



INDIAN MORTGAGE FINANCE MARKET

**Asset quality improvement, amid
portfolio growth, key for sustaining
robust financial performance**

APRIL 2023



List of abbreviations

AHFCs	Affordable housing finance companies
ARCs	Asset restructuring companies
AUM	Assets under management
bps	Basis points
CF	Construction finance
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
LRD	Lease rental discounting

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

HFCs included for consolidation of financials

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

Category	HFCs included for consolidation of financials
Large HFCs	Housing Development Finance Corporation, Indiabulls Housing Finance Limited, LIC Housing Finance Limited, PNB Housing Finance Limited, Bajaj Housing Finance Limited, Piramal Capital and Housing Finance Limited (AUM > Rs. 50,000 crore as on December 31, 2022)
Small HFCs	Aadhar Housing Finance Limited (merged with DHFL Vysya Housing Finance Ltd), Aavas Financiers Limited, Aptus Value Housing Finance India Limited, Aspire Home Finance Corporation Limited, Aviom India Housing Finance Private Limited, Can Fin Homes Limited, Fullerton India Home Finance Company Limited, GIC Housing Finance Limited, Godrej Housing Finance Limited, Home First Finance Company India Limited, ICICI Home Finance Company Limited, India Shelter Finance Corporation Limited, IndoStar Home Finance Private Limited, India Infoline Housing Finance Limited, JM Financial Home Loans Limited, Mahindra Housing Finance Limited, Manappuram Home Finance Limited, Motilal Oswal Home Finance, Muthoot Homefin (India) Limited, Poonawalla Housing Finance Limited, Religare Housing Development Finance Corporation Limited, Repco Home Finance Limited, Fullerton India Home Finance, Sundaram BNP Paribas Home Finance, India Shelter Finance Corporation Limited, Vastu Housing Finance, Religare Housing Development Finance, Shriram Housing Finance, Shubham Housing Development Finance Company, 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, 2022)
Affordable HFCs	Aadhar Housing Finance Limited (merged with DHFL Vysya Housing Finance Ltd), Aavas Financiers Limited, Aptus Value Housing Finance India Limited, Aspire Home Finance Corporation Limited, Aviom India Housing Finance Private Limited, Fullerton India Home Finance Company Limited, Godrej 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, Poonawalla Housing Finance Limited, Religare Housing Development Finance Corporation Limited, Shriram Housing Finance, Shubham Housing Development Finance Company, SRG Housing Finance Limited, Vastu Housing Finance Corporation Limited
All HFCs	Large HFCs + Small HFCs

1 Portfolio Growth



2 Asset Quality Trends



3 Funding and Liquidity



4 Capitalisation and Profitability



5 Market Dynamics



6 Industry Outlook



7 ICRA's Ratings in the Sector



8 Annexures



HFCs reported on-book portfolio growth of 11% YoY in 9M FY2023; ICRA estimates portfolio growth of 11-13% for FY2023 and FY2024

While the NIMs may be impacted by the rising interest rate scenario, the overall profitability is expected to remain healthy with RoMA of 1.8-2.0% in FY2023 and 1.7-1.9% in FY2024

Healthy capital and liquidity support the entity-level risk profiles



- NBFC-HFCs' on-book portfolio grew by 11% YoY in 9M FY2023, driven by buoyant demand. With demand expected to remain firm, ICRA expects disbursements to remain healthy and retains its estimate of 11-13% growth in HFCs' on-book portfolio in FY2023 and projects a similar growth rate for FY2024.



- The GNPA's continued to improve in Q3 FY2023 and declined to 2.8% as on December 31, 2022 from 3.2% as on March 31, 2022. Expecting further decline, ICRA has revised its estimate for GNPA's in March 2023 to 2.6-2.8% from the earlier estimate of 2.7-3.0%. Thereafter, it is expected to improve to 2.2-2.5% in March 2024.



- The standard restructured book declined to 1.4% as on September 30, 2022 from 1.7% as on March 31, 2022 as the effect of the Covid-19 pandemic started waning and collections returned to normalcy.



- The industry continues to enjoy a healthy capital profile with the capital to risk weighted assets ratio (CRAR)[^] at 23.5% and the managed gearing at 5.1 times as on December 31, 2022.



- With increasing interest rates, most HFCs are gradually lowering their on-book liquidity (as seen over the past few quarters) to reduce the negative carry thereon. Nevertheless, liquidity remains comfortable and HFCs continue to maintain the minimum liquidity coverage ratio (LCR) requirement.



- The profitability improved in Q3 FY2023, driven by the reversal of tax provisions by a large player (PCHFL). However, excluding PCHFL, profitability moderated to some extent in Q3 FY2023. This was due to the slight reduction in non-interest income and some increase in credit costs and operating expenses (opex).



- Despite some moderation in Q3 FY2023, the profitability is expected to improve in Q4 FY2023. Nevertheless, looking at the moderation in Q3 FY2023, ICRA has revised its profitability estimate to 1.8-2.0% for FY2023 from the previous estimate of 2.0-2.2% and expects RoMA of 1.7-1.9% in FY2024.

*Excluding one large HFC {Piramal Capital and Housing Finance Limited (PCHFL)}, which reported a one-time high impairment on financial instruments and loss on fair value changes in Q2 FY2023;

[^]Weighted average of HFCs' CRAR



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