

INDIAN MORTGAGE FINANCE MARKET

HFCs poised for healthy performance in FY2024

JULY 2023



List of abbreviations



AHFCs	Affordable housing finance companies
ARCs	Asset restructuring 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
NNPAs	Net non-performing assets
NS3	Net stage 3
NBFCs	Non-banking financial companies
NHLs	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 of the following entities

Category	HFCs included for consolidation of financials
Large HFCs	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 March 31, 2023) Housing Development Finance Corporation (HDFC: merged with HDFC Bank Limited w.e.f. July 1, 2023) has been excluded from HFCs unless specifically mentioned
Small HFCs (incl. affordable HFCs)	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, 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, Poonawalla Housing Finance 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 March 31, 2023)
Affordable HFCs	Aadhar Housing Finance Limited, Aavas Financiers Limited, Aptus Value Housing Finance India Limited, Aviom India Housing Finance Private 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, SMFG India Home Finance Co. Ltd. (erstwhile Fullerton India Home Finance Company Limited), Vastu Housing Finance Corporation Limited.
All HFCs	Large HFCs + Small HFCs

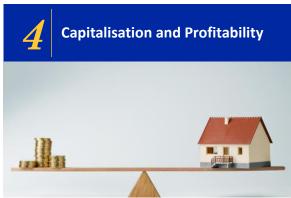
Agenda















Highlights

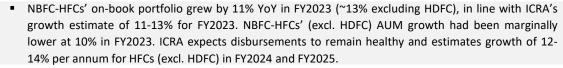


HFCs reported on-book portfolio growth of 11% in FY2023, in line with ICRA's estimates; ICRA expects portfolio growth of 12-14% per annum in FY2024 and FY2025

For FY2024, ICRA expects some moderation in NIMs; however, contained credit costs would support profitability

Adequate capital and liquidity support the entity-level risk profiles







■ The share of HLs in the portfolio has increased gradually and was 73% in March 2023 (71% in March 2022) compared to 68% in March 2020. Going forward, the growth is expected to be slightly tilted towards NHLs (especially LAP), as the industry looks to enhance its yields.



■ HFCs would witness an improvement in their headline asset quality numbers as recoveries continue. This, along with the currently maintained higher provisions, shall limit incremental credit costs. ICRA expects further recovery of 30-50 bps and projects GNPAs to decline to 2.7-2.9% by March 2024.



The industry enjoys an adequate capital profile 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.



• Most HFCs are gradually lowering their on-book liquidity to reduce the negative carry thereon. Nevertheless, liquidity remains adequate and HFCs continue to maintain the required LCR.



ICRA expects that the sector would need Rs. 0.9-1.0 lakh crore of additional funding (over refinancing requirement) in FY2024 for the envisaged growth. Expansion in overall bank credit, the healthy market issuance trend and strong securitisation demand shall ensure adequate fund availability for the sector.



• For FY2024, ICRA expects some moderation in the net interest margin (NIM), though contained credit costs would support profitability. ICRA expects HFCs to report RoMA of 1.7-1.9% in FY2024 compared to 1.7% in FY2023.



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