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AFFORDABLE HOUSING FINANCE COMPANIES

Growth momentum picks up; asset quality to remain key monitorable

April 2022

Agenda

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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	Loans against property
HLs	Home loans
Dpd	Days past due
IRAC	Income recognition and asset classification

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	Aavas Financiers [Aavas], Aadhar Housing Finance Limited [Aadhar], Aptus Value Housing Finance India Ltd [Aptus], Home First Finance Company [HFFC], Motilal Oswal Home Finance Limited [Motilal Oswal Home], India Shelter Finance Corporation Limited [India Shelter], Mahindra Rural Housing Finance Ltd [Mahindra], Poonawalla Housing Finance [Poonawalla], Muthoot HomeFin (India) Limited [Muthoot HomeFin], Shriram Housing Finance Limited [Shriram Housing], Shubham Housing Development Finance Company Limited [Shubham], Vastu Housing [Vastu], Fullerton Home [Fullerton], DMI Housing [DMI], Aviom Housing [Aviom] and IndoStar Home Finance [IndoStar]

Highlights

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Pickup in growth to 14% (YoY) in 9MFY2022 on the back on improved operating environment and demand

Deterioration in headline asset quality indicators; delinquencies showing improving trend

Improvement in return indicators, higher operating efficiency and controlled credit costs critical for achieving double-digit RoE

- After witnessing a moderation in the loan book growth in Q1 FY2022, the growth for AHFCs picked up again in Q2 and Q3 FY2022, supported by the low base and demand for housing. AHFCs are expected to report growth of 12-15% in FY2022 and 17-20% in FY2023.
- The asset quality indicators witnessed a moderation till Q1 FY2022 and improved in Q2 FY2022 with an improvement in the collection efficiency across players. However, the headline numbers for Q3 FY2022 were adversely impacted due to the IRAC norms related to the clarification issued by the RBI.
- The 90+ dpd is likely to improve going forward with business growth and improved macro conditions; however, the reported GNPA/Stage 3 could remain elevated, given the target borrower profile, and recent clarification on IRAC norms.
- The capitalisation profile remains comfortable, supported by regular capital raising and relatively lower loan book growth.
- Funding mix dominated by bank funding and NHB refinance. Bank funding likely to remain key funding source going forward also for both term loan funding as well as securitization. Overall, access to adequate funding would be critical for these AHFCs to scale up.
- Liquidity profile supported by moderate gearing, sizeable balance sheet liquidity (`14% of asset) and negligible share of short-term borrowings.
- Improvement in the earnings profile was supported by better margins and moderation in the credit costs. While operating expenses witnessed an uptick with higher business volumes, the impact was offset by the reduction in the credit costs. Overall, the return on assets (RoA) is likely to remain at 2.2-2.4% in FY2022 and improve to 2.5-2.7% in FY2023.

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Thank You!