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AFFORDABLE HOUSING FINANCE COMPANIES

Steady performance; impact of seasoning on asset quality remains monitorable

MARCH 2025

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 loan
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 of the following entities:

Classification	AHFCs used for consolidation of financials
Affordable housing finance companies – AHFCs*	Aadhar Housing Finance Limited [Aadhar], Aavas Financiers Limited [Aavas], Aptus Value Housing Finance India Limited [Aptus], DMI Housing Finance Private Limited [DMI], Home First Finance Company [Home First], India Shelter Finance Corporation Limited [India Shelter], Motilal Oswal Home Finance Limited [Motilal Oswal], Niwas Housing Finance Private Limited [Niwas; erstwhile Indostar Home Finance Private Limited], Mahindra Rural Housing Finance Ltd [Mahindra], Muthoot HomeFin (India) Limited [Muthoot HomeFin], Grihum Housing Finance [Grihum], Religare Housing Development Finance Corporation [Religare], Roha Housing Finance [Roha], Satin Housing Finance Limited [Satin], Shubham Housing Development Finance Company Limited [Shubham], SMFG Grihashakti Home Finance [SMFG Grih; erstwhile Fullerton India Home Finance], SRG Housing Finance Limited [SRG], Truhome Finance Limited [Truhome; erstwhile Shriram Housing Finance Limited], Ummeed Housing Finance Private Limited [Ummeed], Vastu Housing Finance Corporation Limited [Vastu]

** Note: The consolidation of financials for 9M FY2025 does not include Motilal Oswal Home, Roha and SRG; The entity-specific data for the comparative charts is based on publicly available information and ICRA's estimates*

Agenda

1 Market landscape

2 Portfolio growth and asset quality trends

3 Capitalisation and borrowing mix

4 Earnings profile

5 Industry outlook

6 ICRA's ratings in the sector

Highlights

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Moderation in business growth in 9M FY2025 vis-à-vis FY2024; loan book grew by 14% in 9M FY2025

Slight weakening in asset quality indicators in 9M FY2025

Bank borrowings and NHB refinance continue to dominate overall borrowing mix

Controlled credit costs and operating expenses key for maintaining overall profitability over the near to medium term

- As per ICRA's estimates, the on-book portfolio of AHFCs grew by 14% in 9M FY2025 and crossed Rs. 1,27,000 crore as on December 31, 2024, supported by good demand. The underpenetrated market and the Government's thrust on 'housing for all' are likely to support growth, going forward. ICRA expects the on-book portfolio of AHFCs to grow by 20-22% in FY2025 (marginally below the previously estimated growth rate of 22-24% in FY2025) as well as FY2026.

- The share of AHFCs in the overall HFC loan book (excluding HDFC Limited, Piramal and Sammaan) was meaningful at 16% as on December 31, 2024. Before the merger of HDFC Limited with HDFC Bank and including Piramal and Sammaan in the HFC pie, the share used to be 6-7%.

- The reported asset quality indicators of AHFCs weakened slightly in 9M FY2025 because of portfolio seasoning, though they remain under control. With some spillover of the stress in unsecured loans, delinquencies could stay volatile in the near term.

- Bank borrowings and NHB refinance formed 76% of the overall borrowing mix as on December 31, 2024. Capital market funding has remained limited, with only a few higher rated entities tapping this segment. The overall cost of funds is expected to stay elevated despite the recent reduction in systemic interest rates as the transmission will happen when bank borrowings become due for reset.

- As AHFCs continue to expand their network, the operating ratios will remain elevated vis-à-vis traditional HFCs but would stay range-bound.

- The profitability indicators of AHFCs were supported by the moderation in operating expenses (3.3%) in 9M FY2025 despite the reduction in the net interest margins (NIMs; 6.3%) and the marginal rise in credit costs (0.5%). NIMs are expected to remain under pressure in the near term. ICRA expects AHFCS to report RoMA of 2.5-2.7% in FY2025 and FY2026 (compared to 2.6% in 9M FY2025 and 2.8% in FY2024), with controlled credit costs and operating ratios.

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President and Group Head	karthiks@icraindia.com	+91-22-61143444
A M Karthik	Senior Vice-President and Co-Group Head	a.karthik@icraindia.com	+91-44-4596308
Manushree Saggar	Senior Vice-President and Sector Head	manushrees@icraindia.com	+91-124-4545316
Rajat Kher	Senior Analyst	rajat.kher@icraindia.com	+91-124-4545833

ICRA Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!