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March
2013

The Indian Housing Finance Industry



CARE Research estimates that total housing loan market to grow due to the under-penetrated nature of the market, increased deployment of funds towards housing loans by banks, improving affordability for housing, stabilized/declining property prices, increasing urbanization and favourable demographics. There is an increasing demand for housing loans from Tier II/III cities. HFCs have been increasing their presence in the total housing loan market. ~32% of the total housing loans in FY07 were sanctioned by HFCs, which went up to 44% in FY12, and is expected to stay elevated.

HFC credit off take to drive growth in the total housing loan market

Housing loan of HFCs grew @ 22% during FY12

CARE Research opines that the weak economic outlook is unlikely to impact the growth rate of the housing loans of HFCs. With property prices expected to correct in FY14e in metros cities due to slowdown in real estate market and liquidity crunch amongst the developer community; the pent-up demand could manifest itself in the form of higher HFC off take.

CARE Research estimates NIM to remain subdued in the near term due to competitive pricing of HFCs as compared to banks, lower credit off take to builder loans, and higher costs of fund. However, CARE Research expects NIM to expand in the medium term driven low average borrowing costs, and higher ECB borrowings.

Net Interest Margin (NIM) to stay flat in immediate term, improve over medium term

Asset quality better, PCR increases

HFC NPAs have declined from ~4% in FY04 to ~0.75% in FY12 due to efficient loan appraisal system, robust recovery mechanism, and risk-averse profile of borrowers. CARE Research expects HFC asset quality to remain intact due to aggressive provisioning cover, assured regulatory support, and its nature of necessity. Provision Coverage Ratio (PCR), which has consistently grown to ~90% in FY12 as compared to 60% in FY04, is expected to improve further due to regulatory requirements and higher thrust on capping/reduction of NPAs.

Sourcing of long term bulk finance at lower rates, making organised housing finance available to economically weaker sections (EWS) and lower income group (LIG) section, reliance on land records that may have been dubiously maintained, using innovations in technology to broaden reach and appeal of housing credit, and unifying the laws and regulations at the state level to minimize regional disparities are some of the challenges of HFCs at various fronts.

Key challenges faced by Indian housing finance sector

**The Indian
Housing
Finance
Industry**

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To place an order, please contact: **Manish Sukhija | Business Development - CARE Research**

Credit Analysis & Research Ltd.

503, Kaledonia, Sahar Road, Off Western Express Highway, Andheri (E), Mumbai 400069

Cell: 98203 53638, Tel.: 022-6144 3504 (Direct), 022-6144 3456 (Board)

CORPORATE OFFICE

MUMBAI

Credit Analysis & Research Ltd.

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456, Fax: +91-22- 6754 3457, E-mail: care@careratings.com

503, Kaledonia, Sahar Road, Off Western Express Highway, Andheri (E), Mumbai - 400069.

Tel.: +91-22-6144 3456

REGIONAL OFFICES

AHMEDABAD

32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380015.

Tel: +91-79-40265656 Fax: +91-79-40265657

BENGALURU

Unit No.1101-1102, 11th Floor, Prestige Meridian II, No.30, M. G. Road, Bangalore - 560001.

Tel: +91-80-41550445, 41654529

Telefax: +91-80-41514599

CHANDIGARH

2nd Floor, S.C.O. 196-197, Sector 34-A, Chandigarh - 160022

CHENNAI

Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600002.

Tel : +91-44-2849 7812/2849 0811

Fax: +91-44-28490876

HYDERABAD

401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500029.

Tel: +91-40 40102030 Fax: +91-40-40020131

JAIPUR

304, Pashupati Akshat Heights, Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park, Jaipur - 302016.

Tel: +91-141-4020213 / 14

KOLKATA

3rd Floor, Prasad Chambers, (Shagun Mall Building), 10A, Shakespeare Sarani, Kolkata - 700 071.

Tel: +91-33- 40181600 / 02 Fax: +91-33-40181603

NEW DELHI

3rd Floor, B-47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

Tel: +91-11-45333200 / 23318701 / 23716199

Fax: +91-11-45333238

PUNE

9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411015.

Tel: +91-20-40009000

MALDIVES

4th Floor, CHAMPA Center Point,

Chandhanee Magu,

Male' Republic of Maldives.

Tel: +960-3330560 / +9603330561

Mobile: +960-990 9981 / +960 7958107

Fax: +960-3330562

www.careratings.com