

Home truth: Spike in housing finance companies bad loans hobbles PMAY

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The government's Pradhan Mantri Awas Yojana (PMAY) scheme faces its first major hurdle as housing finance companies (HFCs) have begun reporting higher non-performing assets (NPAs) in this loan segment.

Kartik Srinivasan, senior vice-president at rating agency Icria, said, "Over the last 12 months, one is seeing delinquencies slowly build up, with the frequency rising largely on account of the impact of demonetisation and the goods and services tax affecting the underlying self-employed borrowers."

With a Budget outlay of ~645 billion for 2018-19, under the PMAY-Gramin or rural focused scheme, so far over 9.87 million homes have been registered for construction and around 3.7 million homes have been completed.

On the other hand, only 8 per cent of the total target of 4 million homes to be built under the PMAY-Urban scheme has been constructed as of end-March 2018.



PMAY-Gramin, which was launched in November 2016, aims to construct 10 million homes by March 31, 2019, with private sector and state government participation. Under the PMAY-Urban scheme, launched in June 2015, the government aims to build 20 million homes by 2022.

Supreeta Nijjar, vice-president at Icra, said that the aggregate NPA levels in the affordable housing lending segment are not industrywide, but that the new HFCs have skewed the numbers for the whole industry.

“Further worsening has not happened since December, but if we were to segregate, it is because of two to three specific companies that the numbers are skewed, industrywide. Asset quality for two or three companies, which hold a significant share of the new business, have worsened,” Nijjar told Business Standard.

Of the total ~330 billion loans disbursed solely by the new HFCs, the gross NPAs have risen from an aggregate of 1 or 2 per cent to 4.5 per cent as of March 2018, analysts said.

Under PMAY, households with an income of between ~600,000 and ~1.8 million can avail of a credit-linked subsidy on their housing loan worth 4 per cent (incomes above ~700,000) or 3 per cent (incomes above ~1.4 million).

Traditional HFCs like HDFC, LIC Housing Finance, PNB Housing Finance, and Indiabulls Housing Finance continue to maintain stability in their asset quality. But the proportion of affordable housing loans as a part of their total loan book remains small.

For the big and traditional HFCs, until December the trend in delinquencies was worsening but it has

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Housing finance co.→	Loan disbursement→		Affordable→		GNPA→	
	₹ billion→	Mar '17→ Mar '18→				
PNB HOUSING*→	206.40→	331.90→	45.41→	73.02→	0.15→	0.35→
LIC HOUSING**→	383.34→	451.12→	65.17→	76.69→	0.43→	0.78→
MAHINDRA HOME FINANCE¶	NA→	NA→	211.62→	278.92→	9.70→	10.50→
ASPIRE***→	NA→	NA→	41.4→	48.6→	0.60→	4.5→

*Approx. 22% of the home loan book is 'Affordable', ** Analysts say 83% of LIC HFC's book goes to the salaried →

***Aspire is a wholly owned subsidiary of Motilal Oswal Financial Services and only provides sub-₹2.5 million loans →

Sources: Investor presentations, concall transcripts of firms, analysts

stabilised at around 1 to 2 per cent for March 2018, said Nijjar.

In the case of new HFCs like Mahindra Home Finance and Aspire Home Finance, “some seasoning delinquencies are likely to build up,” said Srinivasan.

“It is not a geographical issue. It depends on the model chosen by the entity. Some HFCs have been aggressive in their sales and have not lent diligently, and they have not set up a proper collection team,” said Bandaru Ramadasu, assistant general manager at CARE Ratings.

Aspire Home Finance, for example, a subsidiary of the Motilal Oswal Group, has grown its loan book from ~₹41.4 billion in 2016-17 to ~₹48.6 billion in

2017-18, with around 57.1 per cent of its loan book going towards new flat purchasers.

The company reported higher gross NPAs at 4.5 per cent in fourth quarter (Q4) of 2017-18, against 0.6 per cent in Q4 of 2016-17, with affordable housing loan gross NPA standing at 2.33 per cent higher than the NPAs across other categories of housing loans.

Mahindra Home Finance has around ~₹60 billion in assets as of March 2018, but the gross NPA levels have risen from 9.70 per cent at the end of 2016-17 to 10.50 per cent in FY2018.

Nijjar said that many of the new HFCs did not build a robust collection mechanism and team when they had begun disbursing loans. This explains why new HFCs did not have the ability to handle these factors on top of regular collections.

“A lot of customers are cash-salaried. When there is a bad business cycle, their salary gets affected, and delinquencies rise. HFCs should be able to assess the salaried cash flows of their customers in order to be successful in this segment,” said Ramadasu.

While there is a deterioration in the asset quality for some of the new HFCs, some banks and HFCs have approached the finance ministry and the Reserve Bank of India (RBI) to allow them to lend for low-cost housing even when all approvals are not in place.

“A majority of the poor lives in the periphery of cities and towns. The documentation and titles of most places are imperfect. Under the banking regulation, we are required that all buildings should be approved,” said Samit Ghosh, managing director of Ujjivan Small Finance Bank.

Most housing needs are in those areas where property papers are not in order and these extant rules restrict lenders from giving home loans, even when the lenders are sure about their background checks and willing to take risks.

“This is an issue that we are taking up with the RBI and the Ministry of Finance. However, the argument put forward is that this will lead to disorganised growth,” said Ghosh.