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Shining mortgage industry enters tough times

The Indian housing finance industry (ex-developer) is worth ₹ 20.7 lakh crore with banks forming a larger proportion of it at ₹ 13.6 lakh crore and HFC/NBFC at ₹ 7.1 lakh crore as on December 2019. Continued funding constraints, lower disbursement have impacted business traction of HFCs significantly to 6% in December 2019. Banks continued to grow at a higher pace vs. HFCs, partly supported by healthy liability franchise, portfolio buyouts that led overall market to grow 13%. Hence, there was a shift in market share among key segmental players with share of banks increasing to ~66% in December 2019 vs. 62% in June 2018. Going ahead, overall core housing credit growth is expected to remain moderate in single digits in FY21E, lower than three-year CAGR of 16%, led by Covid-19 induced crisis.

Affordable housing HFCs have grown faster than the industry in the past five years (26% growth in December 2019). Demand is expected to revive faster in this segment leading to high double digit growth, led by anticipation of faster revival of rural economy and niche availability by lenders.

Till now, HFCs had regulations more favourable compared to NBFCs on several counts including capital, attracting businesses to look for HFC license rather than NBFC. With RBI taking the reins of housing finance companies (HFC) in 2019, RBI proposed draft guidelines to modify existing regulations for HFCs. The revised guidelines propose to remove major arbitrage in regulation and formulates definition of housing finance to bring retail housing in focus with ceiling prescribed on exposures. It also allows HFCs to engage in businesses like LAS with limits on exposure.

Following are the broad based guidelines proposed;

- Defined "housing finance" as financing home loans to individuals, government agencies and developers of residential projects
- To qualify as HFC, 50% of net assets should be to real estate lending, of which at least 75% should be towards individual housing loan
- CAR to progressively rise from 12% to 15% by FY22E
- Ceilings on commercial real estate exposure at 20% of capital fund
- Addressing double financing, RBI allows lending to individual home buyers or construction of the same project
- Capital market exposure shall not be more than 40% of net worth total exposure of which direct exposure should be 20% of net worth
- Propose to extend loan against securities (LAS) business to HFC

Majority of listed HFCs have more than 50% of funding to home loans, thereby adhering to the proposed regulation. Therefore, no material impact is seen on listed HFCs. Currently, HFCs providing finance to developers do engage in direct tie-up to provide home loans to individual home buyers. Prohibition of such mechanism is seen impacting business growth ahead. Given competitive intensity in the home finance market, large HFCs may see an impact as banks can continue in the current format. We expect real estate sector pain to get elongated with high ticket and discretionary housing demand getting impacted while affordable housing is expected to continue growing with a small blip. With regulations getting tighter, premium valuation of HFCs are expected to decline ahead. Therefore, we believe leaders like HDFC Ltd would gain market share due to its ability to raise capital and benefit on cost of funds. Smaller HFCs with higher LAP and commercial portfolio can be avoided in the near term.

Sector View

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Exhibit 1: HFC comparison based on broad parameters

Q4FY20	LICHF*	GICHF*	PNBHF	HDFC	Aavas	CanFin	Repco*	MOSL HF	Bajaj Finance Home Loans	IB HFL*
AUM (₹ crore)	205692	13231	83346	516773	7796.1	20,708	11624.9	3,963	32705	102335
Loan (₹ crore)	205,692	13,231	67,571	450,903	6,181	20,708	11,625	3,667	27,975	78,253
NW (₹ crore)	17177.61	1237	7997.77	86920.6	2097.91	2150.07	1637.6	867.4	5584.8	16973
Loan book break-up (%)										
Housing Loan	76.75%	87.00%	58.00%	76.00%	70.10%	90.1%	81.40%		67.5%	66.00%
Lap	16.35%	13.00%	20.00%	0.00%	29.90%	4.6%	18.60%		12.6%	0.00%
Retail non residental premises loan	0.00%	0.00%	4.00%	0.00%	0.00%	0.0%	0.00%		0.0%	0.00%
Developer	6.90%	0.00%	12.00%	11.00%	0.00%	0.2%	0.00%		5.6%	0.00%
Corporate	0.00%	0.00%	4.00%	5.00%	0.00%	0.0%	0.00%		0.0%	0.00%
Others	0.00%	0.00%	2.00%	8.00%	0.00%	5.1%	0.00%		14.4%	34%
CaR (%)	14.4%	16.8%	18.0%	17.6%	56.0%	22.3%	25.4%	47.6%	25.2%	29.0%

Numbers for LICHF, GICHF, Repco and IB HFL are pertaining to Q3FY20

Source: Company, ICICI Direct Research

RBI draft guidelines for HFCs

Post taking the reins of housing finance companies (HFC) in 2019, RBI proposed draft guidelines to modify existing regulations for HFCs. The revised guidelines propose to define contours of the segment and streamline regulation in a defined manner. Therefore, proposed guidelines do not seems to be disruptive for existing listed players. Following are the broad based guidelines proposed:

Guideline 1

In draft framework, RBI said that housing finance would now mean “financing, for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling unit ..." for a whole host of activities that would include giving loans to corporate and government agencies for employee housing finance projects. Accordingly, RBI proposed that for any entity to qualify as a HFC, 50% of net assets should be to real estate lending, of which at least 75% should be towards individual housing loan. Existing HFCs which do not fulfil the qualification will be treated as NBFC – Investment and Credit Companies (NBFC-ICCs) and will be required to approach RBI for conversion of their Certificate of Registration from HFCs to NBFC-ICC.

Implication

As majority of listed HFCs have more than 50% of funding to home loans, thereby adhering to the proposed regulation, no material impact is seen on listed HFCs. However, clarity is sought in case of lenders engaged in developer finance.

Guideline 2

RBI has proposed to align capital requirements of all HFCs with NBFCs over a period of two years. For HFCs, minimum capital risk weighted assets ratio (CaR), currently at 12%, is to be increased to 14% by March 31, 2021 and 15% by March 31, 2022.

Implication

For now, majority of the HFCs have CaR higher than the proposed limit of 15%. Therefore, we do not see any need for capital raising in the near term to adhere to the proposed guideline. However, over the longer term, HFCs need to raise capital to remain ahead of regulatory norms. Such capital raising is seen impacting gearing ratio and thereby return on equity ahead.

Guideline 3

In order to address concerns on double financing due to lending to construction companies in the group and also to individuals purchasing flats from the latter, RBI has proposed that the HFC concerned may choose to lend only at one level i.e. the HFC can either undertake an exposure on the group company in real estate business or lend to retail individual home buyers in the projects of group entities but not do both.

Implication

Currently, HFCs providing finance to developers do engage in direct tie-up to provide home loans to individual home buyers. Prohibition of such mechanism is seen impacting business growth ahead. Given the competitive intensity of the home finance market, large HFCs will lag behind banks as these guidelines pertain to HFCs.

Guideline 4

RBI has also proposed to put limits on HFCs for exposure to commercial real estate and capital market. Accordingly, it has proposed exposure to commercial real estate by way of investment in land & building shall not be more than 20% of capital fund and for capital market exposure shall not be more than 40% of net worth total exposure of which direct exposure should be 20% of net worth.

Implication

As HFCs have exposure towards commercial real estate, limit on exposure to commercial real estate to the extent of 20% of capital fund is seen impacting business growth ahead, especially for large HFCs.

Guideline 5

RBI has proposed to increase the minimum net owned fund for HFCs from the current requirement of ₹ 10 crore to ₹ 20 crore.

Implication

No impact is seen on listed HFC as net owned fund is more than the proposed requirement.

Industry trends and outlook

The Indian housing finance industry is worth ₹ 20.7 lakh crore with banks forming larger proportion at ₹ 13.6 lakh crore and HFC/NBFC at ₹ 7.1 lakh crore as on December 2019. Traction in the housing loan portfolio witnessed a decline from 18% in March 2015 to 13% in December 2019, led by slowdown in HFCs, which contributed a significant proportion of the overall pie. Liquidity constraints, post the IL&FS crises, led to a significant reduction in business growth of HFCs & NBFCs to 6% in December 2019 owing to lower disbursements due to continued funding constraints. However, banks continued to grow at a higher pace at 18% in December 2019, supported by healthy liability franchise, higher focus on retail segment and portfolio buyouts. Consequently, share of banks increased from 62% in June 2018 to 66% on December 2019. Among HFCs, large HFCs fare well in terms of business growth relative to smaller peers; with some players witnessing de-growth given lower disbursements and higher securitisation.

Long term prospects of the sector look good but near term growth prospects are seen to be muted due to the standstill situation of the economy brought about by the lockdown. Overall core housing credit growth is expected to moderate to single digit in FY21E lower than three-year CAGR of 16% led by the Covid-19 induced crisis.

Exhibit 2: Housing credit growth trend (₹ lakh crore)

	Mar-15	Mar-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
HFCs and NBFCs	3.8	4.4	5.2	5.4	5.6	6	6.3	6.6	6.7	6.7	6.9	6.9	7	7.1
Scheduled Commercial Banks	6.6	7.9	9.1	9.1	9.6	9.9	10.3	10.5	11.1	11.5	12.2	12.5	13.2	13.6
Total Housing Credit	10.4	12.3	14.2	14.5	15.2	15.8	16.5	17.1	17.8	18.2	19.2	19.4	20.2	20.7
Growth														
Credit Growth - HFCs and NBFCs	21%	17%	17%	20%	19%	19%	21%	21%	20%	14%	11%	4%	4%	6%
Credit Growth – SCBs	17%	18%	15%	11%	13%	14%	13%	16%	16%	17%	19%	19%	19%	18%
Overall Housing Credit Growth	18%	18%	16%	15%	15%	16%	16%	18%	17%	16%	16%	13%	13%	13%
% Share														
HFCs and NBFCs	36%	36%	36%	37%	37%	38%	38%	38%	38%	37%	36%	35%	35%	34%
Banks	64%	64%	64%	63%	63%	62%	62%	62%	62%	63%	64%	65%	65%	66%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: ICRA, ICICI Direct Research

Exhibit 3: Trends in HFCs on book portfolio growth and composition

	Mar-16	Mar-17	Mar-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
All HFCs								
Home Loans	4.4	5.2	6.2	6.7	6.9	6.9	7	7.1
Other Loans	2	2.7	3.3	3.7	3.8	3.9	4	4.1
Total Loans	6.4	7.7	9.6	10.4	10.8	10.9	11	11.1
Growth								
Home Loans	20%	15%	22%	15%	11%	7%	4%	6%
Other Loans	25%	31%	32%	22%	15%	9%	8%	9%
Overall Portfolio	21%	20%	25%	17%	12%	8%	5%	7%
Share								
Home Loans	70%	67%	65%	64%	64%	64%	63%	63%
Other Loans	30%	33%	35%	36%	36%	36%	37%	37%
Total Loans	100%	100%	100%	100%	100%	100%	100%	100%
Small HFCs								
Home Loans	0.8	1	1.3	1.6	1.6	1.7	1.7	1.8
Other Loans	0.3	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Total Loans	1.1	1.3	1.7	2.1	2.1	2.2	2.3	2.4
Growth								
Overall Portfolio	28%	23%	30%	24%	24%	23%	18%	15%
Share								
Home Loans	79%	75%	73%	76%	76%	75%	75%	74%
Other Loans	21%	25%	27%	24%	24%	25%	25%	26%
Total Loans	100%	100%	100%	100%	100%	100%	100%	100%

Source: ICRA, ICICI Direct Research

Affordable housing relatively placed on better footing

In line with overall housing finance, affordable segment witnessed slowdown as well. However, niche presence, robust demand and liquidity support from National Housing Bank (NHB) aided YoY growth of 26% for December 2019. **The demand in the segment may get impacted due to the crisis in the near term. However, it is expected to stay intact in the long term with the segment expected to grow at a faster pace than the overall industry.**

Exhibit 4: Portfolio growth rate of affordable housing HFCs

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Affordable New												
Home Loans	21,032	23,274	24,196	25,960	28,770	30,911	32,683	33,459	34,179	35,359	37,855	40,439
Other Loans	3,789	4,359	4,703	5,108	5,868	6,463	6,548	6,745	7,182	7,796	9,252	10,378
Total Loans	24,821	27,633	28,898	31,068	34,638	37,374	39,232	40,204	41,363	43,155	47,107	50,817
Growth (Annualised; %)												
Home Loans	53%	21%	30%	31%	37%	33%	35%	29%	19%	14%	16%	21%
Other Loans	137%	30%	48%	46%	55%	48%	39%	32%	22%	21%	41%	54%
Total Loans	77%	23%	33%	34%	40%	35%	36%	29%	19%	15%	20%	26%

Source: ICRA, ICICI Direct Research

Loan securitisation

Post IL&FS crises, securitisation became one of the focus areas providing liquidity support to HFCs. Mortgages (housing loans and LAP) accounted for ~32% of the overall securitisation volumes of ₹ 46,700 crores in Q3FY20. Given the standstill situation in Q1FY21E owing to the lockdown, securitisation activity is seen remaining bleak, with a gradual revival expected in H2FY21E.

Asset quality outlook

Given the gradual slowdown in the economy, asset quality of HFCs saw a gradual uptick with overall GNPA increasing from 1.1% in March 2018 to 2.1% in December 2019. Among HFCs, large players are better placed with GNPA at 1.9% vs. 3% for small peers and 4.5% in the affordable segment. Housing loan, as a product, is better placed with GNPA at 1.4% in December 2019 when compared to 1.8% in LAP. Construction finance is the worst hit with GNPA inching up from ~2% earlier to 4.4% in December 2019, led by slowdown in the sales volume.

Going ahead, HFCs remain better placed in the overall lending space, however, are poised to witness some asset quality pressure in the near term. As per ICRA estimates, overall GNPA is seen to increase from 2.2% in December 2019 to 3.2% in Mar 21. While home loan segment is seen to remain relatively resilient, LAP remains on a weak footing as bulk of loans are extended to self-employed borrowers which are adversely impacted due to general slowdown which is further accentuated by Covid. Erosion in the value of collateral (real estate) and muted demand is expected to impact recovery capability in case of repossessed assets.

Players with higher exposure to no home loans and towards self-employed borrowers in the home loan segment are expected to witness higher volatility in asset quality. Exposure to construction remains the most vulnerable given challenges faced by developers on liquidity, labour constraints and anticipation of moderation in sales volumes ahead.

Exhibit 5: Segment wise GNPA projections for March 2021

	GNPA as of Dec-19	Projections for March 2021
Housing	1.4%	1.8%
LAP	1.7%	2.7%
CF	5.0%	8.0%
Total	2.2%	3.2%

Source: ICRA, ICICI Direct Research

Exhibit 6: Asset quality as per size of HFCs

	Mar-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19	Jun-19	Sep-19	Dec-19
Overall Gross NPA% - HFCs									
All	0.7%	0.8%	1.2%	1.1%	1.3%	1.6%	1.8%	1.9%	2.1%
Large	0.7%	0.7%	1.0%	0.9%	1.0%	1.5%	1.6%	1.7%	1.9%
Small	1.0%	1.5%	2.3%	2.1%	2.9%	2.5%	2.9%	2.6%	3.0%
Affordable Housing - New Players	2.6%	3.1%	4.4%	4.0%	5.3%	4.7%	5.3%	4.3%	4.5%
Housing Loan Segment Gross NPA% - HFCs									
All	0.5%	0.6%	0.8%	0.7%	1.0%	1.0%	1.1%	1.2%	1.4%
Large	0.4%	0.4%	0.5%	0.6%	0.7%	0.8%	0.8%	0.8%	0.9%
Small	1.2%	1.5%	2.1%	1.9%	2.5%	2.2%	2.9%	2.9%	3.1%
Affordable Housing - New Players	2.4%	3.2%	4.5%	4.0%	6.0%	4.6%	5.6%	4.7%	4.9%
Affordable Housing - New Players (Excluding 1 F	0.8%	1.3%	1.8%	2.2%	2.6%	2.2%	2.5%	1.3%	1.3%
LAP Segment Gross NPA% - HFCs									
All	1.0%	1.1%	1.3%	1.0%	1.1%	1.1%	1.4%	1.7%	1.8%
Large	0.5%	0.6%	0.7%	0.6%	0.8%	1.0%	1.3%	1.8%	1.9%
Small	2.2%	2.6%	3.2%	2.6%	2.5%	1.3%	1.4%	1.4%	1.6%
Affordable Housing - New Players	0.7%	2.2%	2.5%	2.8%	2.6%	1.7%	1.9%	1.4%	1.6%
Affordable Housing - New Players (Excluding 1 F	0.7%	2.2%	2.5%	2.8%	2.6%	1.7%	2.1%	1.6%	1.9%
Construction Finance/ Corporate Loans Segment Gross NPA% - HFCs									
All	1.7%	1.6%	2.3%	2.2%	2.2%	2.4%	3.5%	3.8%	4.4%
Large	1.8%	1.7%	2.3%	2.2%	2.2%	2.3%	3.6%	3.9%	4.4%
Small	0.2%	1.3%	2.1%	2.2%	2.1%	3.1%	2.6%	3.6%	4.8%

Source: ICRA, ICICI Direct Research

Liquidity challenge to continue; smaller peers to bear the brunt

Post the IL&FS crises, NBFCs, including HFCs, faced challenges on the liquidity front, which remained an easy path to walk on earlier. The moratorium by RBI, amid Covid, has accentuated the challenge of asset liability mismatch for HFCs. Moratorium on the asset side and no deferral on borrowings from the debt market along with bankers being selective on providing moratorium to NBFCs have added to pressure on liquidity front. Recently announced LTRO does provide some relief to HFCs as it provides avenue to raise funds, though participation by bankers is to be seen. **Large players are able to access funds at relatively better terms, though rising aversion to risk are impacting ability of smaller players to access funds leading to liquidity trap, further raising questions on business solvency.**

Exhibit 7: Recent borrowing dominated by large players

Period	CY2018	CY2019
Entity		
HDFC Limited	24,123	51,635
LICHFL	21,718	31,746
Indiabulls Housing Finance Limited	15,251	1,030
Dewan Housing Finance Limited	18,444	0
Bajaj Housing Finance Limited	1,789	3,480
Piramal Capital and Finance Limited	760	4,317
PNB Housing Finance Limited	1,574	3,259

Source: ICRA, ICICI Direct Research

Exhibit 8: HFC valuation comparison

Company Name	CMP	Market Cap	P/E (x)			P/BV (x)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC Ltd	1,839	3,18,597	14.5	34.9	27.9	3.0	2.9	2.8
Indiabulls Housing Finance Ltd	204	8,729	3.3	3.6	2.9	1.7	1.9	1.6
Repco Home Finance Ltd	128	798	2.7	2.7	2.4	1.5	1.4	1.2
Can Fin Homes Ltd	360	4,794	12.0	11.3	10.0	7.2	6.5	5.8
LIC Housing Finance Ltd	285	14,370	5.8	5.9	4.8	2.8	2.4	2.3
PNB Housing Finance Ltd	216	3,640	5.7	13.3	5.3	1.4	1.3	1.3
Aavas Financiers Ltd	1,365	10,689	41.9	40.8	33.9	19.2	16.5	13.7
Motilal Oswal Financial Services Ltd	546	8,085	21.0	20.0	18.0	2.8	2.4	2.2
Bajaj Finance Ltd	2,697	1,62,323	23.0	23.0	19.0	3.6	3.2	2.8

Source: Bloomberg, ICICI Direct Research

Exhibit9: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC (HDFC)	1,840	1,770	Buy	318,597	103.1	43.0	53.8	17.8	42.8	34.2	3.7	3.6	3.5	3.6	1.3	1.5	21.7	8.5	10.3
Mahindra & Mahindra Financial	174	160	Hold	10,774	14.7	14.7	19.0	11.8	11.8	9.2	1.5	1.8	1.5	1.3	1.3	1.7	8.1	7.7	8.9
Bajaj Finserv (BAFINS)	5,896	4,800	Hold	93,832	211.6	254.0	307.4	27.9	23.2	19.2	3.0	2.7	2.3	1.4	1.3	1.3	12.2	12.1	13.0
Bajaj Finance (BAJFI)	2,698	2,000	Hold	162,324	87.7	84.7	103.3	30.7	31.8	26.1	5.1	4.7	4.2	3.7	2.9	3.0	20.2	14.7	15.6
SBI Life Insurance (SBILIF)	776	850	Buy	77,577	14.2	13.5	16.0	54.5	57.3	48.6	3.0	2.6	2.3	0.9	0.7	0.7	16.8	14.2	14.8

Source: Company, ICICI Direct Research

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