Money & Banking

# HFCs may see robust growth but NPAs could rise: CARE Ratings

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## However, collections and asset quality for housing finance companies would improve in the second half as economy improves, it says

The second wave of the Covid-19 pandemic is expected to lead to a rise in the non-performing assets of housing finance companies in the near term with the Gross Stage 3 ratio expected to increase by 30 basis points this fiscal.

According to a report by CARE Ratings, the Gross Stage 3 ratio for housing finance companies would be 3.1 per cent, which would be around 30 basis points higher that 2.8 per cent in 2020-21.

"The deterioration would be higher in the first half of 2021-22; however, we expect that collections and asset quality for housing finance companies would improve in the second half as the economy improves," CARE Ratings said on Monday.

While a large portion of deterioration would come from developer loan book, it expects that retail prime loans would also witness stress as borrowers have also been impacted economically during the pandemic.

The agency had earlier estimated a 20 basis points increase in Gross Stage 3 assets to 2.9 per cent at the end of 2021-22 from an estimated 2.7 per cent last fiscal.

For the analysis, it has considered top six large housing finance companies it rates.

## Robust business growth

However, business growth for housing finance companies has remained robust and early indications from this fiscal suggest there would be a growth of about 8 per cent to 12 per cent in their portfolios, it said.

It also noted that many large housing finance companies have raised equity capital during last fiscal and some are in the process of raising equity capital in this financial year. "This has improved the strength of their balance sheets and augmented their loss-absorption capacity," it said.

CARE Ratings further said that according to its estimate, the total equity capital likely to be raised during the current fiscal along with actual equity raised last fiscal would be more than sufficient for the total increase in Gross Stage 3 assets during 2020-21 and 2021-22.

"While we expect that the impact of the pandemic on Gross Stage 3 assets would be higher than what was earlier estimated, stronger balance sheets of large housing finance companies and higher equity capital buffers provide good comfort," it said, adding that improvement in fund-raising abilities of these firms by tapping retail deposits augurs well for their longer-term credit outlook.

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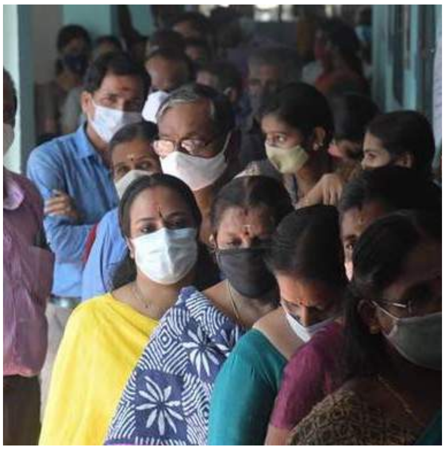

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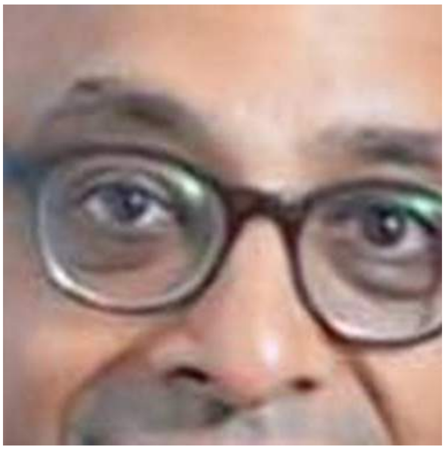

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