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India | Equity research | Sector Update

NBFCs

Earnings trajectory remained robust for housing financiers despite pandemic, driven by credit cost remaining at <1%

Profitability across NBFCs-HFCs remained robust during the past five years despite covid as reflected in RoA for select HFCs witnessing steady improvement to 2.9% by FY23 vs 1.8% / 2.2% / 2.4% / 2.4% / 2.7% during FY18 / FY19 / FY20 / FY21 / FY22, respectively. Despite most NBFCs and HFCs catering to informal segment (self-employed as well as salaried) – which is considered to be more vulnerable than formal segment – credit cost remained below 1% between FY18-23. The same reflects borrower-level resiliency and improved awareness about maintaining credit score and housing financiers' expertise in sourcing customer with the intent and the ability to pay (cashflow assessment without formal income proofs). Prefer PNB HF, Home First and Aavas within the housing finance space.

Profitability for mortgage financiers remained robust between FY18-23 despite covid

Return ratios across mortgage players remained robust with average RoA at 2.4% between FY18-23 even during pandemic and despite most financiers catering to informal self-employed segment. Strong profitability metrics across players (including covid phase) indicate strong merits of housing finance as a product over other products like vehicle financing, OD/CC, MSME loans etc. The same reflects in lower write-offs (average 30bps during FY18-23) and average slippages at <1% between FY18-23.

Average write-offs at 30bps between FY18-23 with peak at 40bps in FY21

Conservative LTVs (thus, high customer skin in the game), increased awareness amongst borrowers about maintaining credit score and careful selection of customers by lenders (preference for self-occupied and single property) with focus on intent and ability to pay are key enablers for <1% delinquencies over FY18-23. The same resulted in lower write-offs at an average 30bps during the same period, with players having higher exposure to builder loans having higher write-offs.

LGDs in affordable housing space remained at <20%

As per our analysis, credit losses in housing finance space remained at sub-20%. Delinquencies between FY18-23 for mortgage financiers remained at <1% while write-offs stood at 30bps, implying ultimate credit loss of <20% of delinquencies. The same reflects borrower level resiliency and the intent to pay. It also indicates a strong underwriting model built by housing financiers, especially affordable housing finance players.

Affordable housing finance players are best placed

Affordable housing finance players scored well on three key parameters – growth, asset quality and profitability – during the past 3 years. Aavas / Aptus / HomeFirst delivered 25-40% AUM CAGR between FY18-23 with steady improvement in RoA during the same period. Despite catering to vulnerable segments as reflected in yields at >14% (higher than super prime and prime customers), write-offs and delinquencies for AHFCs remained lower than other housing finance players.

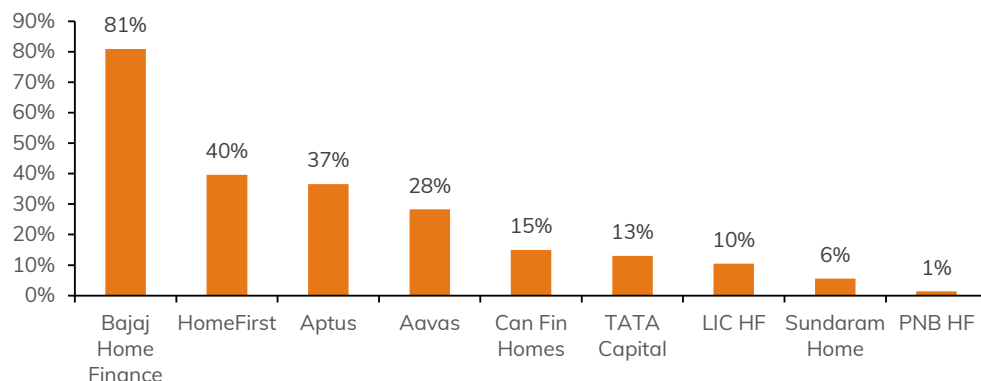
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Exhibit 1: Affordable housing financier sustained high growth as reflected in AUM CAGR between 25-40% for Aavas / Aptus / Home First even during covid

AUM CAGR between FY18-23



Source: I-Sec research; Company data

Exhibit 2: Player-wise trend in AUM between FY18-23

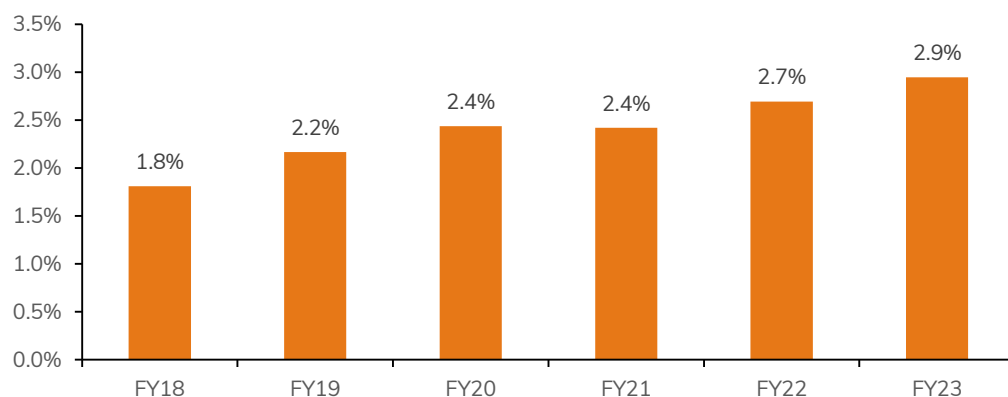
AUM (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	AUM CAGR (FY18-23)
LIC HF	16,74,660	19,46,460	21,05,770	23,20,030	25,11,200	27,50,470	10%
Bajaj Home Finance	35,700	1,75,620	3,27,050	3,88,710	5,33,220	6,92,280	81%
PNB HF	6,22,520	8,47,220	8,33,460	7,44,690	6,59,770	6,66,170	1%
TATA Capital	2,04,399	2,64,934	2,74,800	2,54,412	2,93,111	3,77,335	13%
Can Fin Homes	1,57,430	1,83,810	2,07,080	2,21,050	2,67,110	3,15,630	15%
Aavas	40,730	59,416	77,961	94,543	1,13,502	1,41,667	28%
Sundaram Home	85,240	92,580	96,380	91,730	94,950	1,11,810	6%
HomeFirst	13,559	24,436	36,184	41,411	53,803	71,980	40%
Aptus	14,167	22,472	31,787	40,678	51,800	67,380	37%
Total	28,48,405	36,16,948	39,90,472	41,97,254	45,78,466	51,94,722	13%
Total ex Bajaj	28,12,705	34,41,328	36,63,422	38,08,544	40,45,246	45,02,442	10%
Total ex Bajaj, PNB	21,90,185	25,94,108	28,29,962	30,63,854	33,85,476	38,36,272	12%

Source: Company data, I-Sec research

Note – On balance sheet loans used for TATA Capital

Exhibit 3: Average RoA steadily improved for mortgage financiers despite covid...

Average RoA



Source: I-Sec research, Company data

Exhibit 4: ...driven by Aavas / Aptus / Home First and Bajaj Home Finance

RoA	FY18	FY19	FY20	FY21	FY22	FY23
Aavas	2.9%	3.6%	3.7%	3.5%	3.6%	3.5%
Aptus	4.6%	5.9%	7.0%	6.5%	7.3%	7.8%
HomeFirst	1.4%	2.4%	2.7%	2.5%	3.9%	3.9%
LIC HF	1.2%	1.3%	1.2%	1.2%	0.9%	1.1%
PNB HF	1.3%	1.6%	0.8%	1.2%	1.2%	1.5%
Bajaj Home Finance	0.6%	1.1%	1.9%	1.5%	1.8%	2.3%
Can Fin Homes	2.0%	1.8%	1.9%	2.2%	2.0%	2.2%
TATA Capital	0.5%	0.2%	0.5%	1.3%	2.0%	2.3%
Sundaram Home	1.8%	1.6%	2.2%	1.9%	1.7%	2.0%
Average RoA	1.8%	2.2%	2.4%	2.4%	2.7%	2.9%

Source: Company data, I-Sec research

Exhibit 5: Average slippage ratio at <1% reflects borrower level resiliency and inherent strength of housing loan as a product category

Slippage Ratio	FY18	FY19	FY20	FY21	FY22	FY23
Aavas	0.3%	0.3%	0.2%	0.7%	0.6%	0.5%
Aptus	0.3%	0.3%	0.6%	0.2%	0.9%	0.8%
HomeFirst	0.6%	0.7%	0.7%	1.2%	1.7%	1.0%
LIC HF	0.4%	1.1%	1.7%	1.8%	1.7%	1.2%
PNB HF	1.2%	1.4%	3.4%	1.7%	5.6%	1.1%
Bajaj Home Finance		0.1%	0.1%	0.3%	0.3%	0.2%
Can Fin Homes	0.4%	0.4%	0.4%	0.3%	0.1%	0.1%
TATA Capital	0.9%	1.1%	1.4%	1.6%	0.9%	1.2%
Sundaram Home	1.0%	0.8%	0.7%	1.5%	1.0%	1.3%

Source: Company data, I-Sec research

Exhibit 6: Negligible write-offs at average 30bps between FY18-23 show expertise of housing financiers in assessing informal segment...

W-offs	FY18	FY19	FY20	FY21	FY22	FY23
Aavas	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%
Aptus	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%
HomeFirst	0.0%	0.0%	0.1%	0.3%	0.5%	0.2%
LIC HF	0.1%	0.1%	0.2%	0.2%	0.2%	0.4%
PNB HF	0.2%	0.0%	1.5%	1.1%	0.8%	2.6%

Source: Company data, I-Sec research

Exhibit 7: ...the same resulted in one of the lowest credit costs for housing financiers compared to other asset financiers

Credit cost	FY18	FY19	FY20	FY21	FY22	FY23
Aavas	0.1%	0.2%	0.2%	0.4%	0.2%	0.1%
Aptus	0.1%	0.1%	0.1%	0.2%	0.7%	0.6%
HomeFirst	0.3%	0.4%	0.5%	0.8%	0.5%	0.3%
LIC HF	0.3%	0.2%	0.5%	0.6%	0.8%	0.7%
PNB HF	0.5%	0.3%	1.5%	1.1%	0.8%	1.1%
Bajaj Home Finance	0.1%	0.2%	0.5%	0.7%	0.4%	0.2%
Can Fin Homes	0.1%	0.0%	0.3%	0.3%	0.2%	0.1%
TATA Capital	0.7%	0.9%	1.6%	1.3%	0.6%	0.1%
Sundaram Home	0.8%	0.5%	0.5%	0.6%	0.9%	0.6%
Average Credit Cost	0.3%	0.3%	0.6%	0.7%	0.6%	0.4%

Source: Company data, I-Sec research

Exhibit 8: As per our estimates, LGDs in housing loans stood at <20% between FY18-23

	Average Slippage	Average write-offs	Calculated LGDs	
Aavas		0.4%	0.1%	17.4%
Aptus		0.5%	0.1%	15.8%
HomeFirst		1.0%	0.2%	18.3%
LIC HF		1.3%	0.2%	15.7%
PNB HF		2.4%	1.0%	43.2%

Source: Company data, I-Sec research

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