

# Affordable Housing Finance: Profitable Growth to Continue Despite Margin Pressure

March 12, 2026 | BFSI Ratings

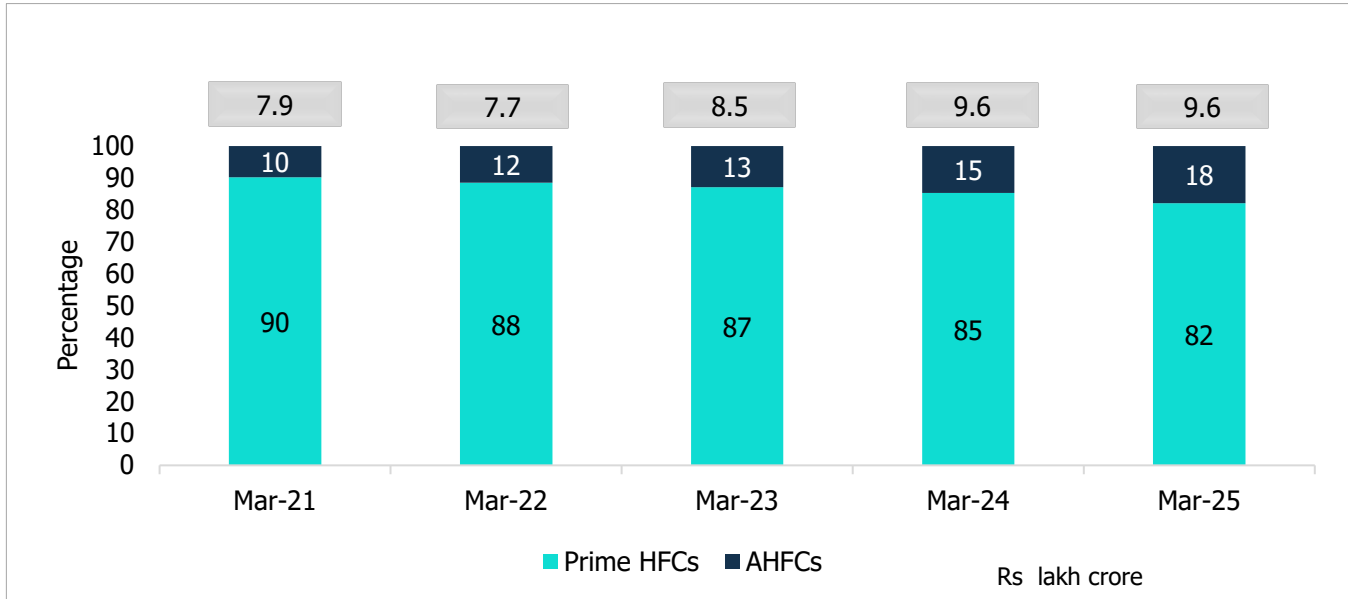
## Synopsis

- The aggregate loan portfolio of Housing Finance Companies (HFCs) grew by a CAGR of ~5% and stood at ~Rs 9.6 lakh crore as on March 31, 2025, from ~Rs 7.9 lakh crore as on March 31, 2021. Over the same period, the share of Affordable Housing Finance Companies (AHFCs) has increased from ~10% of HFCs' total loan portfolio as on March 31, 2021, to ~18% as on March 31, 2025.
- The growth rate of the AUM is anticipated to stabilise at around 20% in FY27, driven by increasing demand for homes, rapid urbanisation and demographics supported by the government push in the form of PMAY-linked subsidies. Meanwhile, yields are expected to moderate in FY27 as the transmission of policy rate cuts feeds through lending rates, exerting pressure on net interest margin (NIM). However, overall profitability is expected to improve, supported by higher non-interest income, including income from direct assignment (DA) of loans, an increasing share of the higher-yielding loan against property (LAP) portfolio, and improved operating leverage.
- AHFCs typically have an average ticket size of less than Rs 25 lakh and focus on borrowers with an informal source of income in smaller towns. This results in relatively smaller loan ticket sizes, specialised underwriting models, and a strong regional presence for most players.
- Asset quality parameters for affordable HFCs have remained stable over the last three years, with Gross Stage (GS) 3 levels broadly in the range of 1.5% to 2%. A marginal uptick in GS 3 as well as GS 2 was observed in the first half of FY26. While asset quality is expected to remain stable, the uptick in GS 2 and GS 3 may continue in FY27 as the rapidly expanding portfolio matures.
- The borrowing profile of affordable HFCs remains predominantly bank-driven, with bank loans accounting for ~65% of total borrowings. The share of low-cost borrowing from the National Housing Bank (NHB) has remained between 16% and 18% of total borrowings over the last three years.

## AHFCs have been gaining share among HFCs

The Indian housing finance market remains dominated by banks, particularly in the high-value and premium home loan segments. There are larger HFCs that operate in the prime category (ticket sizes of more than Rs 25 lakh) and compete with banks to a certain extent in mid- to high-ticket loans. However, the landscape shifts significantly for loans in the affordable housing segment (ticket size below Rs 25 lakh), where specialised companies with strong regional presence, tailored underwriting models, and targeted offerings have emerged as market leaders. Their focused approach has enabled them to capture a growing share of low-ticket home loans. Consequently, the share of affordable HFCs in the overall HFC portfolio has risen steadily from about 10% in March 2021 to nearly 18% in March 2025, underscoring their increasing importance in the affordable housing ecosystem.

**Chart 1: Market Share of AHFCs in overall HFCs' AUM**

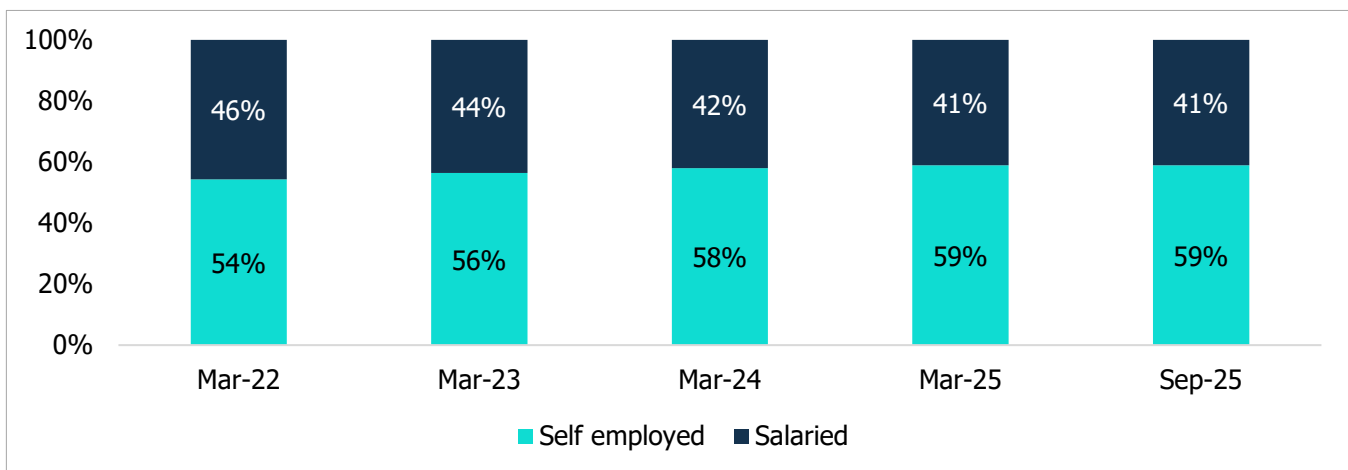


Source: Reserve Bank of India and CareEdge Ratings

**AHFCs focus on smaller ticket borrowers with informal source of income**

The affordable housing finance segment is dominated by self-employed borrowers with informal sources of income, whose share in the AUM has increased from 54% as on March 31, 2022, to nearly 60% as on Sep 30, 2025. Further, the borrower segment is largely composed of low- and mid-income customers. This makes specialised underwriting essential, involving cash flow assessments and non-traditional data checks. Further, as these AHFCs expand into Tier III & Tier IV cities and semi-rural clusters, the proportion of self-employed borrowers is expected to increase gradually over the years. Furthermore, a large portion of the salaried borrowers is informal salaried with limited income documentation.

**Chart-2: Customer Category-wise Breakup of AUM**

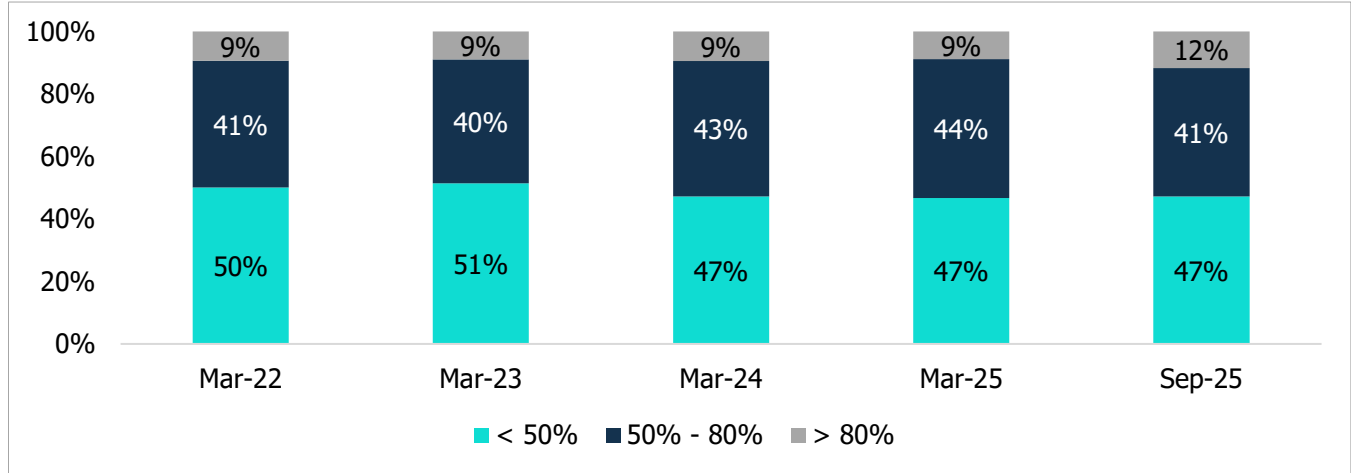


Source: Company Results and CareEdge Ratings' Workings of 8 companies

To maintain yields and diversify AUM, AHFCs maintain a portfolio of Loan Against Property (LAP), which accounts for a sizeable portion of their portfolios. This segment carries a higher risk due to business-linked cash flows, resulting in lower LTVs for these loans. Portfolio trends show that around 47% of loans have an LTV below 50%.

This conservative collateral approach supports asset quality and provides resilience against borrower-level and market-driven uncertainties.

**Chart-3: LTV wise Breakup of AUM**



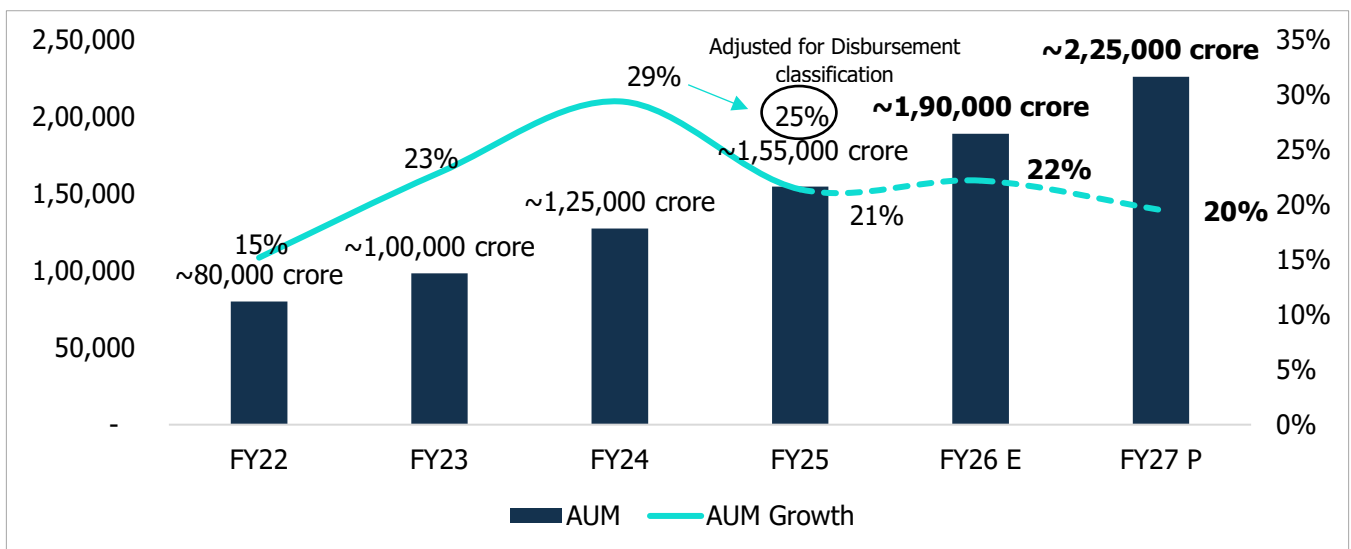
Source: Company Results and CareEdge Ratings' Workings of 8 companies

**AUM Growth rate to stabilise at a lower level**

The AUM of AHFCs has witnessed a healthy compounded annual growth rate (CAGR) of ~18% between FY21 and FY25, reaching Rs 1.55 lakh crore as on March 31, 2025. This expansion has been supported by rising homeownership demand driven by urbanisation, favourable demographics, and the aspirations of lower- and middle-income households. Government support through schemes like the Pradhan Mantri Awas Yojana (PMAY) has further accelerated growth, especially for first-time buyers.

The AUM growth rate moderated to around 21% in FY25, reflecting both base growth and lenders' cautiousness. The decline in growth rate also reflects the effect of the re-classification of disbursements post the regulatory nudge. After accounting for the reclassification, AUM growth would be around 25% in FY25.

**Chart-4: AHFC AUM Growth Trends**



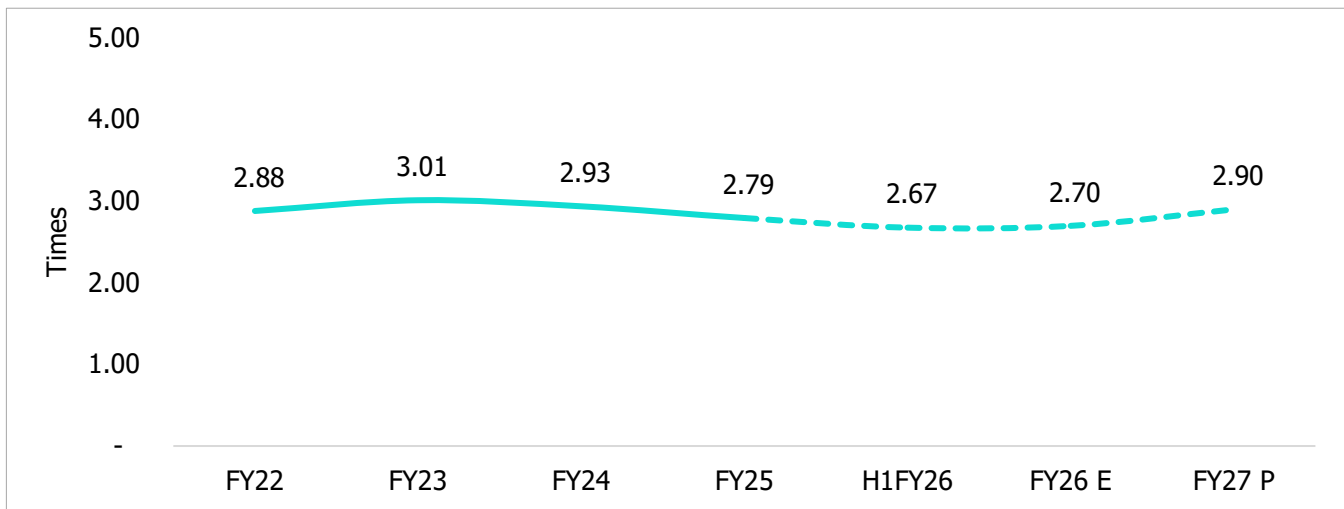
Source: Company Data and CareEdge Ratings' Workings of 14 companies

Going forward, demand for affordable housing is expected to remain steady, backed by continued urbanisation. The sector is expected to see continued demand driven by nuclearisation of families and focused lender penetration into underserved segments. As the sector matures, AUM growth is likely to stabilise at lower yet healthy levels, settling at around 20% by FY27.

### Leverage to rise in FY27, but would remain comfortable

Private equity (PE) funds have been instrumental in the growth of AHFCs, providing significant equity capital that has enabled these lenders to scale rapidly and support strong AUM growth. In recent years, a few AHFCs have also accessed capital markets through public listings, further strengthening their balance sheets and widening the investor base.

**Chart 5: Debt-to-Equity Ratio Movement**



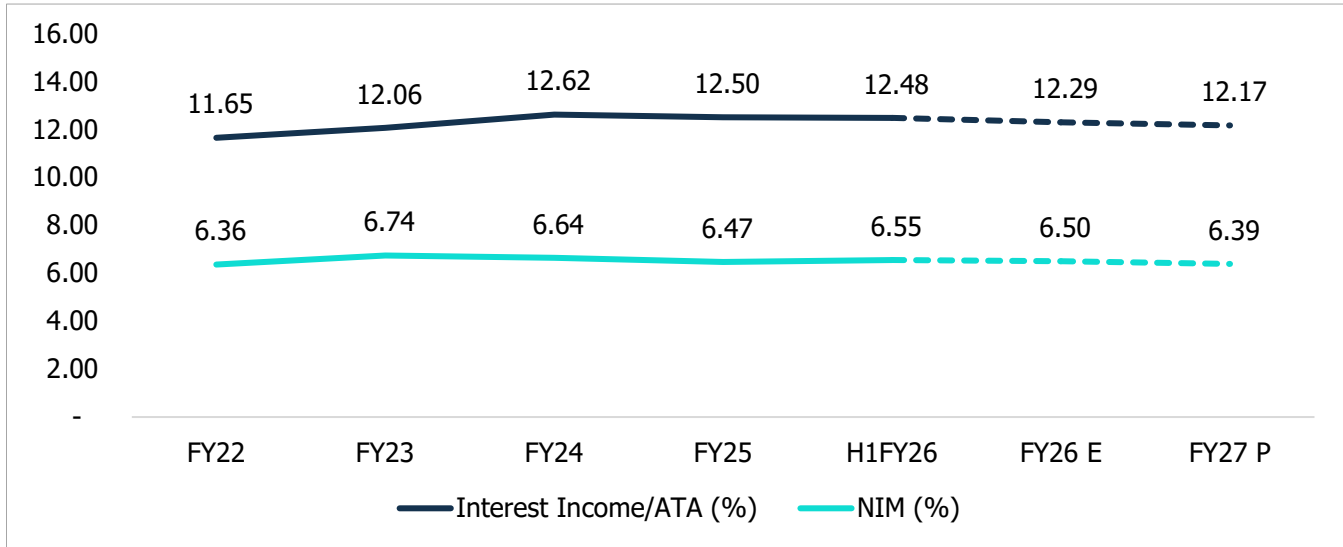
Source: Company Data and CareEdge Ratings' Workings of 14 companies

As a result of equity backing, the sector has lower leverage than that of larger HFCs. The debt-to-equity levels have ranged from 2.7 to 3 times over the last four years, with a declining trend from FY24, offering stability and adequate buffers given the exposure to higher risk and the informal-income borrower profile. As AUM continues to grow and a few players have received equity infusions in FY25 and H1FY26, companies are expected to increase borrowings to fund growth, leading to gradual leverage. Even so, debt-to-equity is likely to remain comfortable, inching toward ~3 times in the near term, aligned with the sector's growth plans and still within prudent limits.

### Yields moderate further, resulting in a decline in NIM

The decline in repo rate has helped reduce borrowing costs for AHFCs in the first half of the current financial year, offering short-term support to profitability. However, loan yields have remained largely stable so far because the transmission of rate cuts to borrowers has been gradual. In the current quarter, several lenders have begun reducing lending rates in response to competitive pressures and the broader interest-rate environment, which is expected to soften portfolio yields over the next few quarters.

**Chart-6: Movement of Yields and NIM**



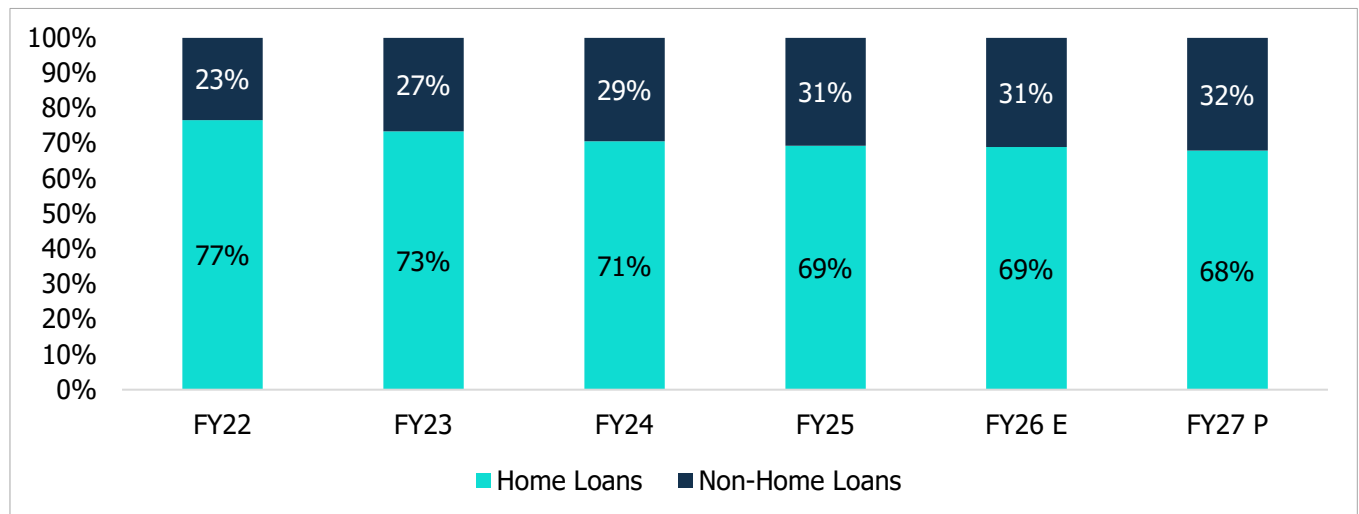
Source: Company Data and CareEdge Ratings’ Workings of 14 companies

As a result, net interest margins (NIMs) are likely to contract in FY27. To mitigate this pressure, AHFCs are expected to re-balance their product mix by increasing the share of LAP, which typically offers higher yields than home loans. By expanding their LAP portfolios, these lenders aim to offset margin compression while continuing to serve their core customer base effectively.

**LAP portfolios may rise as players seek to maintain yields**

The product mix of affordable HFCs has been shifting steadily, with a clear rise in the share of LAP book, which has grown from about 23% of AUM as on March 31, 2022, to nearly 31% as on March 31, 2025, reflecting a strategic move by lenders to enhance yields as borrowing costs ease and competitive pressures increase.

**Chart 7: Non-Home Loans proportion continues to increase**



Source: Company Data and CareEdge Ratings’ Workings of 14 companies

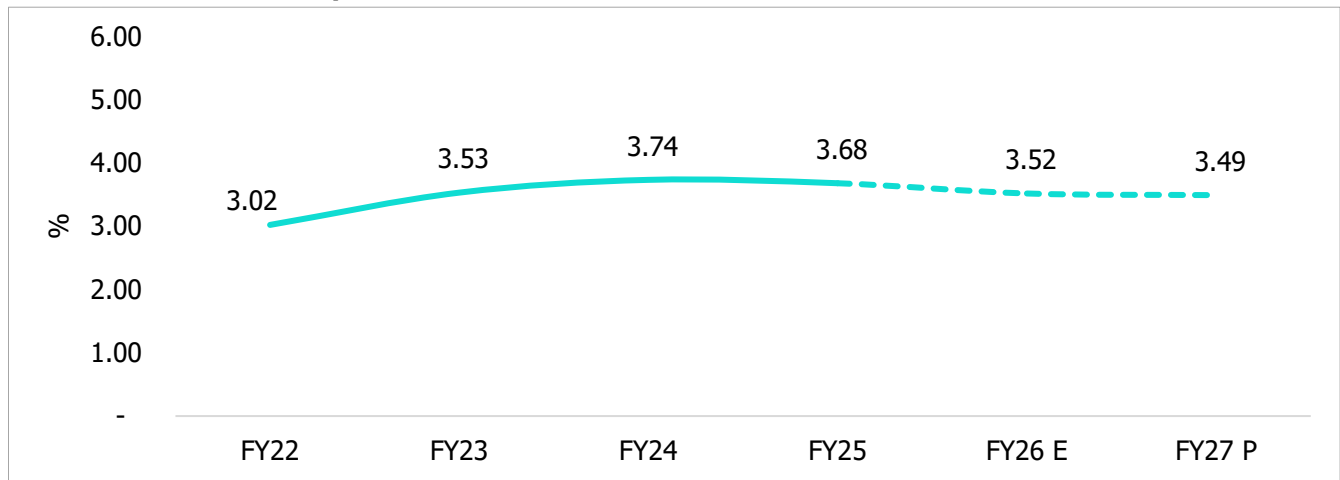
This trend is expected to continue, with AHFCs likely to increase LAP’s share further over the coming years. However, this shift will remain controlled and in line with the PBC criteria for HFCs, as LAP carries a higher risk due

to business-linked cash flows. Lenders are therefore expected to balance LAP growth with prudent risk management to ensure stability, asset quality, and sustainable profitability.

**Operating cost to stabilise, while the credit cost would inch up**

Operating costs for AHFCs remain structurally higher than those of larger prime HFCs, due to the high-touch, field-intensive model required to serve self-employed and informal-income customers, who require deeper verification and on-the-ground engagement. The operating expenses for AHFCs are around 3.5% of total assets, compared with 1.25% to 1.5% for prime lenders. As AHFCs scale up, adopt better technology, and expand their branch networks, operating leverage is expected to improve, gradually bringing down the cost ratio over the medium term.

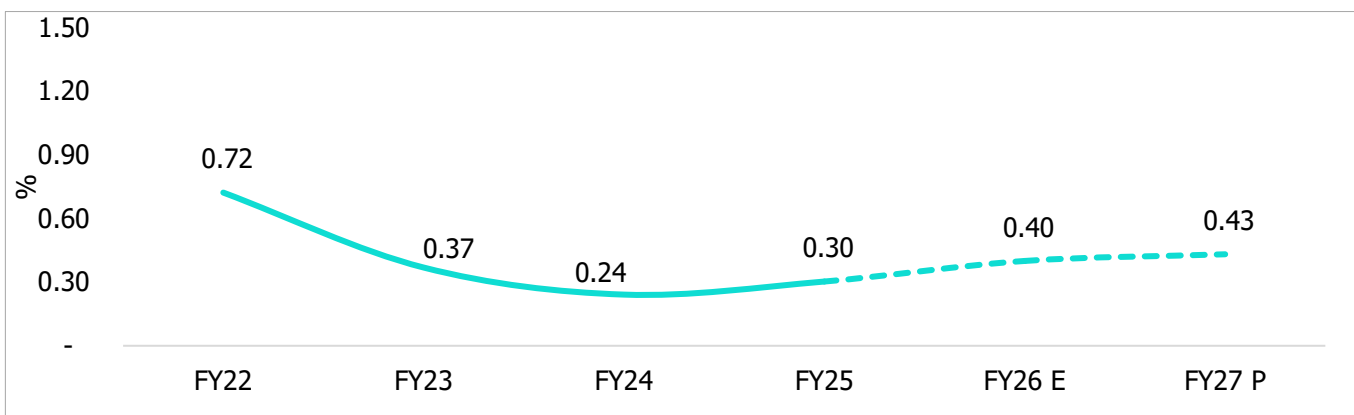
**Chart-8: Movement of Opex / Total Assets**



Source: Company Data and CareEdge Ratings' Workings of 14 companies

Credit costs have also improved steadily since the post-Covid 19 period, supported by better asset quality, stronger underwriting, and healthier borrower behaviour. However, as portfolio season and newer vintages mature, credit costs may rise slightly in the near term. This increase, however, is expected to remain manageable and within historical levels, reflecting normal portfolio seasoning rather than any deterioration in credit quality.

**Chart-9: Movement of Credit Cost / Total Assets**



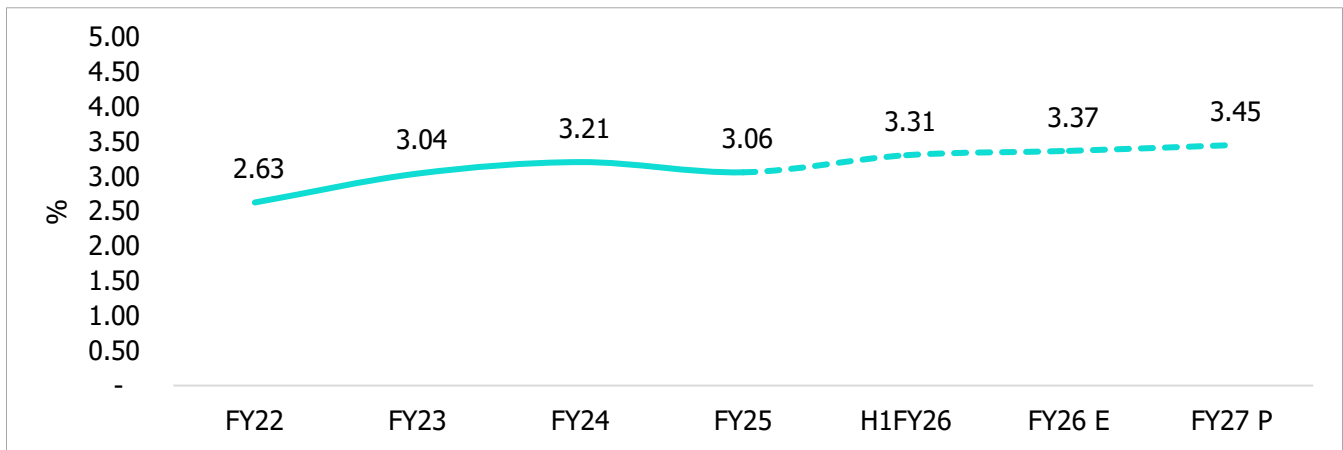
Source: Company Data and CareEdge Ratings' Workings of 14 companies

**Higher Non-Interest Income to support ROTA**

Many AHFCs increasingly use Direct Assignment (DA) of the loan portfolio as a strategic tool to optimise capital, manage funding needs, and comply with the regulatory Principal Business Criteria (PBC), which requires housing loans to remain the core business. Off-balance-sheet exposures, primarily driven by DA, now account for around 20–25% of AUM for several players. By selling eligible loan pools to other financial institutions, AHFCs free up capital, enhance liquidity, and improve portfolio rotation efficiency.

DA also provides an immediate boost to profitability, as income from these transactions is recognised upfront. Over the past three years, DA income has contributed roughly 5% to total revenues for affordable HFCs, serving as an important supplementary earnings stream. This contribution is expected to remain meaningful and will help offset margin pressures from softening yields, supporting a stable ROTA of about 3.4-3.5% by FY27.

**Chart-10: Movement of ROTA**

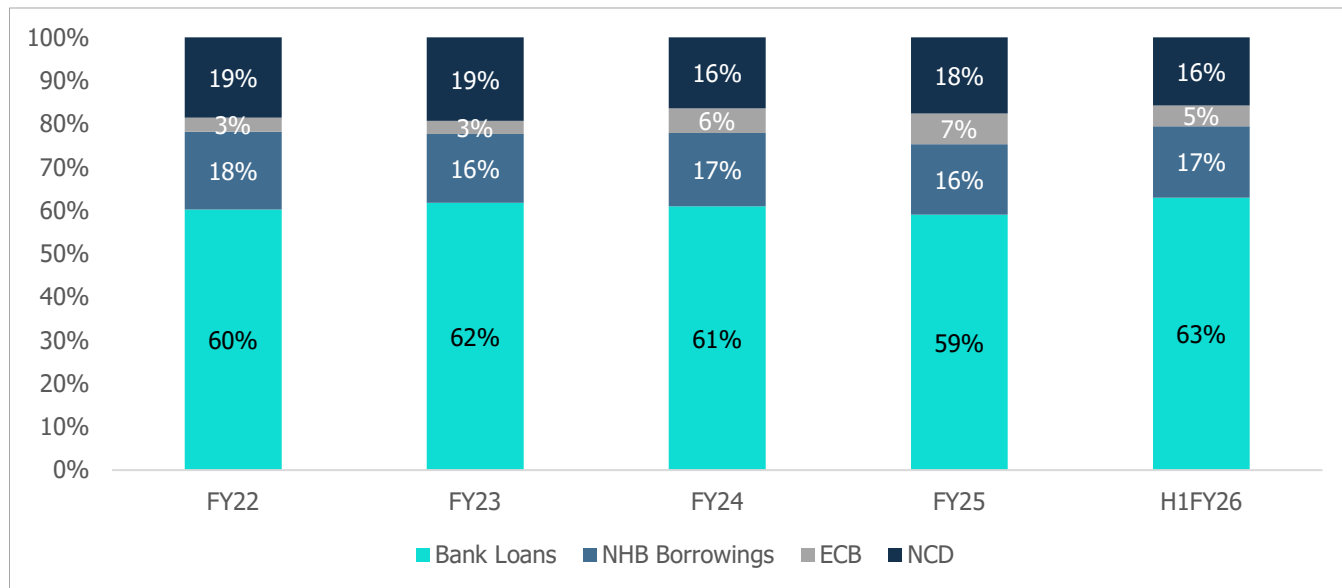


Source: Company Data and CareEdge Ratings’ Workings of 14 companies

**Stable Borrowings Mix, Largely Bank Funded**

The funding profile of affordable HFCs largely consists of bank borrowings, which account for roughly 63% of total debt, reflecting the sector’s strong dependence on banks for long-term, competitively priced financing. The share of National Housing Bank (NHB) refinance has remained stable at around 16% to 17%, with NHB continuing to play a key role through targeted refinance schemes that offer reliable, lower-cost funding support for priority housing segments.

**Chart-11: Resource Profile**



Source: Company Data and CareEdge Ratings’ Workings of 14 companies

The overall share of NCDs has decreased in H1FY26, as companies have been inclined towards bank borrowings & exploring alternative funding routes, such as External Commercial Borrowings (ECBs). However, these comprise a very small share of overall borrowings. While such diversification provides additional flexibility, banks remain the primary funding source for the sector, supported by established lender relationships, competitive interest rates, and access to long-tenure credit lines.

**CareEdge Ratings’ Outlook**

Looking ahead, AHFCs’ AUM growth is likely to moderate to around 20% by FY27 as the industry expands on a larger base. Nevertheless, underlying demand is likely to remain strong, driven by favourable demographic trends, increasing urbanisation, and continued penetration into underserved customer segments. With yields expected to soften due to rate-cut transmission and competition, the share of higher-yielding Loan Against Property (LAP) is projected to rise. AHFCs are also likely to increase Direct Assignment (DA) transactions, which generate upfront income and help protect profitability amidst margin pressures.

Overall profitability is expected to remain stable, with ROTA at around 3.45% expected in FY27. Credit costs may edge up to about 0.4% as portfolios season, but asset quality would remain healthy due to conservative LTVs and strong underwriting. Leverage may increase gradually in line with AUM growth, but is expected to remain comfortable at around 3 times AUM. Overall, these factors suggest that AHFCs will continue to deliver steady growth and profitability with prudent risk management in the medium term.

Affordable Housing Finance Companies face key risks including geographic concentration, which exposes them to region-specific economic or political disruptions; macro-economic volatility, such as inflation or interest-rate swings that can strain borrower repayment capacity; rising competitive intensity, which can drive yield compression and pressure margins; and asset-quality deterioration, as customers often have limited financial buffers, making the segment more vulnerable to income shocks and resulting delinquencies.

**Annexure -1: List of Companies considered in the analysis:**

Aadhar Housing Finance Limited	Vastu Housing Finance Corp. Limited
AAVAS Financiers Limited	India Shelter Finance Corp. Limited
Truhome Finance Limited	Grihum Housing Finance Limited
Repco Home Finance Limited	Mahindra Home Finance Limited
Home First Finance Company India Limited	Shubham Housing Development Finance Company Limited
SMFG India Home Finance Company Limited	Wonder Home Finance Limited
Aptus Value Housing Finance India Limited	Svatantra Micro Housing Finance Corp. Limited

## Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582
Priyesh Ruparelia	Director	priyesh.ruparelia@careedge.in	+91 - 22 - 6754 3539
Aditya Acharekar	Associate Director	aditya.acharekar@careedge.in	+91 - 22 - 6754 3528
Dhruv Shah	Analyst	dhruv.shah1@careedge.in	+91 - 22 - 6754 3629
Disha Potagevan	Analyst	disha.potagevan@careedge.in	+91 - 22 - 6754 3588
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

## CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

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