

Banks

India

Sector View: **Attractive** NIFTY-50: **22,474**

March 06, 2024

Stable and not too exciting

RBI's recent data on housing loan growth (~40% yoy) incorporates the recent merger of HDFC Ltd with the bank, which would make it challenging to compare with earlier quarters. The sequential growth is similar between public and private banks. We see a comfortable mix between average increase in loan ticket size and volumes driving loan growth. We continue to see greater traction in higher ticket-size loans. Overall, we should see a stable performance on housing loans.

Key metrics are showing stable signs of business performance

RBI's recent data on housing loans shows the following: (1) Loan growth of 40% yoy led by ~22% volume growth and ~15% yoy growth in average ticket size. Growth is higher due to merger of HDFC Ltd with HDFC Bank. The sequential numbers would not be a good representation given the seasonality of the underlying business. (2) The share of public and private banks is similar at ~50%. (3) 80% of the housing loans are in the Rs1-10 mn ticket size by value. (4) The top seven states contribute ~70% of the overall housing loans with Maharashtra contributing 30% of the overall loans. Overall, there are stable trends on most operating metrics.

Drivers of the loan book look comfortable to forecast stable loan growth

As always, we look at the housing loan market from three broad perspectives to measure affordability. We continue to have a stable outlook for this segment. Housing loan yields appear to have stabilized, looking at the recent quarterly disclosures. While these are floating rate loans, the impact on the borrower is through tenor extension rather than an increase in EMI, which would probably help explain a lower delinquency in the portfolio based on recent disclosures from lenders and credit information bureaus. As highlighted previously, buyers are likely to place more emphasis on the property prices over interest rate changes and confidence to service the debt than only looking at interest rate changes. The growth in larger ticket loans suggests that the focus from lenders remains in the upper half of income population.

While we don't have a strong indicator to track income appreciation, our conversation suggests that it continues to be favorable. Income tax collections suggest that there is limited source of concern at the household level in segments where the bank lending is largely operational. Housing price indices are still not robust enough. RBI's housing price index has not shown any sharp price appreciation and the same is visible when we look at loan growth from a volume perspective.

Overall, while there is a marginal slowdown on disbursements, we are yet to see any signs of stress both from an affordability or asset quality perspective. Unlike what we have seen in other geographies, the price appreciation has not been disconnected to income levels, which implies that the risk of any slowdown should have a mild impact on growth.

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The merger of HDFC Ltd with HDFC Bank has resulted in sharp loan growth in the housing portfolio of banks

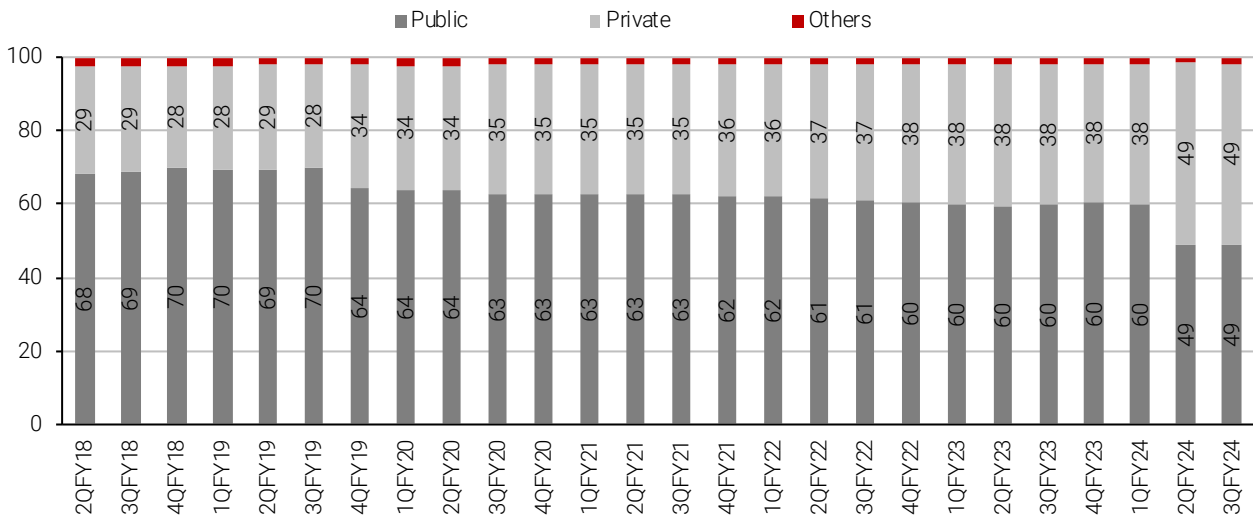
Exhibit 1: Break-up of housing loans for public and private banks, March fiscal year-ends, 1QFY19-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

Public banks and private banks have a similar market share at ~50%

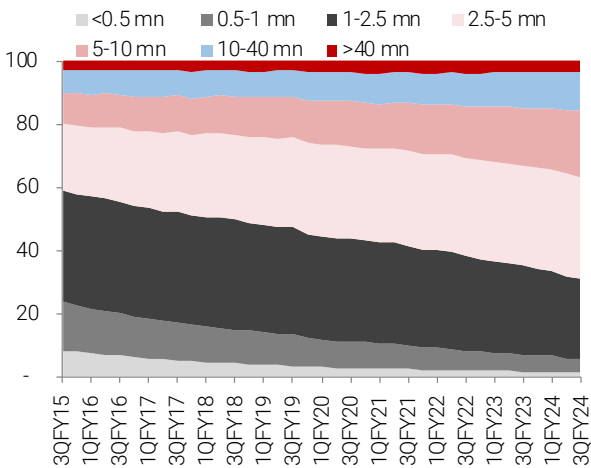
Exhibit 2: Break-up of housing loans, March fiscal year-ends, 2QFY18-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

~60% of loans outstanding is in the Rs1-5 mn ticket size and 20% is in the Rs5-10 mn ticket size

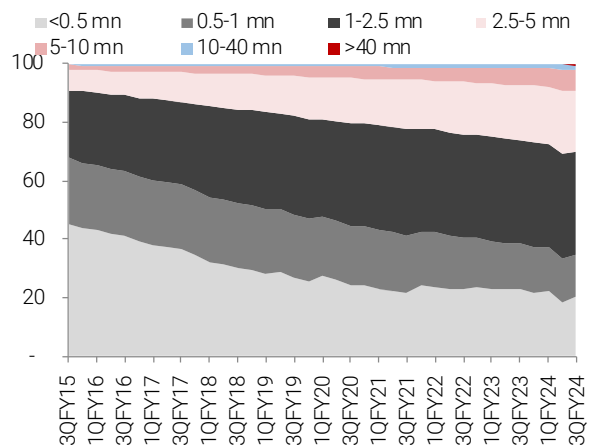
Exhibit 3: Break-up of loans outstanding by ticket size, March fiscal year-ends, 4QFY14-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

90% of loans (number) are up to Rs5 mn ticket size; Rs5-10 mn ticket loans are ~6% of total loans issued

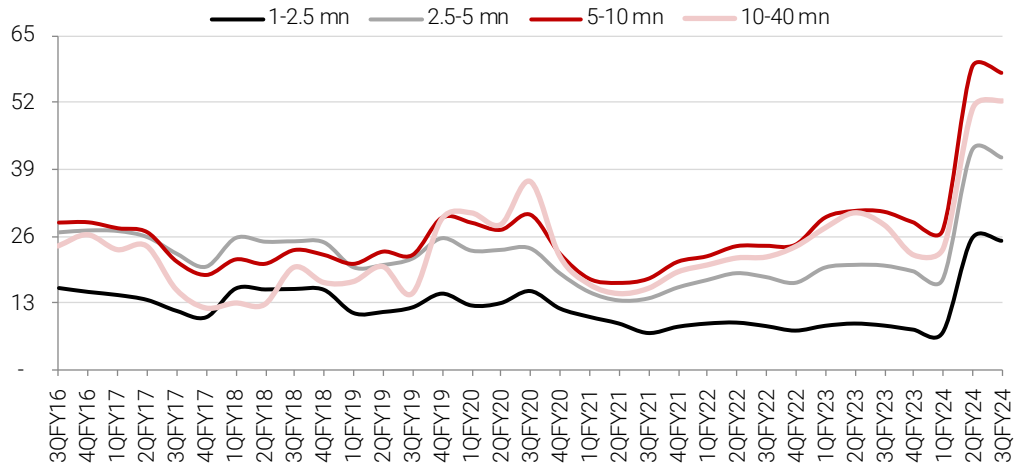
Exhibit 4: Break-up of loans accounts by ticket size, March fiscal year-ends, 4QFY14-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

Loan growth slowdown is a lot stronger in the larger ticket size loans (Rs10-40 mn) ticket size

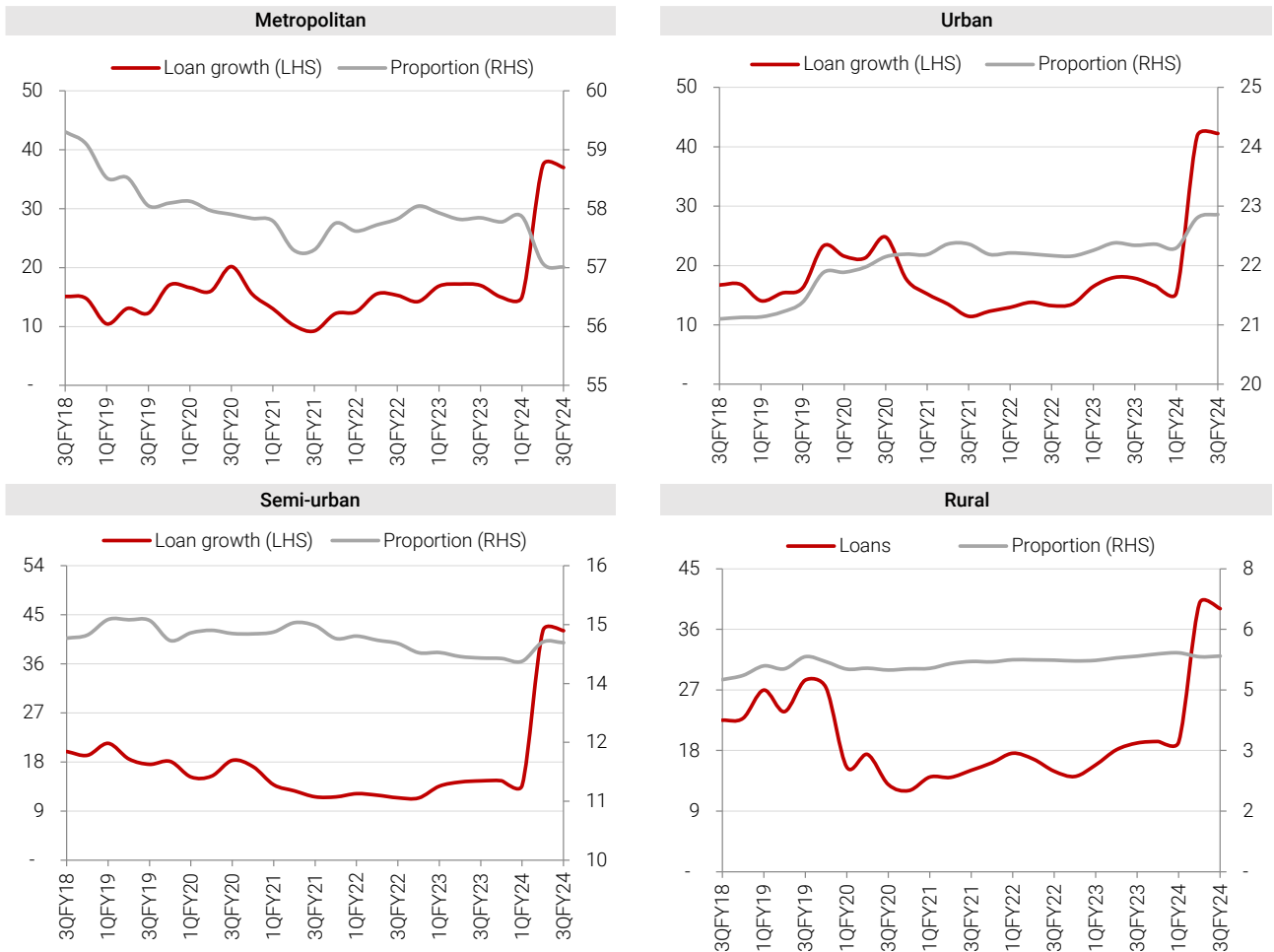
Exhibit 5: Break-up of housing loan growth by ticket size, March fiscal year-ends, 3QFY16-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

Some early signs of slowdown in the metropolitan and urban markets while semi-urban and rural have recovered from a low base

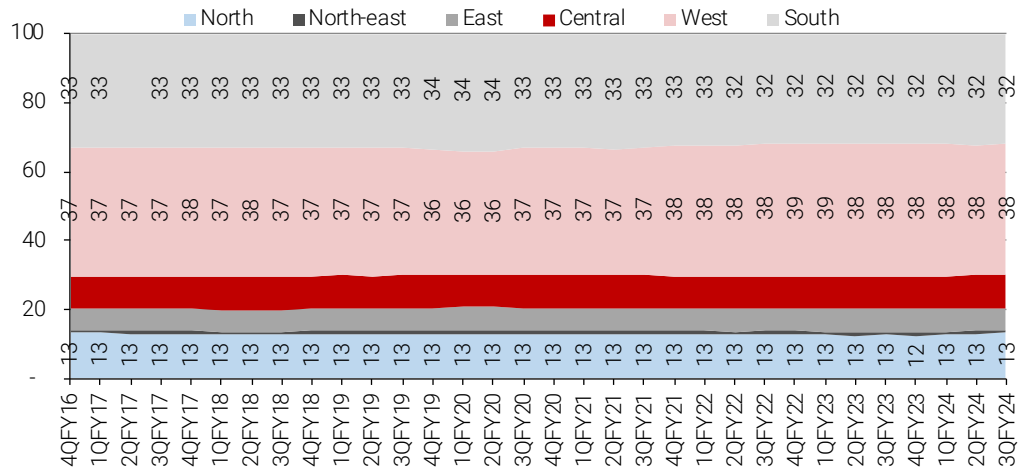
Exhibit 6: Loan growth across regions in housing loans, March fiscal year-ends, 3QFY18-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

West contributes ~40% of the housing loan portfolio while South contributes ~30% of loans

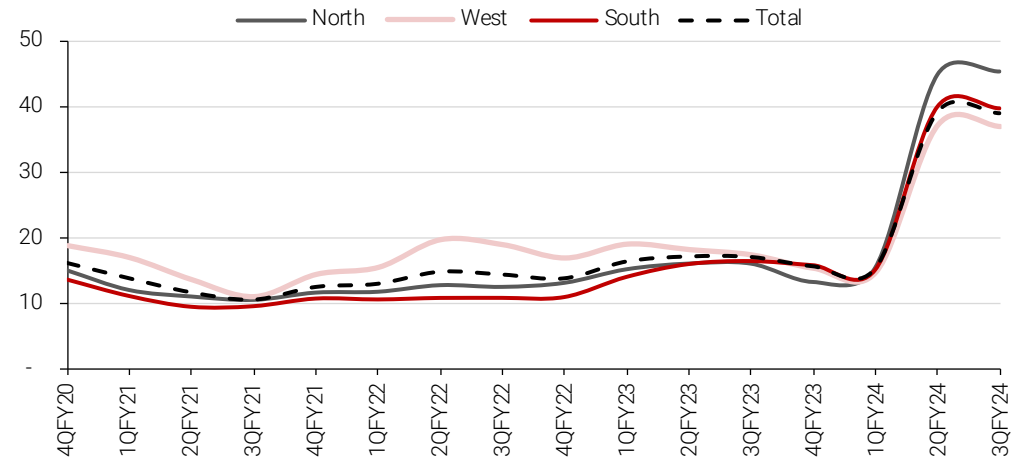
Exhibit 7: Break-up of housing loans across regions, March fiscal year-ends, 4QFY16-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

Slowdown is more pronounced in Southern India, which was also the last to recover post Covid

Exhibit 8: Break-up of housing loans across regions, March fiscal year-ends, 3QFY20-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

The top 7 states, which contribute 70% of the housing loan portfolio, have seen a mixed performance on growth

Exhibit 9: Break-up of housing loan growth across states, March fiscal year-ends, 4QFY16-3QFY24 (%)



Source: RBI, Kotak Institutional Equities

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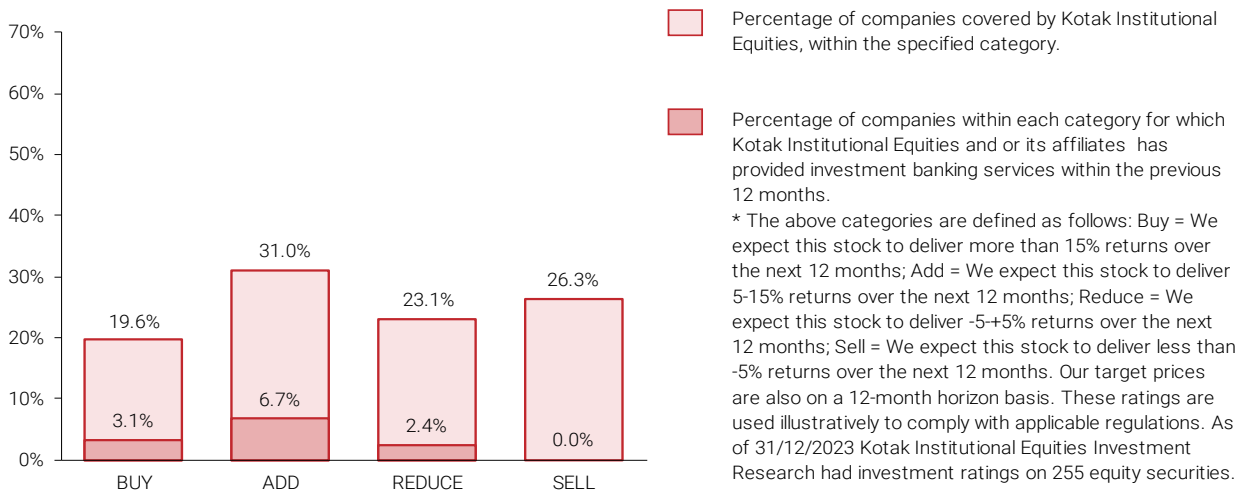
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As of December 31, 2023

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