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Two promoter exits - shakeout in housing finance sector?

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With the promoters of two housing finance companies exiting the business, is there a shake out happening in the sector?

The two exits -- small and the big ones -- were announced in quick succession.

The Pune-based Poonawalla Fincorp Ltd announced the proposed sale of its stakes in the housing finance subsidiary Poonawalla Housing Finance Limited (formerly Magma Housing Finance Limited) to Perseus SG Pte. Ltd affiliated to TPG Global LLC for Rs 3,900 crore.

A couple of days earlier, Centrum Housing Finance Ltd announced the binding agreement to acquire the housing finance business of National Trust Housing Finance Limited for an undisclosed price.

An affordable housing finance company National Trust Housing has a loan book size of over Rs.300 crore and is present in 17 locations in four southern states.

As per the agreement, Centrum Housing will acquire the housing finance business including the loan portfolio, branches and employees.

However, industry players and experts told IANS that the two exits doesn't mean a shake

out or consolidation happening in the housing finance sector but shows the potential and interests of players.

If a private equity major like TPG is investing in the housing finance sector, it shows the growth potential, industry experts told IANS.

In February 2020, a fund managed by Morgan Stanley PE Asia, invested approximately Rs 190 crore to acquire a minority stake in Centrum Housing Finance.

On the exit of Poonawalla Fincorp, Sanjay Agarwal, Senior Director, CARE Ratings told IANS: "They probably want to focus on consumer finance. Housing finance is a long term business and different from consumer finance."

According to Agarwal, the sale and purchase of two housing finance companies shows a lot of interest in the market and is positive for the sellers and buyers.

He said the credit loss for housing finance companies is very low but needs lots of capital.

"The timing of the sale by Poonawalla is good as the market is picking up. I will not say consolidation is happening in the sector," a top official of a housing finance company told IANS on the condition of anonymity.

As regards to the Centrum group's acquisition of National Trust Housing, an industry official told IANS: "The buy gives Centrum a jump start in the Southern market. It would have taken them about two years to establish a similar presence."

The acquisition of National Trust Housing consolidates Centrum Housing presence in South India, and will help to further increase the penetration across the chosen geographies, Jaspal Bindra, Executive Chairman, Centrum Group said.

"The market is growing and the pie is large enough for all to grow. There are opportunities for all the players -- big and small. This is driven by the need for housing and the Government's thrust on Housing for All. There is a fair degree of growth potential in the next few years," Lakshminarayanan Duraiswamy, Managing Director, Sundaram Home Finance Ltd told IANS.

Big banks and housing finance companies are coming into small towns and this in turn makes smaller players like us to explore opportunities in Tier 3 and 4 towns, Duraiswamy added.

"We registered disbursements of Rs 2,350 crore last year. In the first half of this year the disbursement figure is close to Rs 1,800 crore. Our target is to grow this year by 40 per cent-50 per cent and are on track to achieve this target driven by growth from Tier 2 and 3 markets. The smaller towns are growing faster for us and the self-employed segment is growing faster than the salaried class," he said.

The housing finance companies like Sundaram Home Finance, Aptus Value Housing Finance India Ltd have also diversified their business by getting into financing small businesses which gives them higher spread.

Typically, housing finance companies follow a monoline business model with focus on home loans and loan against property (LAP), Duraiswamy said.

Sundaram Home Finance's entry into small business loans against mortgage of residential property is a diversification to a new segment of borrowers and an entry into Tier 3 and 4 towns, Duraiswamy said.

According to him, by the end of this year, the small business loan book will be about Rs 15 crore and by the end next fiscal it will be about Rs 150 crore.

"In the long term, we hope to take the contribution from this segment to about 10 per cent of our overall disbursements," Duraiswamy said.

Sundaram Home Finance is also planning to expand its distribution network for home loans by opening around 15 new branches in Tier 2 and 3 towns in Tamil Nadu, Karnataka and Andhra Pradesh by March 2023.

Be that as it may, although the banks continued to dominate and accounted for 63 per cent of the overall housing finance portfolio, housing finance companies outshone in FY22, said CARE Ratings in a research report.

After reporting modest growth for two consecutive years, housing finance companies reported a double-digit growth rate in FY22 at 11 per cent y-o-y, surpassing the 7 per cent growth rate reported by the banks, CARE Ratings said.

"Consequently, the share of HFCs, which has been contracting for the past two consecutive years, improved in FY22 from 36 per cent to 37 per cent. Improvement in the macroeconomic environment, low-interest rate regime, and initial signs of recovery witnessed in the real estate sector were the key catalysts for the high growth," CARE Ratings report notes.