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Tight liquidity pushes HFCs to take portfolio sell-down route

This is a golden opportunity for banks to increase their portfolio: ICRA

OUR BUREAU

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Tight liquidity conditions since September 2018 have pushed housing finance companies (HFCs) to lower their disbursements and meet a sizable portion of their fund requirements through portfolio sell-down route, resulting in banks availing of this opportunity to increase their portfolios, said credit rating agency ICRA.

Housing loan portfolio growth for HFCs and non-banking finance companies (NBFCs) reduced to 13 per cent year-on-year (y-o-y) for the period ended December 31, 2018 (18 per cent for the same period last year), the agency said in a study.

Consequently, banks have availed this opportunity in the market and increased their portfolio 17 per cent y-o-y in the same period (14 per cent for the same period last year).

Total housing credit outstanding increased by 16 per cent (18 per cent for the same period last year) and stood at a little over ₹18 lakh crore as on December 31, 2018.

Supreeta Nijjar, Vice-President, Financial Sector Ratings, ICRA, said: "As disbursements in Q4 (January-March) FY2019 are also expected to be muted for some large HFCs, FY2019 housing credit growth is likely to be in the range of 13-15 per cent, with the pace of growth of banks being higher than that of HFCs."

As some HFCs aim to go slow on construction finance to conserve liquidity, the growth in non-housing loans is expected to slacken. However, given the positive long-term prospects for the sector, ICRA expects housing credit growth for FY2020 to be pegged at 14-16 per cent, provided liquidity conditions in the market ease out.

While asset quality indicators have remained stable so far, with Gross NPA of 1.4 per cent as on December 31, 2018, the agency said there could be some pressure on the asset quality as the operating environment remains challenging.

"Some of the emerging risk factors that need to be watched out for are home loans extended to borrowers where the underlying projects have been significantly delayed, and under-construction properties sold by builders under subvention schemes or buyback/assured return schemes.

"ICRA's discussion with some HFCs reveals that their stock of repossessed assets has also increased as saleability of the assets repossessed has reduced, leading to an elongated recovery time," said Nijjar.

She opined that gross NPAs in the HFC home loan segment are likely to increase to 1.1-1.3 per cent over the medium term from the current level of 1 per cent.

Further, tight liquidity faced by some developers where projects are delayed could lead to some stress on the construction finance portfolio of HFCs, leading to an increase in the overall gross NPAs for HFCs to 1.4-1.8 per cent over the medium term.

ICRA assessed that profitability indicators for FY2019 are likely to moderate to 14-15 per cent (vis-a-vis 18 per cent in FY2018) with some moderation in net interest margins, though upfront income booking on assignments could provide some support.

As for FY2020, ICRA expects HFCs to report similar profitability indicators as FY2019, unless a prolonged slowdown in growth impacts the operating expense ratios and asset quality of some asset classes, which could lead to a further dip in profitability indicators.