HFCs to bounce back with 10-12% growth in fiscal 21: Brickwork Ratings

Players redefining business models to revive growth; asset quality and profitability under pressure

Brickwork Ratings, Mumbai, 16 March 2020: We expect growth in Housing Finance Companies (HFCs) to rebound to double-digit figures in fiscal 2021 to ~10-12% after a difficult fiscal 2020, wherein loan growth is estimated to be as low as 2%. Funding impairment and a slowdown in housing sales skewed demand for mortgage loans in the past 18 months. The spurt in loan growth in the next fiscal will depend on HFCs successfully redefining their business model to include increased levels of co-lending with banks and continuing the steady pace of loan securitisation, while reducing reliance on short-term borrowings. However, asset quality and profitability will remain under pressure as the borrowing cost and credit costs rise on the back of increased delinquencies in the developer loan and loan against property (LAP) portfolios.

The funding situation has remained fairly grim for HFCs thus far, impacting their loan book growth. This is an after-effect of the severe liquidity crunch faced by HFCs following the IL&FS default as banks, their largest lenders, turned cautious. While HFCs with a strong parentage continue to get funding from banks, standalone HFCs with a high proportion of non-housing loans and small HFCs have been the worst affected by the liquidity crunch. Raising funds from the capital market has also remained a challenge.

With the fall in traditional borrowing routes, HFCs have begun to obtain a large portion of their funding through the securitisation route. Mr. Rajat Bahl, Chief Ratings Officer, BWR, said “We have seen an unprecedented rise in loan securitisation by HFCs from the second half of fiscal 2019 and expect the quantum of securitized pools outstanding to cross Rs 2 lakh crore mark by the end of March 2020. This along with government measures, such as partial credit guarantee scheme, is expected to help improve liquidity and enable HFCs to better manage their asset-liability profile.”

Furthermore, HFCs are adopting new lending strategies, which include co-lending with banks. Adopting the co-lending model can be a win-win situation for all stakeholders. Banks can leverage HFCs’ geographic reach and benefit from their origination and servicing capabilities, and HFCs will get access to better-profile clients and higher fee income. The affordable housing space, which accounts for roughly 15 per cent of the overall portfolio of HFCs, is generating good interest in banks, and co-lending in this space will also provide required impetus to drive growth, given the government push towards affordable housing.
Although HFCs are reworking on their business models, asset quality has been adversely impacted due to the stress witnessed mainly in the wholesale loan portfolio of HFCs. Mr. Vydianathan Ramaswamy, Director & Head – Financial Sector Ratings, BWR, said “We expect asset quality to continue to remain under pressure for HFCs in fiscal 2021 with gross non-performing assets (NPAs) expected to a high of 2.5% by end of March 2021. Huge housing inventory pile up coupled with refinancing risks faced by realtors and stress in the SME sector could result in higher NPAs for HFCs in their non-housing loan portfolios”.

While the gross NPAs for retail home loans were less than 1.0 per cent, the LAP and builder loans gross NPAs were high at around 4 per cent at the end of fiscal 2019. An increase in NPA levels would result in higher provisioning costs, thereby impacting the profitability of HFCs. With funding challenges looming at large, the HFCs’ ability to manage asset quality and liquidity, reshape their balance sheets profitably and co-exist with banks will largely determine their sustenance over the medium to long term.

To read the full report – CLICK HERE

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