

No end of tunnel for HFCs, FY20 looks as difficult as FY19: Report

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The liquidity crisis has crimped credit growth for housing finance companies (HFCs) and is unlikely to improve much in FY20, even as the weak external environment will put a pressure on asset quality, warns a report.

HFCs are expected to report a 13-15 percent credit growth in FY19, which will inch up to 14-16 percent in next fiscal year, ratings agency Icra has said in a weekend report.

Aggravating the difficulties will be a likely pressure on the asset quality front due to the weak operating environment, it warned.

“Discussions with some HFCs reveals that their stock of repossessed assets has also increased, due to the lower saleability of those assets leading to an elongated recovery time,” it explained.

Gross non-performing assets (NPAs) of the home loan segment will increase to up to 1.3 per cent in the medium term from the present 1 per cent levels, it said.

If we include project loans, their overall NPAs will shoot up to 1.8 per cent in the medium term from the present 1.4 per cent, it said.

The ongoing troubles will result in a narrowing of margins and accordingly, a moderation of profit levels to 14 per cent levels in FY19 from 18 per cent in the year-ago period, it said, adding it expects bottomline to be at the same levels in FY20 as well.

It can be noted that the mortgage finance sector has been considered as one of the safest bets for financiers in the last few years, as the segment has been largely resilient.

The agency said key factors to monitor from a credit quality perspective 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, its Vice-President Supreeta Nijjar said.

Following the September 2018 liquidity crisis triggered by the bankruptcy of Infrastructure Leasing and Financial Services (IL&FS), with a slowdown in the HFCs' credit growth, banks have been quick to seize the opportunity, the agency said.

The housing loans portfolio for HFCs and other shadow banking lenders came down to 13 per cent from 18 per cent in the year-ago period, while the overall housing credit outstanding growth also narrowed down to 16 per cent from 18 per cent, it said.

HFCs are resorting to curbing their disbursements and also portfolio sell-downs to meet their funding requirements following the liquidity squeeze, it said.

It can be noted that the events following the defaults started by infra lender IL&FS in August last year have resulted in a liquidity crisis for the non-banking financial companies (NBFCs) segment.

While the squeeze has subsided, players complain about high cost of funds.

Experts attribute the troubles at the NBFCs to asset liability mismatch, where short term borrowings are used to fund long term assets.

The rating agency said most HFCs have started strengthening their liquidity buffers to meet any sudden market disruptions and near-term debt obligations.

It said the proposed National Housing Bank (NHB) amendments in capital adequacy, deposit mobilisation and leverage norms are positives for HFCs.

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