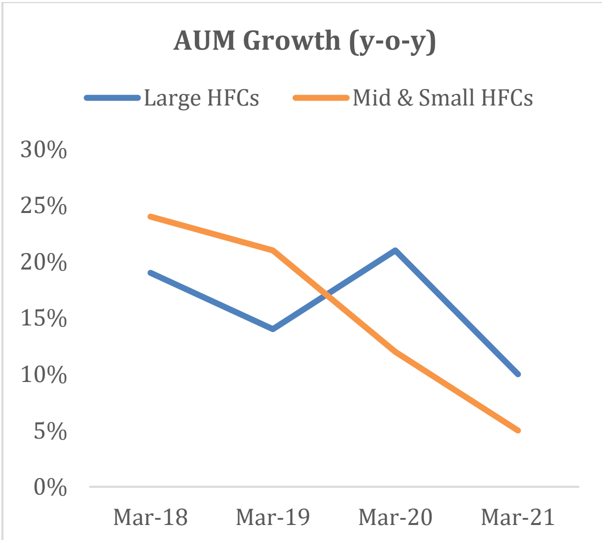
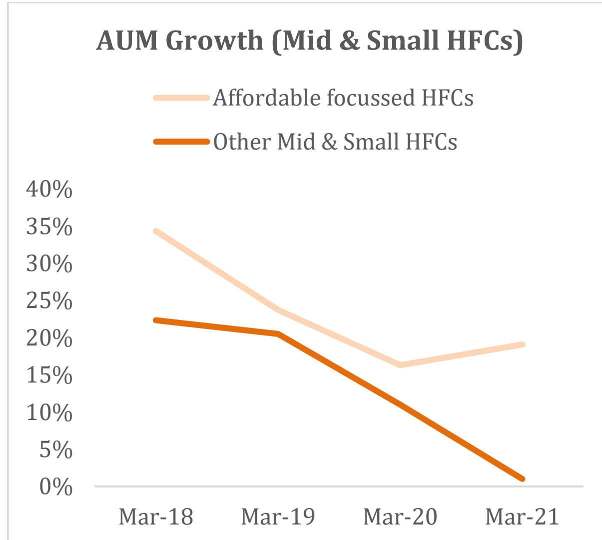
Affordable Housing to be the fulcrum of recovery for Housing Finance Companies, BWR expects recovery by Q4FY22

Brickwork Ratings, Mumbai, 18 August 2021: Housing Finance Companies (HFCs) have grown at a healthy pace in the past few years, supported by growing demand owing to economic and social development, the government's consistent focus on promoting housing and a supportive regulatory environment encouraging growth. Following the IL&FS fiasco in September 2018, the lender/investor community became wary of lending to non-banks, especially to standalone entities with exposure to wholesale lending or wherein the asset-liability mismatch was relatively high with a limited liquidity cushion or wherein the AUMs were relatively small or the portfolio had limited vintage. These issues resulted in investors losing confidence and funding lines fizzling-out from capital markets and lending institutions resulting in reduced AUM growth FY19 onwards. Over the past few years, small and mid-sized HFCs have been much more impacted. This situation further deteriorated in FY20 as at least two large HFCs virtually stopped fresh loan disbursements due to their own organisational specific issues; the slowdown in housing sales further impacted demand for credit during the year, keeping loan growth for HFCs muted.

While sentiments and business environment were widely expected to improve in FY21, the year saw a crisis in the form of Covid-19 pandemic. With a complete washout of Q1 for all sectors owing to strict country-wide lockdown and a severe impact on the lives and livelihoods of people, demand and hence the home sales reduced drastically. However, with some measures by the government in H2FY21, like reduction in stamp duty in Maharashtra, historically low interest rates and stagnant home prices helped garner some demand in this space. However, the business has not been distributed evenly among players, with large HFCs cornering the majority of fresh disbursements and small and mid- sized HFCs struggling in terms of business growth. While disbursement for HDFC Ltd and LIC Housing Finance Ltd (LICHFL) grew y-o-y by 8% and 18% respectively in FY21, there was either a degrowth or subdued growth for small and mid- sized HFCs (except those focussed on affordable housing) like Can Fin Homes, Repco Home Finance, GIC Home Finance and others.

Growth was mainly on back of entities focussed on affordable housing space



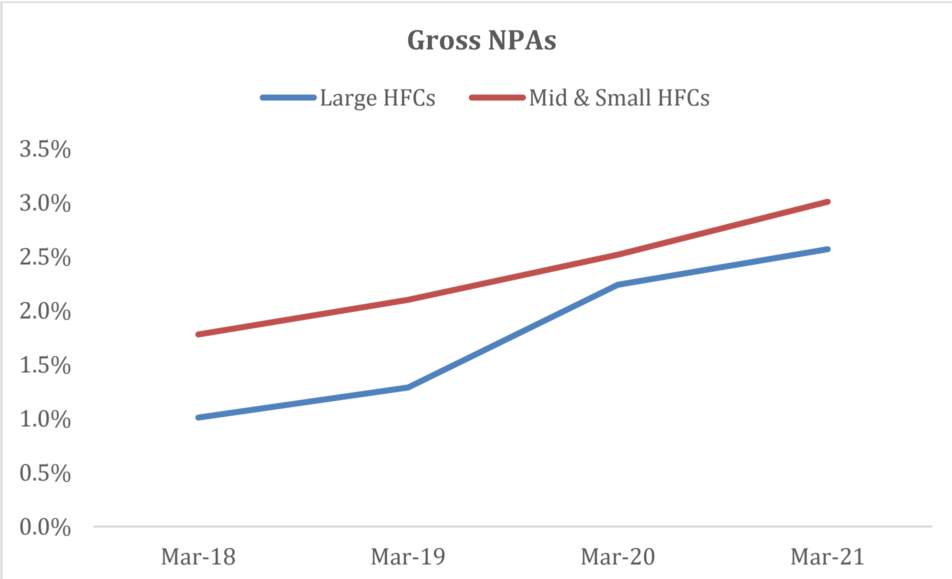


Source: Company Reports, BWR Research

While small and mid-sized HFCs struggled in terms of business growth, HFCs that focused on affordable housing space continued to see healthy growth in FY21 and even better than the large HFCs. Disbursements by Aadhar Housing Finance and Vastu Housing Finance have seen a y-o-y growth of 11% and 29% respectively in FY21. Affordable housing segment has uplifted the sector as the pandemic significantly impacted upon the value of home due to increased approach of work-from-home culture reflecting the dire need of alternate houses, especially for families with working couples. The need for safer and bigger spaces could actually result in increased demand for residential real estate and is expected to see an increased home buying from the final/end user rather than investors especially in the affordable segment.

However, the stress across the segment can be clearly witnessed in the form of rising Non-Performing Assets (NPAs) especially in FY20 and FY21 owing to the outbreak of the pandemic. The nation faced strict lockdowns leading to a complete shutdown of business activities, resulting in severe economic disruptions impacting cash flow of borrowers. The slippages in the near term are expected to come from mid & small HFCs as they have a larger chunk of self-employed and low to middle income group borrowers. Also, the proportion of non-housing loans (LAP, builder loan, SME loans) is higher for these entities which are currently facing huge pressure in terms of their repayment ability. The pandemic has further aggravated the stress in this space on the back of economic slowdown and liquidity issues.

Asset quality deteriorating across segments



Source: Company Reports, BWR Research

Brickwork Ratings expects the macro environment to remain strong supported by stable (and improved) demand in an era of lowest interest rates ever witnessed in India. While pent up demand has been helping the sector afloat amidst the pandemic, the recovery in the economic activities will provide further fillip to the revival of asset quality of the home loans in the long term. It is expected that the affordable housing segment will grow much stronger and lead the sector going forward.

On-going lowest interest rate regime, subdued prices and Government's push towards affordable housing segment aids the buyers' sentiments. The demand from home buyers is picking up indicating the potential growth across the various categories of home financers. Also, the developers are returning to the market with new launches showing a positive trend in Q1FY22, mostly in the mid-segment housing. Government measures like stamp duty reduction, loan restructuring and credit infusion have induced confidence in the developers. We also expect the normalcy or near normalcy situation to be around Q4FY22 or Q1FY23 owing to speedy vaccination drives even as approvals for newer vaccines are awaited, which in turn, would result in opening up of the economic activity to the fullest, thereby paving way for a full recovery.

Annexure

Large HFCs	• HDFC Ltd • LIC Housing Finance Ltd
Mid & Small HFCs	• Tata Capital Housing Finance Ltd • Can Fin Homes Ltd • IIFL Home Finance Ltd • ICICI Home Finance Ltd • Aadhar Housing Finance Ltd* • GIC Housing Finance Ltd • Repco Home Finance Ltd • Sundaram Home Finance Ltd* • Aavas Financiers Ltd* • Edelweiss Housing Finance Ltd • Shriram Housing Finance Ltd* • Vastu Housing Finance Corporation* • Cent Bank Home Finance Ltd • SRG Housing Finance Ltd*

Note: HFCs with an AUM size of more than Rs 1 lakh crores is termed as Large HFCs
* Affordable focussed HFCs

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