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Demonetisation: Housing finance companies may be hit

By [Shilpy Sinha](#), ET Bureau | Updated: Nov 11, 2016, 01:27 AM IST

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MUMBAI: The attack on [black money](#) will have some unintended consequences on the sector that's been on a roar — [housing finance companies](#). Some of these companies which have been active in lending for business or consumption with homes as collateral are in for a shock if real estate prices tumble.

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Stagnant real estate prices which have been worrying many companies as their recovery risks mount with very thin cushion for recovery, say they may have to pull back on the what in popular parlance is Loan Against Property or LAP.

"If real estate prices fall by 20%, it will have an impact on the LAP portfolio of companies and result in higher NPAs for housing finance companies accepting EMIs in cash," said Anil Sachidanand CEO, Aspire Home Finance.

Share price of housing finance companies were hit on Thursday. [DHFL](#) fell 2.29%, [LIC Housing Finance](#) declined 4.22%, [HDFC](#) slid 2.28% while the benchmark Sensex was up 0.97%. [Demonetisation of Rs 500](#) and Rs 1,000 notes could hit the real estate industry the worst, though it could help clean up the sector.

This is one that has been thriving on black money as corrupt bureaucrats bought properties by paying cash, and politicians indulged in buying land.

"This move is a new dawn for real estate sector," said Kapil Wadhawan, chairman, DHFL. "This puts a lid on lots of corrupt practices in the real estate sector. It will ensure transparency as we all knew that some parts of real estate were reeling under corruption."

There were reports of delinquencies in loan against property portfolio increasing significantly in the next four quarters and even exceed 5% for a few players.

A report by India Rating said that a combination of stagnant property prices especially in metros and large cities, which are the primary markets for large and medium ticket LAP, and squeeze on refinancing due to risk aversion building up in some finance institution, is bringing stress to the fore.

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