



HOUSING FINANCE COMPANIES

Key financial and operational statistics of housing finance companies extracted from ICRA's database

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EXECUTIVE SUMMARY

HFCs reported on-book portfolio growth of 10% YoY in Q1 FY2024; ICRA expects disbursements to pick up pace in the rest of the fiscal and retains its portfolio growth estimate of 12-14% per annum for FY2024 and FY2025

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

Adequate capital and liquidity support entity-level risk profiles

The on-book portfolio of the non-banking financial companies-housing finance companies (NBFC-HFC; excluding HDFC Limited) sector grew by around 10% year-on-year (YoY; estimated) in Q1 FY2024. ICRA expects disbursements to increase gradually and retains its growth estimate of 12-14% per annum for HFCs in FY2024 and FY2025. The gross non-performing assets (GNPAs) of NBFC-HFCs stood at 3.3% as on June 30, 2023 compared to 4.0% as on June 30, 2022, benefitting from the growth in the on-book portfolio as well as recoveries/write-offs/sale to asset reconstruction companies (ARCs) across segments. HFCs are expected to 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 a recovery of 30-50 basis points (bps) in FY2024 with GNPAs slated to decline to 2.7-2.9% by March 2024.

- **GNPAs improved in Q1 FY2024 with further recovery expected by fiscal end:** With on-book portfolio growth and continued recoveries, the GNPAs improved to 3.3% in Q1 FY2024 from 4.0% in the year-ago period. ICRA expects further improvement by the end of FY2024 and projects GNPAs of 2.7-2.9% as on March 31, 2024. The healthy provision cover maintained by most entities is expected to provide a cushion to absorb the losses on the identified asset quality stress. Consequently, the credit costs are also expected to remain under control in FY2024.
- **Adequate capital profile and liquidity:** The industry's capital profile is adequate 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 with respect to their growth aspirations. 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 liquidity coverage ratio (LCR). ICRA expects that the sector would need Rs. 0.9-1.0 lakh crore of additional funding (over and above the refinancing of existing maturing debt) in FY2024 for the envisaged growth. ICRA expects funding (including off-book) availability to remain adequate for the sector.
- **Outlook remains Stable:** ICRA expects a steady growth in the industry portfolio, driven by buoyant demand for individual loans. ICRA expects some moderation in the net interest margin (NIM) in FY2024, though contained credit costs would support profitability. ICRA expects HFCs to report a return on managed assets (RoMA) of 1.7-1.9% in FY2024 compared to 1.7% in FY2023.

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