, 2023, supported by the improvement in operating environment and good demand. The underpenetrated market and the Government's thrust on 'housing for all' are likely to support growth, going forward.
- AHFCs maintained their share in the overall housing finance companies' loan book at 6% as on March 31, 2023. However, the share would be meaningful at ~12%, following the change in the HFC market size due to HDFC Limited's merger with HDFC Bank.

Asset quality indicators witnessed sharp improvement in Q4 FY2023; but some moderation expected as portfolio seasons

- The reported asset quality indicators improved sharply in Q4 FY2023 following some recoveries and write-offs by a few entities. The marginal weakening in Q1 FY2024 was in line with the seasonal impact. Good collection efficiency is likely to keep delinquencies under control though some uptick is expected on account of portfolio seasoning.
- The restructured book stood at ~3% of the loan book as on March 31, 2023, while incremental slippages from this book would be around 10-20%.

Bank borrowings and NHB refinance together constitute 74% of the overall borrowing mix

- Banks borrowings and NHB refinance together constitute 74% of 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 increase in systemic rates was visible in FY2023 and likely to continue in H1 FY2024.

Stable margins and operating costs; controlled credit costs to support overall profitability

- As entities continue to expand their network, the operating ratio will remain elevated vis-a-vis larger HFCs but shall stabilise around current levels.
- The profitability indicators of AHFCs benefitted from the improvement in the net interest margins (NIMs; ~7.4%) and lower credit costs (~0.4%) in FY2023, despite some increase in operating expenses (~3.7%) because of branch expansion. NIMs are expected to remain stable, going forward. This, coupled with lower credit costs and stable operating ratios, would support profitability profile (RoMA of 2.7-2.9%) in FY2024.

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Thank You!