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[OPINION](#)
[POLITICS](#)
[TECHNOLOGY](#)
[SPECIALS](#)
[PF](#)
[PORTFOLIO](#)
[MY PAGE](#)
[GALLERY](#)

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[Stocks](#)
[Commodities](#)
[IPOs](#)
[Mutual Funds](#)
[Mutual Fund Tools](#)
[Derivatives](#)
[BS Fund Manager](#)

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[#Demonetisation](#)
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Profit growth might moderate for HFCs

With scrip valuations at a premium to banks', analysts believe recent regulatory changes, plus sluggish demand in realty sector, might limit their prospects

Hamsini Karthik | Mumbai
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At a time when banks were grappling with the pressure of non-performing assets (NPAs) and slowing credit growth, the [stock market](#) shifted its preference to [housing finance](#) companies (HFCs). However, with recent developments, analysts believe this shift could reduce in size and pace.

The stock prices of [Indiabulls Housing Finance](#), [LIC Housing Finance](#) and [Dewan Housing Finance](#) have more than doubled in the past two years. Even in the shorter timeframes of one, three, six and 12 months, these have outperformed the benchmark S&P BSE Sensex. The ability to shop for funds at a lower cost, maintain NPAs at levels visibly lower than at banks, thereby ensuring relatively subdued loan book delinquency, plus some regulatory advantages, made HFCs a better bet.

However, the [Reserve Bank of India](#) (RBI) recently introduced a slew of changes which could plug the gap between HFCs and banks. Among others, RBI has allowed banks to raise bonds of seven years or more maturity for lending to the infrastructure and affordable housing sectors, with an exemption on key metrics such

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as the statutory liquidity and cash reserve ratios. Narrowing the gap with HFCs, this could also improve the competitive advantage of banks and strengthen their net interest margin (NIM).

RBI has also rationalised a bank's risk weight and loan to value for individual housing loans, which would make lending to the housing segment less stringent and improve the return on equity. Recently, RBI also revised its norms for fixing the lending rate, adding to the

competition. Analysts believe these regulatory changes, coupled with benign demand in the realty sector, have taken away investor optimism towards HFCs.

"Growth and margins will come under pressure as competition increases and real estate prices remain soft," says Pankaj Agarwal of Ambit Capital. Concurring, Abhinesh Vijayraj of Spark Capital suggests that as the valuation of HFCs appear expensive, the room for multiple (valuation) upside for stocks of HFCs might get limited.

On the other hand, India's mortgage loan market remains under-penetrated. Abhishek Kothari of Anand Rathi says this'd ensure growth for HFCs. Experts believe HFCs focused more on the retail mortgage business might score better than those with a higher proportion of commercial or builder book loans. Hence, they remain positive on [LIC Housing Finance](#), a stock which has returned 11 per cent in the year-to-date. Nomura analysts say LIC HF, with a high share of the government employee business, should remain the most resistant to the current slowdown. The research firm expects the former to report 15 per cent revenue increase each in FY16 and FY17, with high growth in its loan against property segment and an improving builder book from a weak base (now around five per cent compared to peers at over 25 per cent). As many as 39 of 47 analysts polled on Bloomberg have a 'Buy' recommendation on the stock.

Likewise, analysts believe the government's focus on affordable housing could improve the prospects for HFCs with a smaller loan sizes such as [Dewan Housing Finance](#), [Gruh Finance](#), [CanFin Homes](#) and [Repcos Home Finance](#). Among these, Dewan Housing, despite its relatively low NIM (2.9 per cent versus peer's three to four per cent) emerges the most preferred stock, due to superior asset quality.

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