Market Intelligence
& Analytics

CRISIL
An S&P Global Company

Industry Report on Housing Finance market in India

For India Shelter Home Loans

August 2023

Glossary

AUM	Asset Under Management
BPS	Basis Points
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
CRAR	Capital to Risk Assets Ratio
DBIE RBI	Database on Indian Economy - Reserve Bank of India
DBT	Direct Benefit Transfer
ECB	External Commercial Borrowing
ECLGS	Emergency Credit Line Guarantee Scheme
EWS	Economically Weaker Section
GDP	Gross Domestic Product
GDS	Gross Domestic Saving
GNPA	Gross Non-Performing Assets
GSDP	Gross State Domestic Product
GOI	Government of India
HFC	Housing Finance Company
IMF	International Monetary Fund
LAP	Loan Against Property
LIG	Low-Income Group
MIG	Middle-Income Group
HIG	High-Income Group
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MOSPI	Ministry of Statistics and Programme Implementation
MPC	Monetary Policy Committee
MSME	Micro, Small & Medium Enterprises
NBFC	Non-Banking Financial Company
NCFE-FLIS	National Centre for Financial Education -National Financial Literacy & Inclusion Survey
NHB	National Housing Bank
NII	Net Interest Income
NIM	Net Interest Margin
NNPA	Net Non-Performing Asset
NSO	National Statistics Office
NSSO	National Sample Survey Organization
PLI	Production Linked Incentive Scheme
PMAY	Pradhan Mantri Awas Yojna
PMJDY	Pradhan Mantri Jan Dhan Yojna
PMJJBY	Pradhan Mantri Jeevan Jyoti Yojna

PPP	Purchasing Power Parity
PSL	Priority Sector Lending
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RERA	Real Estate Regulatory Authority
RoA	Return on Asset
RoE	Return on Equity
SARFAESI	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act
TRAI	Telecom Regulatory Authority of India

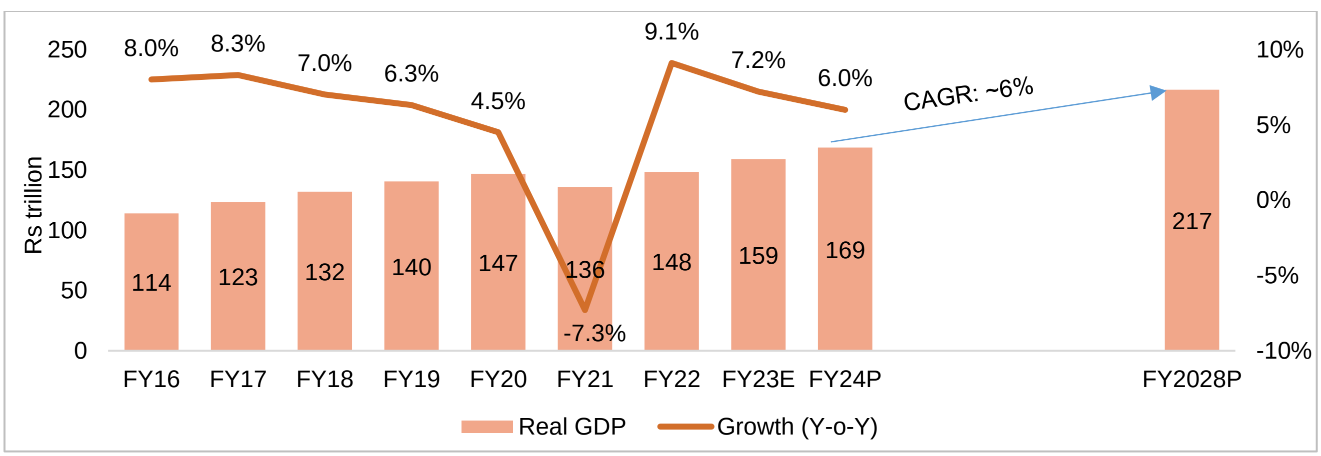
Macroeconomic Scenario

India to remain one of the fastest growing economies amid global slowdowns

India has shown a fair degree of resilience to the four Cs affecting the global economy — COVID-19, conflict (geopolitical), climate change, and central bank actions —. Despite global slowdown, tightening of monetary conditions, and high inflation, India recorded a higher economic growth rate compared to many peer economies owing to its relatively strong local consumption, limited reliance on global demand, and continued resilience macro tailwinds. The growth pattern though, highlights two key features- faster recovery and resilience.

Fired by the superlative performance of agriculture and continued resilience of construction and services, gross domestic product (GDP) growth in the fourth quarter of fiscal 2023 was revised to 6.1% from 5.1% estimated earlier. That lifted the growth number for fiscal 2023 to 7.2%. However, nominal GDP growth of India tapered to 10.4% year-on-year during Q4 FY23, from 11.4% year-on-year in Q3 FY23, due to the price-effect (GDP deflator slowed to 4.1% from 6.6%). The rise in real GDP growth was a result of healthy domestic demand, aided by a catch-up in contact-based services, strong investment activity, government push for capital expenditure (capex), relatively accommodative financial conditions, and an overall normal monsoon for the fourth time in a row. The good news does not end here, the growth momentum continues to stay healthy in the first quarter of this fiscal is quite healthy, as expected by the Reserve Bank of India (RBI), which forecasts 8.0% growth for Q1FY2024. India is expected to remain the fastest growing economy in the world, with GDP growth projected at 6.0% in fiscal 2024 as per CRISIL MI&A. However, multiple risks remain to the growth outlook including sluggish exports and lagged impact of rate hikes on the economy.

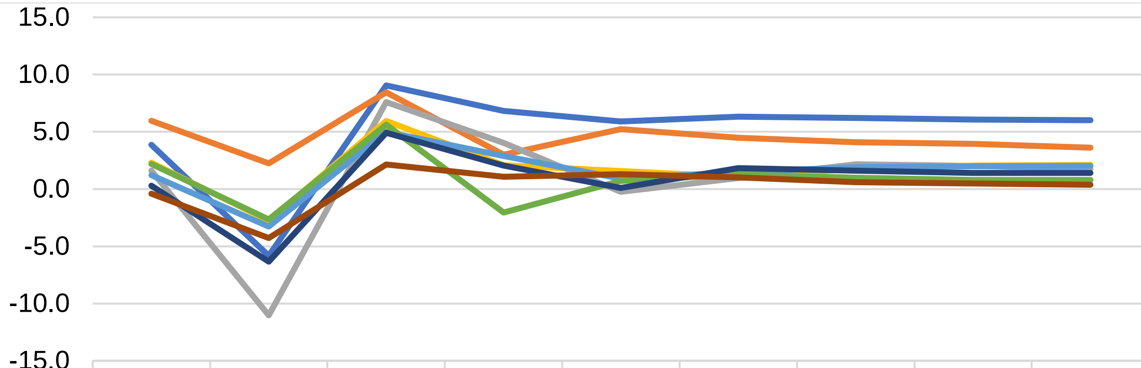
India's economy to grow at 6.0% in fiscal 2024



Note: P = Projected, E: Estimates; GDP growth till fiscal 2023 is actuals. GDP Projections for fiscals 2023- 2024 is projected based on CRISIL MI&A estimates and that for fiscals 2025-2028 based on IMF estimates; Source: NSO, CRISIL MI&A, IMF (World Economic Outlook – April 2023 update)

Over the past three fiscals, Indian economy has outperformed its global counterparts by witnessing a faster growth. Going forward as well, IMF projects that Indian economy will remain strong and would continue to be one of the fastest growing economies.

India is the fastest-growing major economies (GDP growth, % year-on-year)



	2019	2020	2021	2022	2023P	2024P	2025P	2026P	2027P
India	3.9	-5.8	9.1	6.8	5.9	6.3	6.2	6.1	6.0
China	6.0	2.2	8.5	3.0	5.2	4.5	4.1	4.0	3.6
United Kingdom	1.6	-11.0	7.6	4.0	-0.3	1.0	2.2	2.0	1.8
United States	2.3	-2.8	5.9	2.1	1.6	1.1	1.8	2.1	2.1
Brazil	1.2	-3.3	5.0	2.9	0.9	1.5	1.9	2.0	2.0
Russia	2.2	-2.7	5.6	-2.1	0.7	1.3	1.0	0.8	0.8
South Africa	0.3	-6.3	4.9	2.0	0.1	1.8	1.6	1.4	1.4
Japan	-0.4	-4.3	2.1	1.1	1.3	1.0	0.6	0.5	0.4

Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years, P: Projected
Source: IMF (World Economic Outlook – April 2023 update), CRISIL MI&A

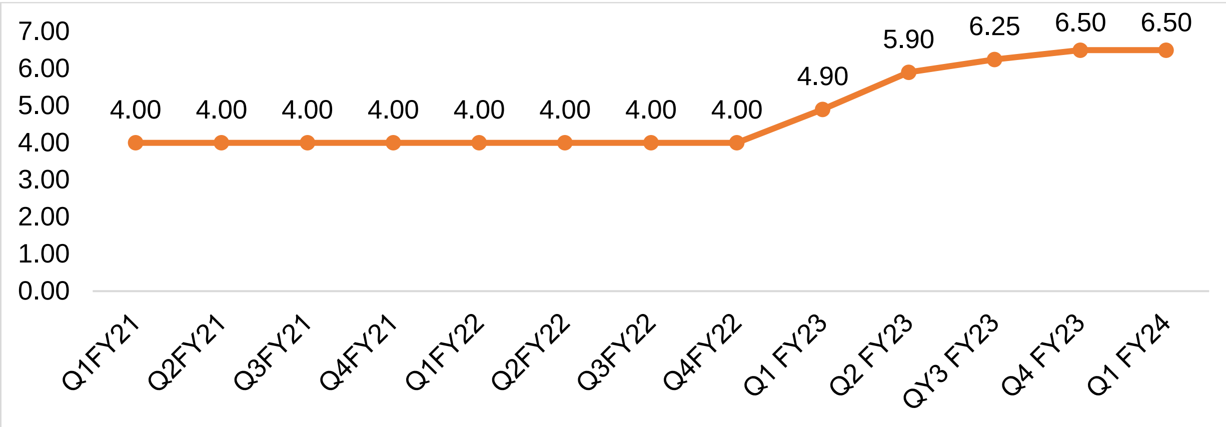
Indian economy to be a major part of world trade

Along with being one of the fastest growing economies in the world, India ranked fifth in the world in terms of nominal GDP for 2023 according to IMF forecasts (World Economic Outlook -April Update). India overtook UK to become the fifth largest economy in the world in CY2022. In terms of purchasing power parity ("PPP"), India is the third largest economy in the world, only after China and the United States.

Financial conditions stabilise, broader economy to face elevated rates

The RBI's Monetary Policy Committee (MPC) is expected to be on an extended pause for the next few meetings, as it evaluates the inflation trajectory and growth momentum. While inflation has fallen in the past four months, progress of monsoon and impact of El Nino will be monitorable. The impact of past rate hikes on growth will be the most prominent in the current fiscal. As growth slows, CRISIL MI&A expects RBI to initiate rate cuts in the last quarter of fiscal 2024. While the pause on rate hikes has augured well for financial markets, elevated bank lending rates could tighten financial conditions for some segments of the economy.

Repo rate remains unchanged, with phase of aggressive rate hikes behind us



Source DBIE RBI, CRISIL MI&A

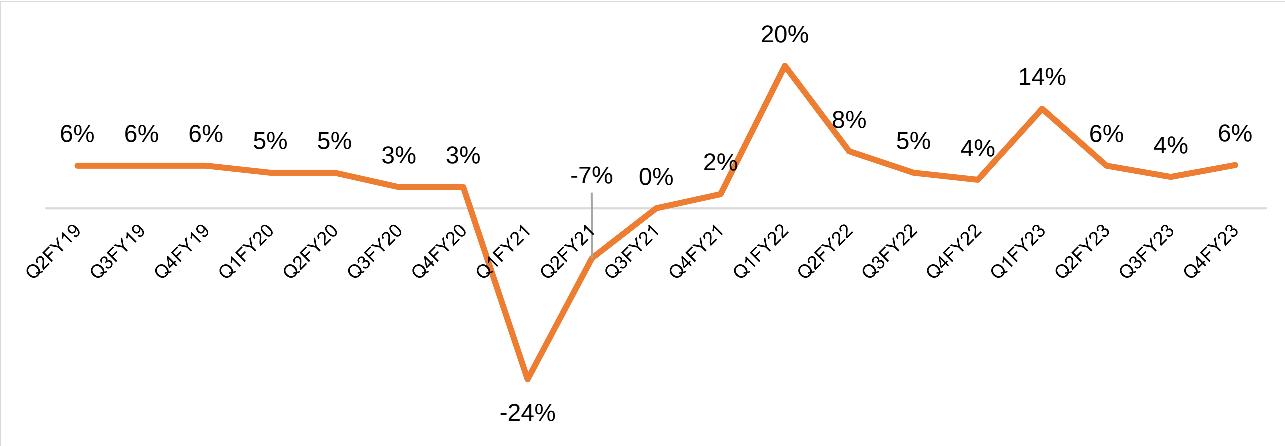
On the global front, the US Fed paused rate hikes in June, but remains on the edge as the economy continues to witness tight labour market conditions. S&P Global expects the Fed rate to remain at peak levels in calendar year 2023. Inflation in the eurozone is expected to moderate to 6.1% from 7.0% in the previous year, according to a flash estimate released by Eurostat. The softening in inflation is led by a 1.7% year-on-year fall in energy prices. Core inflation (inflation excluding energy, food, alcohol, and tobacco) is also expected to soften to 5.3% from 5.6% in fiscal 2024. KAs inflation remains above its target, the European Central Bank hiked interest rates by 25 bps at their June meeting, taking the deposit facility rate to 3.5%.

While the risk of tight and volatile global financial conditions persists, India's vulnerability to these shocks is likely to be lower this year. India's key external liability — current account deficit — will likely be pared this fiscal on the back of lower crude oil prices. This, coupled with the RBI's adequate forex reserves and the country's good growth prospects, should cushion the impact of a global spill over on Indian macroeconomic conditions.

MPC maintains status quo on monetary policy

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept its policy rates unchanged in June, for the second consecutive time. It also maintained its stance of 'withdrawal of accommodation' to progressively align inflation to 4%, the mid-point of the RBI's target range. The central bank is currently evaluating the impact of past rate hikes on growth and inflation while remaining cautious of the upside risks on the latter. According to MPC's June meet, the real GDP growth for fiscal 2024 is projected at 6.5%, Q1FY24 at 8.0%, Q2FY24 at 6.5%, Q3FY24 at 6.0% and Q4FY24 at 5.7%.

Trend in real GDP growth rate on quarterly basis



Source: CSO, RBI, CRISIL MI&A

The GDP numbers showed India's growth slowing to 4.1% year-on-year in the fourth quarter of Fiscal 2022 compared to 5.4% in the previous quarter. The first quarter of Fiscal 2023 shows recovery to the extent of 13.5% owing to low base. However, the growth in Q2 FY2023 moderated to 6.3% while further coming down to 4.4% in Q3 FY2023. India's real GDP growth rose sharply to 6.1% on year in Q4FY23. Manufacturing and agriculture growth improved on-quarter on the supply side even as services growth remained strong, albeit slowing a tad relative to the previous quarter.

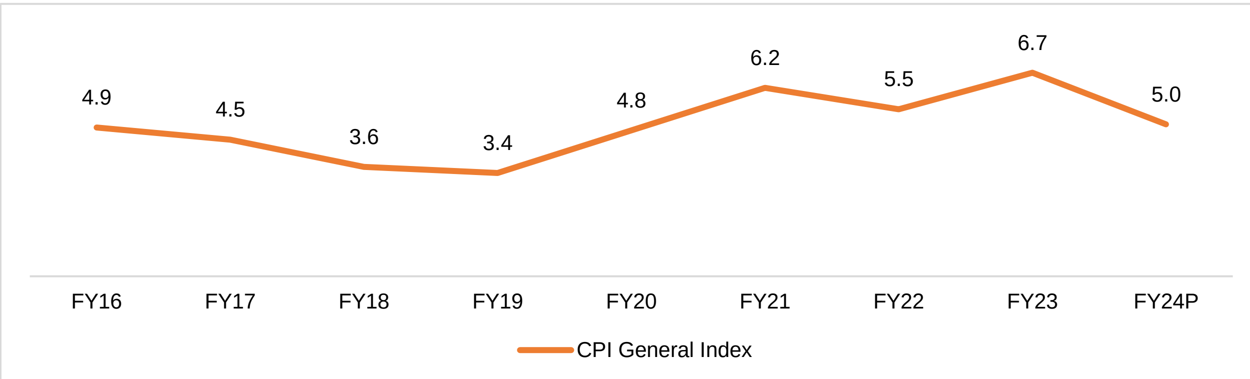
Consumer Price Index ("CPI") inflation to average at 5.0% in Fiscal 2024

India's CPI slowed for the fourth consecutive months in May 2023, coming down to 4.3%, down from 4.7% in April 2023 and considerably lower than 7.8% seen in April 2022. Four factors have influenced the fall in inflation over the last few months.

- First, a considerable part of the fall is due to a high base effect of last year when the Russia-Ukraine conflict had intensified which consequently pushed up the fuel, metal and food prices.
- Second, a fall in global oil and commodity prices - The global energy index fell an average 31.1% on-year in the last four months, while the metals index is down 17% on average.
- Third, easing supply chain pressures leading to better availability of inputs and therefore reduced pressure on prices.
- Fourth, easing food inflation as the rabi crop enters the market which led to food inflation falling 0.2% on a seasonally adjusted on-month basis.

Inflation moving below the 5% mark gives relief to the Monetary Policy Committee (MPC), which in its recent policy review kept the repo rate unchanged leaving room to assess the cumulative impact of rate hikes on inflation. CRISIL MI&A expects CPI inflation to average 5.0% in Fiscal 2024 from 6.7% in Fiscal 2023 on expectations of a normal monsoon. Further, impact of rising interest rates on domestic demand, a global demand slowdown leading to falling international commodity prices, and the base effect — have also led to lower inflation. In this scenario, we expect the MPC to maintain a pause as it continues to watch the impact of past rate hikes. As growth slowdown seeps in and inflation moderates, we expect it to cut rates by the end of this fiscal.

Inflation to moderate to 5.0% in Fiscal 2024



Note: P = Projected; Source: CSO, Ministry of Industry and Commerce, CRISIL MI&A

Macroeconomic outlook for Fiscal 2024

Macro variables	FY23	FY24P	Rationale for outlook
GDP (y-o-y)	7.2%	6.0%	Slowing global growth is likely to weaken India's exports in Fiscal 2024. Domestic demand could also come under pressure as Reserve Bank of India (RBI) rate hikes are transmitted to consumers. Despite the lower forecast, India continuous to grow at highest rate in world.
Consumer Price Index (CPI) Inflation (y-o-y)	6.7%	5.0%	Lower commodity prices, base effect, expectation of softer food prices and cooling off domestic demand is likely to help in moderating inflation in Fiscal 2024.
10-year Government security yield (Fiscal-end)	7.4%	7.0%	A moderate increase in gross market borrowings is budgeted for Fiscal 2024. This, coupled with lower inflation, is likely to moderate yields in Fiscal 2024.
CAD (Current account balance)/GDP (%)	-2.0%	-1.8%	Lower commodity prices, especially in energy space and support from healthy services exports is expected to lead to moderation of trade deficit in Fiscal 2024
Rs/$ (March average)	82.3	83.0	While a lower current account deficit (CAD) will support the rupee, challenging external financing conditions will continue to exert pressure in the next Fiscal. However, the overall impact on rupee is expected to remain below the levels indicated by current forward

			premiums for the year.

Note: P – Projected; Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL MI&A

Positive government measures to aid economic growth

Going forward, CRISIL MI&A expects India's gross domestic product (GDP) growth to decelerate to 6.0% in Fiscal 2024 from 7.2% in Fiscal 2023 due to a global slowdown, monetary policy impact and volatile geopolitical scenario. However, some optimism can be seen in form of moderating consumer inflation, capital and productivity increases aided by better physical and digital infrastructure. CRISIL MI&A expects this growth to be supported by the following factors:

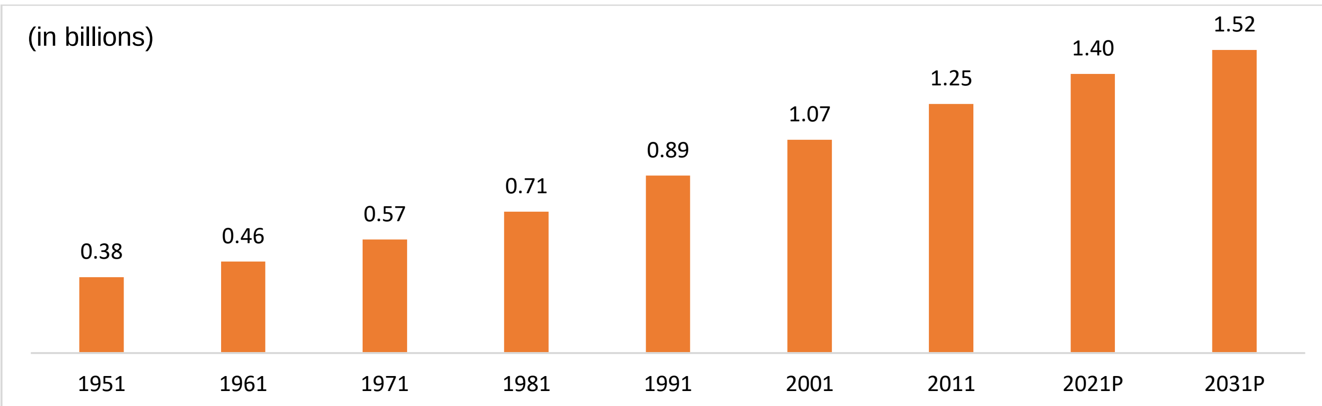
- The Union Budget 2023-24 announced by Finance Minister highlighted that the government has set 7 priorities – Inclusive Development, Reaching the last mile, Infrastructure and Investments, Unleashing the Potential, Green Growth, Youth power and Financial Sector, which they called '**Saptarshi'**, which will strive to turn India into a developed country
- One key area of announcement was towards Support in technological advancement would promote financial inclusion, ensure better availability of customer data, enable faster and secure sharing of documents with financial institutions and increase rural penetration. This will in turn is expected lead to improving efficiency in terms of operating and credit cost for financial institutions.
- The increase in aggregate budgetary support for infrastructure by 17% to reach Rs. 12.5 trillion lays emphasis on the broad plan for infrastructure spending by the Government that is expected to give a push to economic growth. The railways capex has been increased by 15% over fiscal 2023 and capex for roads and highways was increased by 25% over fiscal 2023. These capex initiatives are expected to drive economic growth.
- Production linked incentive (PLI) scheme, which aims to incentivise local manufacturing by giving volume-linked incentives, has been launched by the government for six of India's top 10 export verticals, which is likely to propel incremental exports. In Fiscal 2024, PLI-driven exports will be the lone growth driver for India, helping improve the overall export growth to 2-4%.
- Government has launched two key initiatives to promote financial inclusion, Pradhan Mantri Jan Dhan Yojna (" PMJDY") and Pradhan Mantri Jeevan Jyoti Bima Yojna ("PMJJBY"), under PMJDY it aims to ensure a bank account in every household to avail all financial services. Under PMJJBY, one year life insurance is offered with a life cover of Rs. 0.2 million at a premium of Rs. 330 per annum per member, which can be renewed every year.
- Focus on investments rather than consumption push enhancing the productive capacity of the economy. Policy pushes and new age opportunities to lead capex growth in Fiscal 2024.
- Policies aimed towards greater formalisation of the economy, which are bound to lead to an acceleration in per capita income growth.

Key growth drivers

India has the world's second largest population

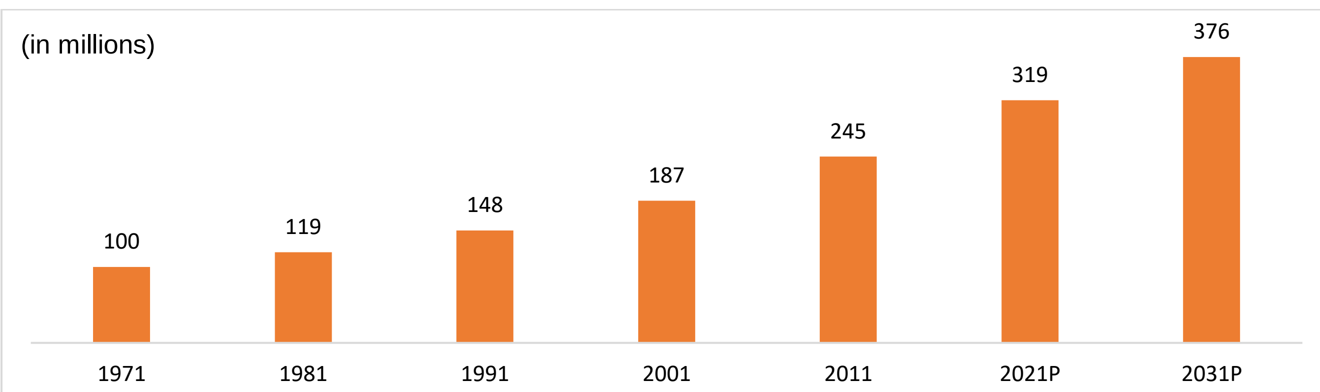
As per Census 2011, India's population was ~1.25 billion, and comprised nearly 245 million households, is expected by CRISIL MI&A to increase at 1.1% CAGR between 2011 and 2021, to 1.4 billion. and 1.5 billion by 2031, and number of households are expected to reach ~376 million over the same period.

India's population growth trajectory



Note: As at the end of each Fiscal. P: Projected,
Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/), CRISIL MI&A

Number of households in India



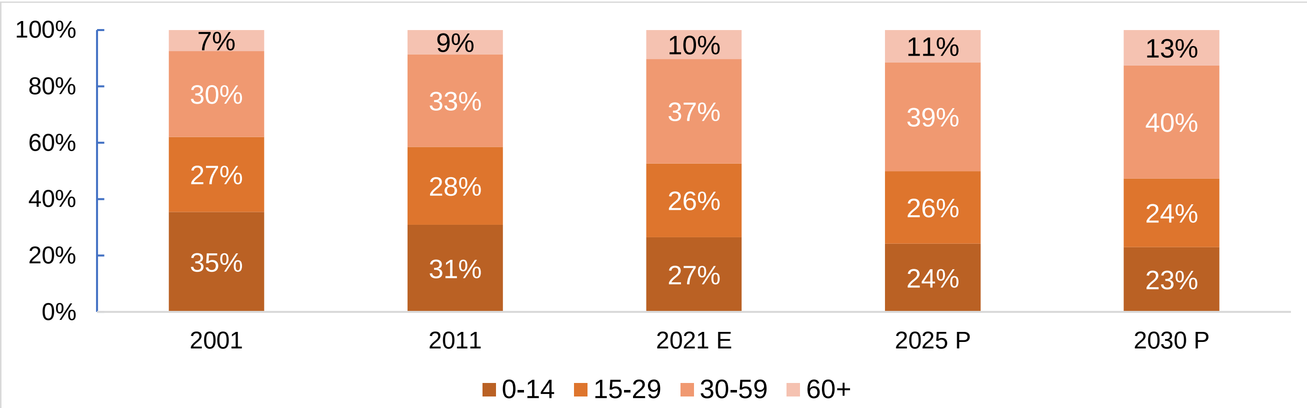
Note: *As at the end of each Fiscal.* P: Projected
Source: Census India, CRISIL MI&A

Favourable demographics

As of calendar year 2022, India has one of the largest young populations in the world, with a median age of 28 years. CRISIL MI&A estimates that approximately 90% of Indians are still below the age of 60 in calendar year 2021 and that 63% of them are between 15 and 59 years. In comparison, in calendar year

2020, the United States (US), China and Brazil had 77%, 83% and 86%, respectively, of their population below the age of 60.

India's demographic dividend

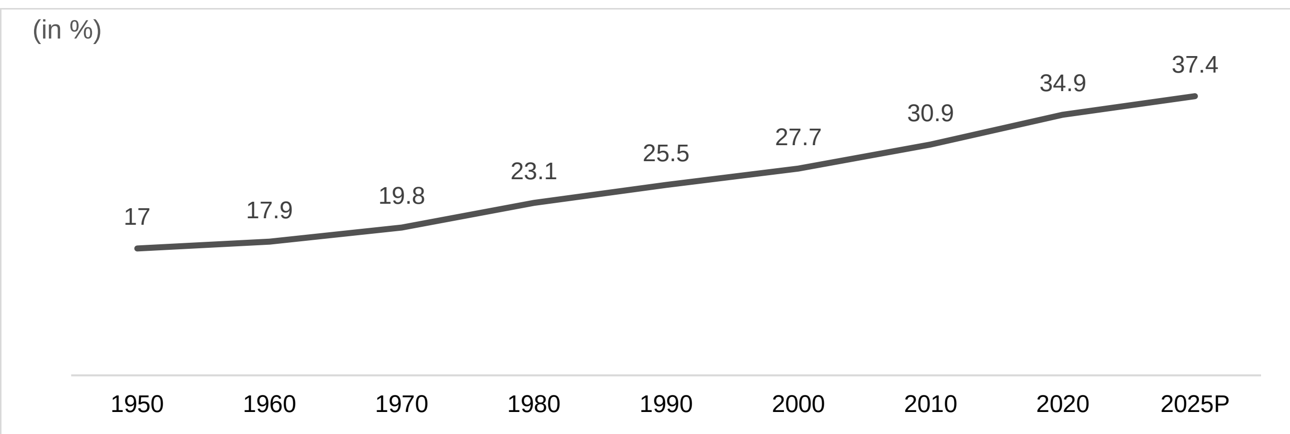


Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs[1], CRISIL MI&A

Urbanization

Urbanization is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development. India's urban population has been rising consistently over the decades. (Source: Word Urbanization Prospects). As per the 2018 revision of World Urbanization Prospects, it was estimated at 34.9% for India. According to the World Urbanization Prospects, the percentage of population residing in urban areas in India is expected to increase to 37.4% by 2025.

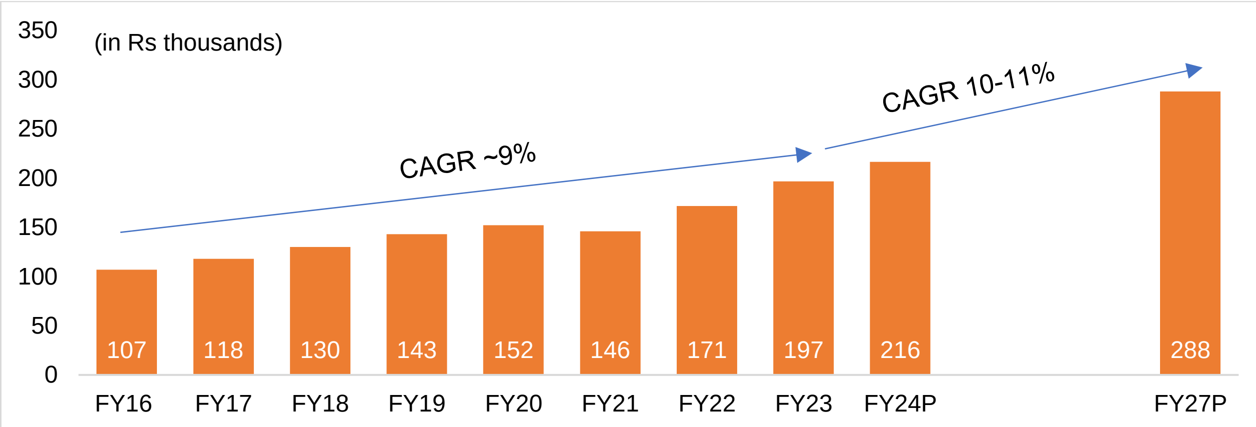
Urban population as a percentage of total population (%)



Note: P – Projected; Source: Census 2011 and World Urbanization Prospects: The 2018 Revision (UN) (https://population.un.org/wup/)

Trend in Nominal GDP per capita (at current prices)

As per IMF's estimates, India's nominal GDP per capita (at current prices) is projected to increase at a CAGR of 10-11% from FY2023 to FY2027.



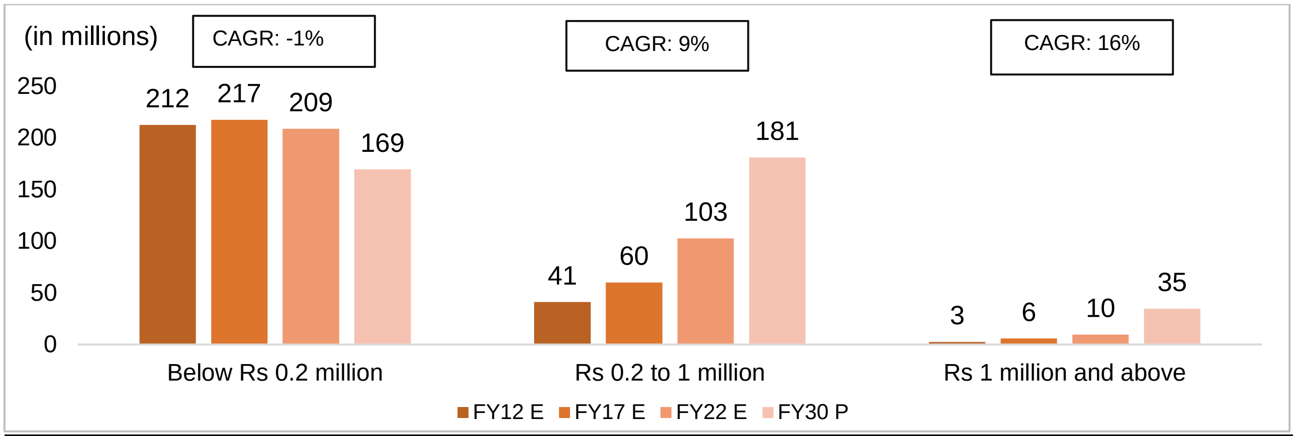
Notes: P- Projected. FY23 estimates based on second advanced estimates by Ministry of Statistics and Program Implementation FY24 – FY27 Projections based on IMF – World Economic Outlook (April 2023); Source: MOSPI, IMF, CRISIL MI&A

Rising Middle India population to help sustain growth

Proportion of Middle India (defined as households with annual income of between₹ 0.2 to 1 million) has been on a rise over the last decade and is expected to grow further with continuous increase in the GDP and household incomes. CRISIL MI&A estimates that there were 41 million middle income households in India as of Fiscal 2012, and by Fiscal 2030, they are projected to increase to 181 million households. A large number of these households, which have entered the Middle-Income bracket in the last few years, are likely to be from semi-urban and rural areas.

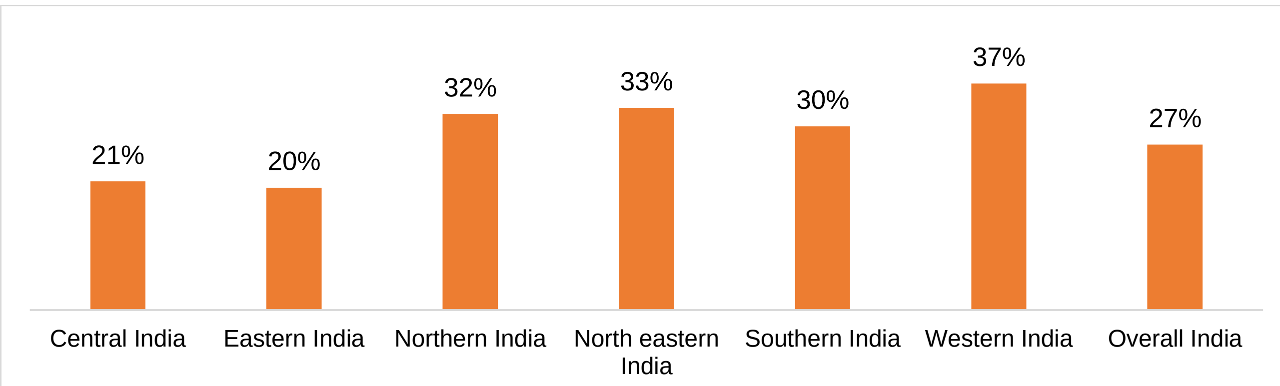
CRISIL MI&A believes that the improvement in the literacy levels, increasing access to information and awareness, increases in the availability of necessities, and the improvement in road infrastructure has led to an increase in aspirations of Middle India, which is likely to translate into increased opportunities for financial service providers.

Middle India households to witness high growth over Fiscal 2012 to Fiscal 2030



Note: E: Estimated, P: Projected; Source: CRISIL MI&A

Financial Literacy across India as of 2019



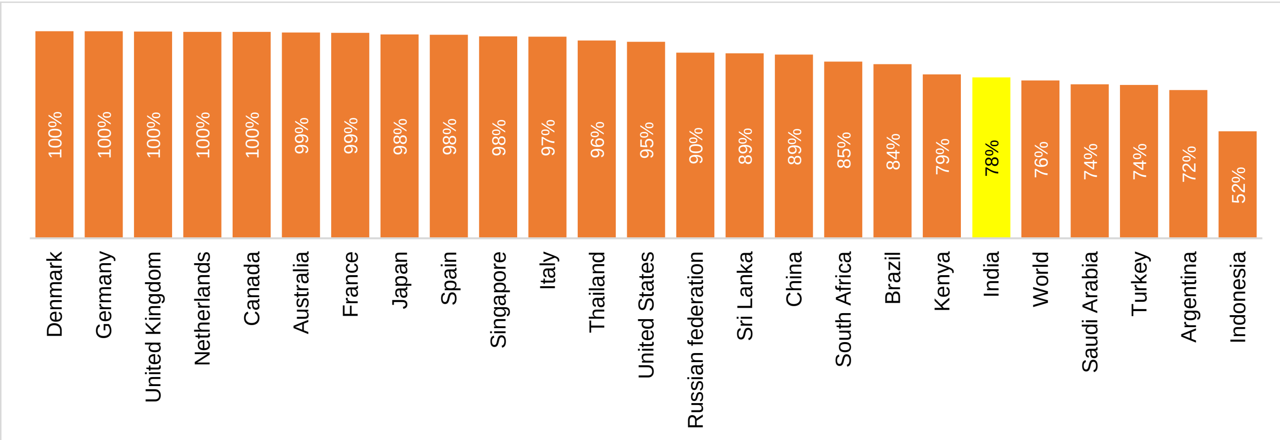
Source: National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019 Report, National Centre for Financial Education

Financial Inclusion on a fast path in India

Overall literacy in India is at 77.7% as per the results of recent NSO survey conducted from July 2017 to June 2018, which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. India's financial inclusion has improved significantly over calendar years 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database) due to the Indian government's efforts to promote financial inclusion and the proliferation of supporting institutions.

With increasing financial literacy, mobile penetration, awareness, and the Prime Minister's Jan Dhan Yojana bank accounts, there has been a rise in the participation of individuals from non-metro cities in banking. With more people attached to the formal banking sector, the demand for financial products in smaller cities has seen a major increase in recent years. Going forward, CRISIL MI&A expects financial penetration to increase on account of increasing financial literacy.

Adult population with a bank account (%): India vis-à-vis other countries



Note: 1. Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Account penetration is for the population within the age group of 15+, Source: World Bank – The Global Findex Database 2021, CRISIL MI&A

Rural economy is becoming structurally far more resilient

According to Census 2011, there are about 640,000 villages in India, which are inhabited by about 893 million people, comprising about 65% of the country's population as of CY2021. About 47% of India's GDP comes from rural areas.

The rural economy is far more resilient today due to increased spends under MGNREGA and irrigation programmes, direct benefit transfer (DBT), the PM-Kisan scheme, PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, will improve rural business prospects, provide business opportunities for the banking and financial services sector and drive the long-term growth of the economy.

Account aggregators framework to build a financial data ecosystem in India

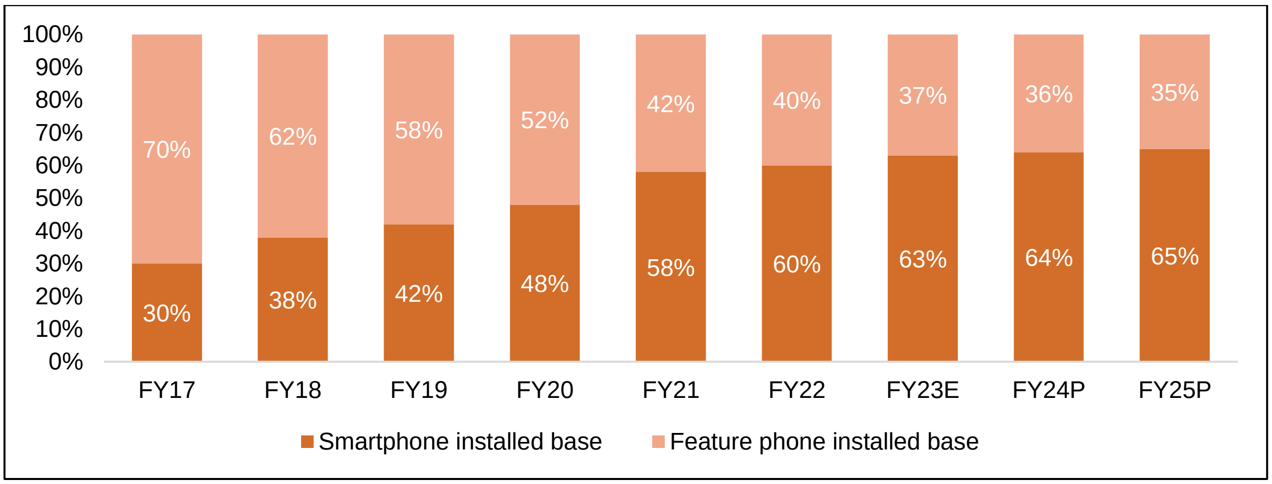
On 2nd September 2021, the RBI launched the Account Aggregators scheme, which is a framework to allow accessibility to financial data by creating intermediaries called account aggregators. These intermediaries will collect and share financial information to various entities. It is a big step towards creating a financial ecosystem which will save transaction cost and ensure a person's credit worthiness.

Digitisation to support economic growth and financial services

Technology is expected to play a pivotal role in taking the financial sector to the next level of growth, by helping to surmount challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable. Technology is conducive for India, considering its demographic structure where the median age is less than 30 years. The young population is tech savvy and at ease with using it to conduct the entire gamut of financial transactions.

Mobile penetration: Higher mobile penetration, improved connectivity, and faster and cheaper data, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one.

Data-savvy and younger users to drive adoption of smartphones

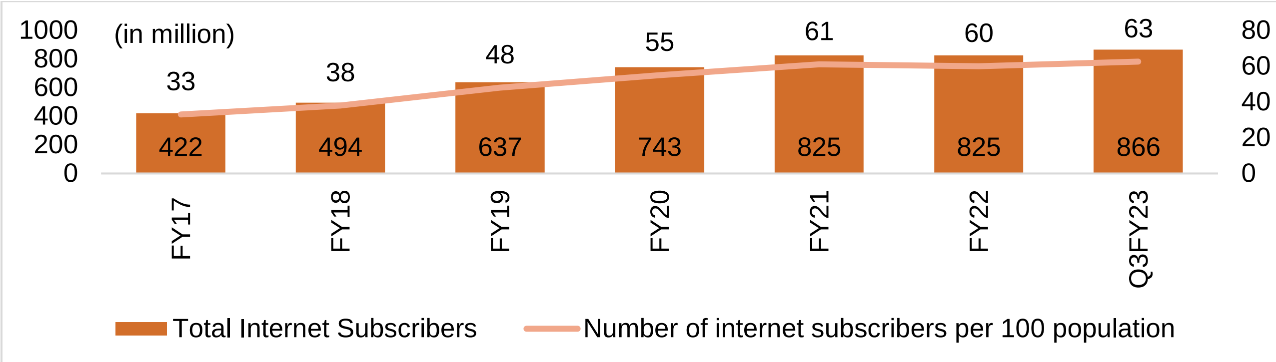


Note: E: Estimated, P: Projected; Source: CRISIL MI&A

Rise in 4G penetration and smartphone usage

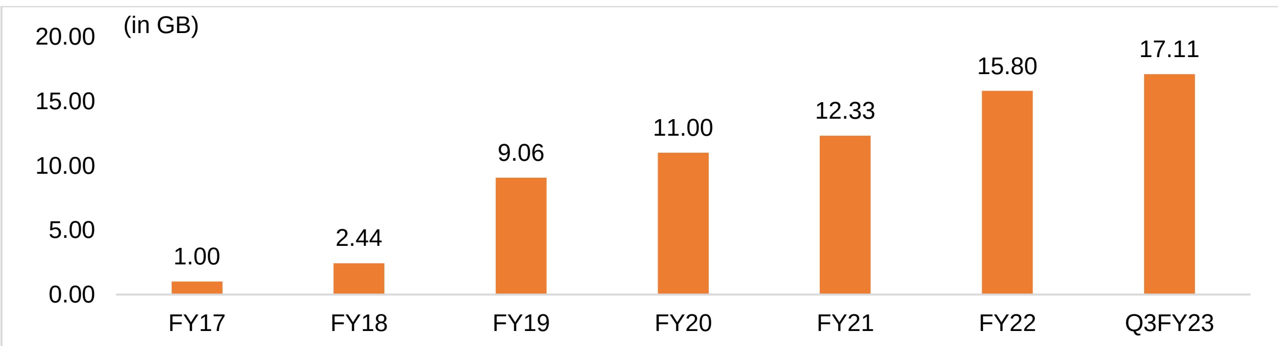
India had 1,142.93 million wireless subscribers as of December 31, 2022, and the number is growing at a steady pace every year. The reach of mobile network, internet and electricity is continuously expanding the subscriber footprint to remote areas leading to rising smartphone and internet penetration in the country. Internet subscribers have risen sharply in India from 422 million subscribers in Fiscal 2017 to 866 million subscribers in the third quarter of Fiscal 2023 growing at a CAGR of 13%. In terms of number of internet subscribers per 100 population, number has almost doubled from 33 in Fiscal 2017 to 63 in the third quarter of Fiscal 2023. Over the years, data usage per subscriber has also increased.

Trend in internet subscribers in India



Source: TRAI, CRISIL MI&A

Trend of average wireless data usage per wireless data subscriber per month

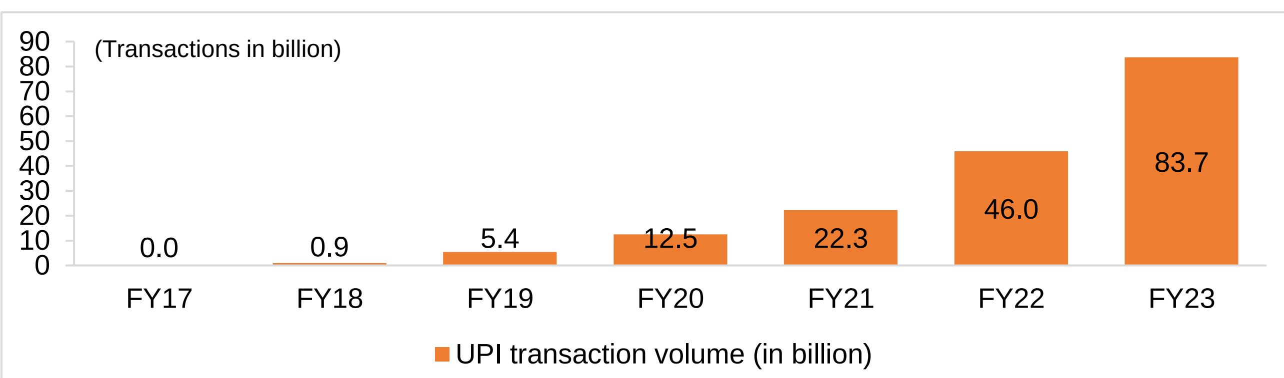


Source: TRAI, CRISIL MI&A

Digital payments have witnessed substantial growth

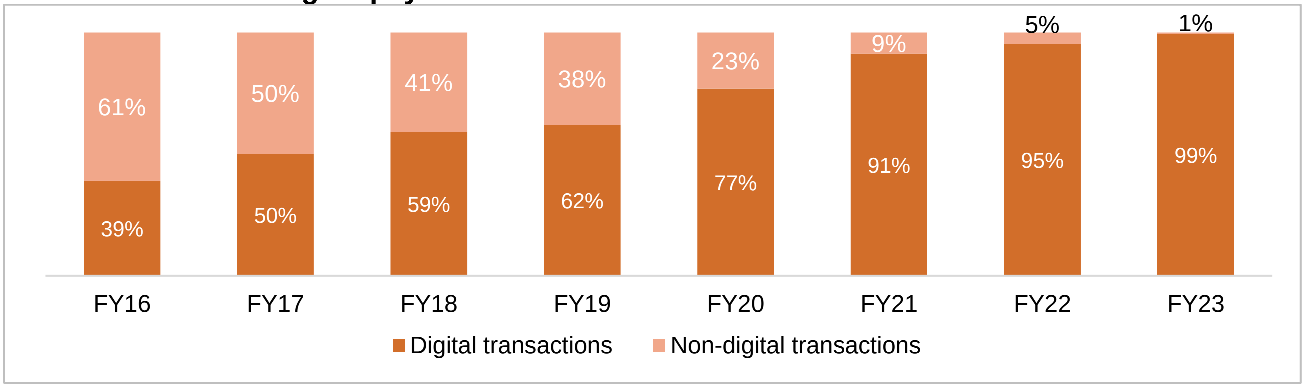
Total digital payments in India have witnessed significant growth over the past few years. Between fiscal 2016 and 2022, the volume of digital payments transactions has increased from 6.3 billion to 113.9 billion, causing its share in overall payment transactions to increase from 39% in fiscal 2016 to 99% in fiscal 2023. During the same period, value of digital transactions has increased from Rs. 920 trillion in fiscal 2016 to Rs. 2,087 trillion in fiscal 2023.

UPI transactions volumes have zoomed between FY17 and FY23



Source: RBI, CRISIL MI&A

Trend in volume of digital payments



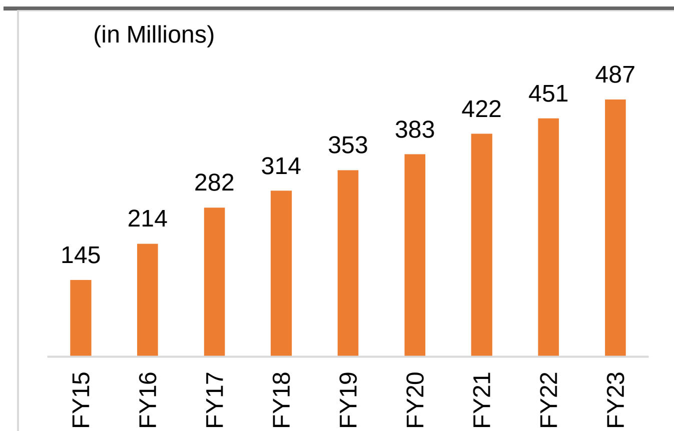
Note: Digital Payments includes RTGS payments, Credit transfers (AePS, APBS, ECS Cr, IMPS, NACH, NEFT, UPI), Debit Transfers (BHIM, ECS Dr, NACH Dr, NETC), Card Payments (Debit and Credit Cards) and Prepaid Payments Instruments
Source: RBI, CRISIL MI&A

Key structural reforms: Long-term positives for the Indian economy

Financial inclusion

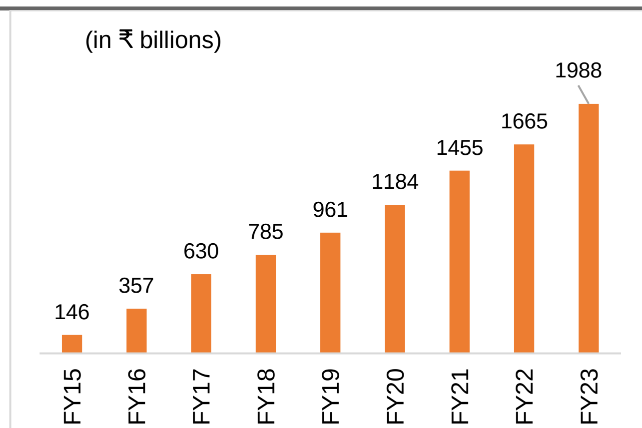
Financial inclusion improved significantly with the help of schemes like Pradhan Mantri Jan Dhan Yojana ("PMJDY"), Pradhan Mantri Jeevan Jyoti Bima Yojana ("PMJJBY") and Pradhan Mantri Suraksha Bima Yojana ("PMSBY").The two key Initiatives launched by the government to promote financial inclusion are the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY). PMJDY, which was launched in August 2014, and aims of PMJDY is to extend banking facilities to all within a reasonable distance in each sub-service area (consisting of 1,000-1,500 households) across India. As of March 31, 2023, 487 million PMJDY accounts had been opened, of which, 67% were in rural and semi-urban areas, with total deposits of ₹ 1,988 billion.

Number of PMJDY accounts



Note: As at the end of each Fiscal.
Source: PMJDY; CRISIL MI&A

Total balance in PMJDY accounts



Note: As at the end of each Fiscal.
Source: PMJDY; CRISIL MI&A

Goods and Services Tax (GST) implementation

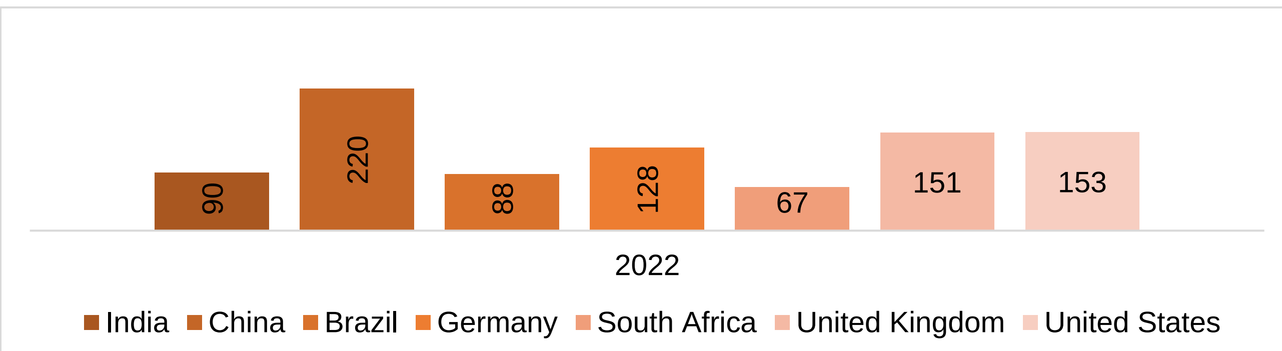
Introduced on July 1, 2017, the GST is an indirect tax regime that subsumed multiple cascading taxes levied by the central and state governments. Its implementation has spawned structural changes in the supply chain and logistics network in the country. The crux of the GST mechanism is input tax credit, which ensures more players in the supply chain come under the tax ambit. As supply from only registered taxpayers will get input tax credit, businesses and stakeholders will insist on registration of their suppliers and traders, leading to an increase in the share of organized participants.

Credit penetration in India

Credit penetration is lower in India compared to other countries

In terms of the credit to GDP ratio, India has a low credit penetration compared with other developing countries, such as China indicating the potential that can be tapped. Similarly, in terms of credit to households as a proportion of GDP as well, India lags other markets, with retail credit hovering at around 26% of GDP as of Fiscal 2023.

Credit to GDP ratio (%)

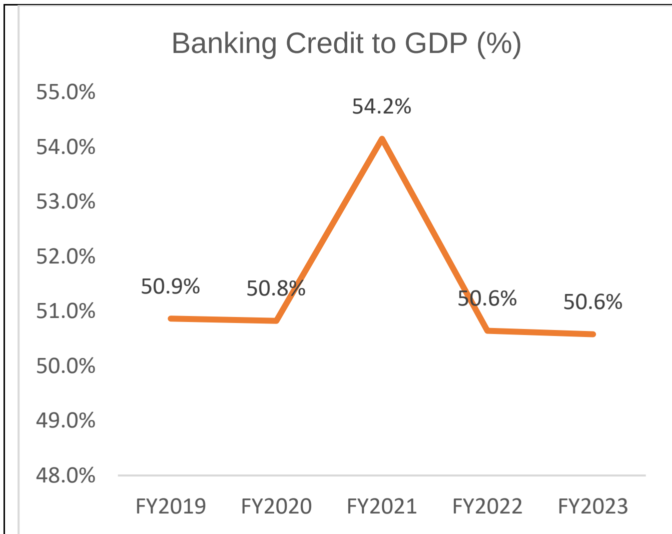


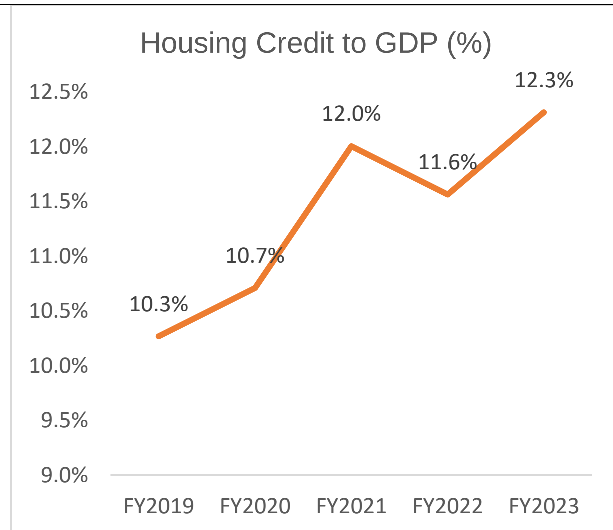
Note: Data is represented for calendar years for all countries except India. For India, numbers are for fiscal year 2021; Source: Bank of International Settlements[2], CRISIL MI&A

Trend in Banking Credit to GDP and Housing Credit to GDP during fiscals 2019 to 2023

Overall Banking Credit to GDP witnessed an upward movement during fiscal 2021, owing to slowing down of economic activity and pandemic induced lockdown which led to fall in the GDP of the nation during the fiscal. However, in the fiscal 2022, with opening up of the lockdown and improvement in economic activity, the GDP rose with overall banking credit to GDP coming back to ~50% of real GDP. While banking credit as proportion of GDP has remained stable, housing credit to GDP has increased from 10.3% in fiscal 2019 to 12.0% in fiscal 2021 which further increased to 12.3% in fiscal 2023.

Overall banking credit to GDP ratio has remained stable; Housing credit to GDP has increased over the years





Note: Outstanding credit of all scheduled banks taken for banking credit

Source: DBIIE RBI, NSO, CRISIL MI&A

Source: CRIF Highmark, CRISIL MI&A

Delhi, Maharashtra, Telangana, and Chandigarh have a higher credit penetration compared to other states

Delhi, Maharashtra, Telangana, and Chandigarh have a credit to GDP ratio of more than 100% as of March 2023 which indicates that credit penetration in the state is higher as compared to other states in the country. Chandigarh has the highest credit penetration of 271% as of March 2023 followed by Delhi at 240%. Maharashtra has the third highest credit penetration in Indian States at 206% which has the highest contribution to Indian GDP. Delhi and Chandigarh which are smaller states have high credit concentration, for example Chandigarh has an urban credit share of 100% and Delhi has a metropolitan credit share of 99%. Densely populated states like Bihar and Uttar Pradesh have rural credit share at 21% and 16%, respectively, which is low considering majority of the population lives in rural areas.

State-wise credit penetration (FY23)

	Credit Penetration as of March 2023	GSDP (FY21-FY22) in Rs billion	Percentage share in India's GDP	Rural Credit Share	Semi Urban Credit Share	Urban Credit Share	Metropolitan Credit Share
Maharashtra*	206%	18,893	12.70%	2%	4%	4%	90%
Chandigarh*	271%	279	0.20%	0%	0%	100%	0%
Delhi	240%	6,224	4.20%	0%	1%	0%	99%
Telangana	102%	6,763	4.50%	7%	11%	9%	74%

Tamil Nadu	94%	13,451	9.00%	11%	23%	14%	51%
Kerala	83%	5,509	3.70%	2%	50%	48%	0%
Andhra Pradesh	77%	7,469	5.00%	15%	25%	30%	30%
Karnataka	73%	12,522	8.40%	8%	12%	16%	64%
Jammu & Kashmir	71%	1,215	0.80%	35%	26%	21%	19%
Haryana	68%	5,888	4.00%	9%	15%	68%	8%
Punjab	68%	4,275	2.90%	18%	29%	26%	28%
West Bengal*	62%	7,927	5.30%	13%	10%	20%	58%
Rajasthan	62%	7,330	4.90%	13%	24%	25%	38%
Puducherry	62%	266	0.20%	9%	20%	71%	0%
Chhattisgarh*	61%	2,455	1.60%	8%	17%	26%	49%
Madhya Pradesh	60%	6,217	4.20%	11%	22%	18%	48%
Gujarat*	58%	12,482	8.40%	8%	13%	17%	62%
Uttar Pradesh	57%	11,231	7.50%	16%	16%	32%	36%
Manipur*	50%	208	0.10%	30%	21%	49%	0%
Goa*	48%	534	0.40%	18%	82%	0%	0%
Bihar	46%	4,281	2.90%	21%	24%	25%	30%
Odisha	46%	4,203	2.80%	19%	23%	58%	0%
Assam*	45%	2,285	1.50%	21%	30%	49%	0%
Jharkhand	42%	2,368	1.60%	17%	20%	28%	35%
Nagaland*	42%	180	0.10%	22%	46%	32%	0%
Meghalaya	41%	257	0.20%	33%	18%	49%	0%
Uttarakhand	37%	1,899	1.30%	21%	21%	58%	0%
Arunachal Pradesh*	37%	189	0.10%	28%	72%	0%	0%
Himachal Pradesh	34%	1,244	0.80%	58%	32%	10%	0%
Sikkim	28%	207	0.10%	28%	10%	62%	0%
Mizoram*	28%	144	0.10%	8%	25%	67%	0%
Tripura	27%	405	0.30%	27%	27%	46%	0%

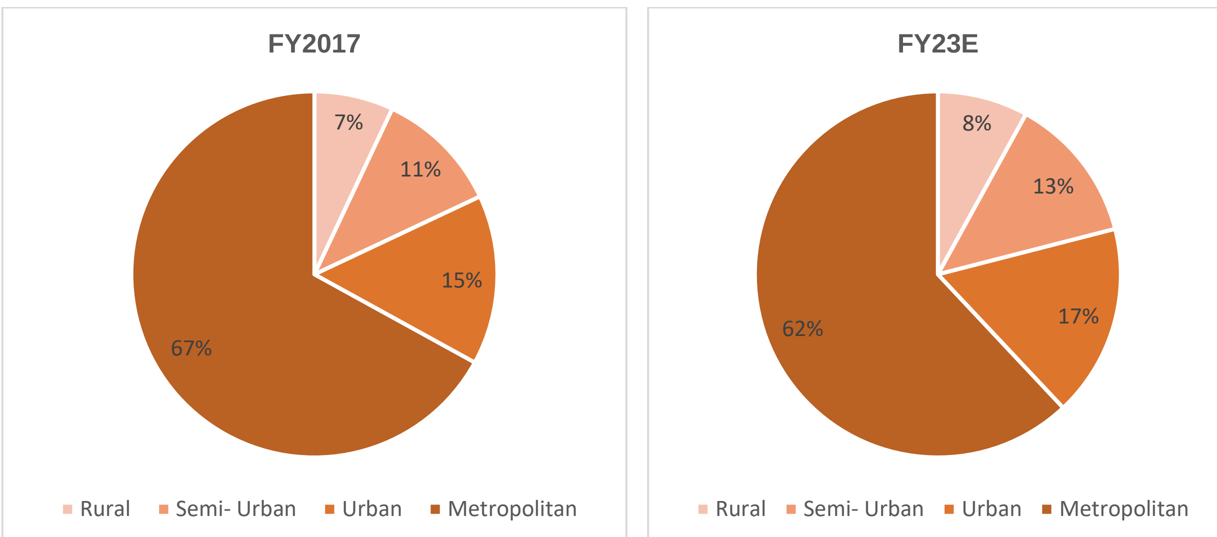
*Note: Credit penetration calculated as banking credit to states as of Fiscal 2023 divided by state GSDP (at constant prices) as of Fiscal 2022; Region wise credit % calculated as credit divided by total credit, GDP taken as GSDP at constant prices, Base Year: 2011-12., * GDSP taken for Fiscal 2021, Source: RBI, MOSPI, CRISIL MI&A Estimates*

Rural India – Under penetration and untapped market presents a huge opportunity for growth

Credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% in fiscal 2015 to 62% in fiscal 2023. Between the same period, credit share has witnessed a marginal rise in rural and urban areas. For semi-urban areas, credit share has gone up from 11% in fiscal 2015 to 13% in fiscal 2023.

At end of fiscal 2023 rural areas, which account for 47% of GDP, received just 8% of the overall banking credit, which shows the vast market opportunity for banks and NBFCs to lend in these areas. With increasing focus of government towards financial inclusion, rising financial awareness, increasing smartphone and internet penetration, CRISIL expects delivery of credit services in rural area to increase. Further, usage of alternative data to underwrite customers will also help the financiers to assess customers and cater to the informal sections of the society in these regions.

Share of rural and semi-urban credit has increased marginally between fiscal 2017 and fiscal 2023

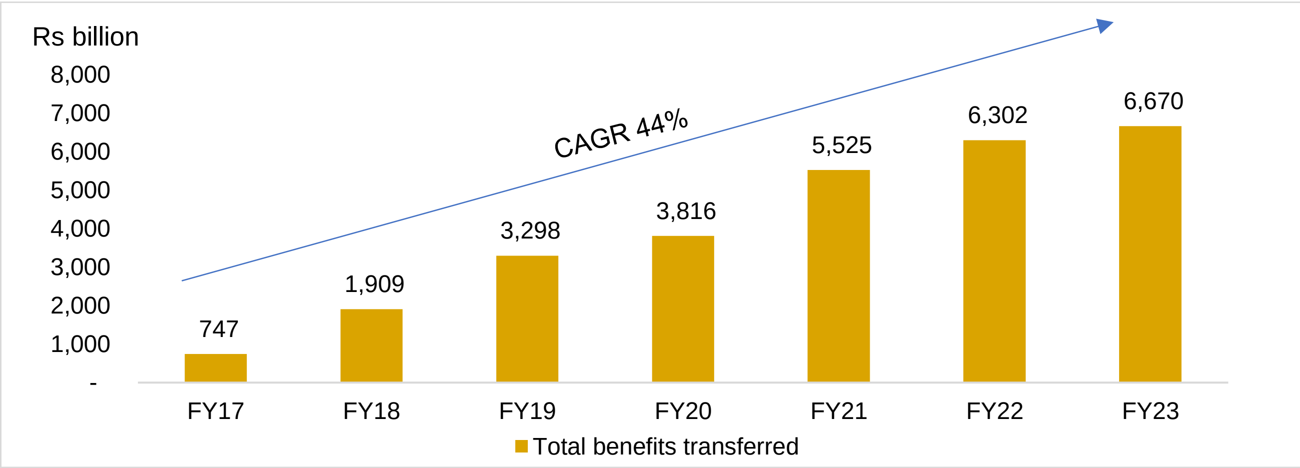


Source: RBI, MOSPI, CRISIL MI&A

Rural economy is becoming structurally far more resilient

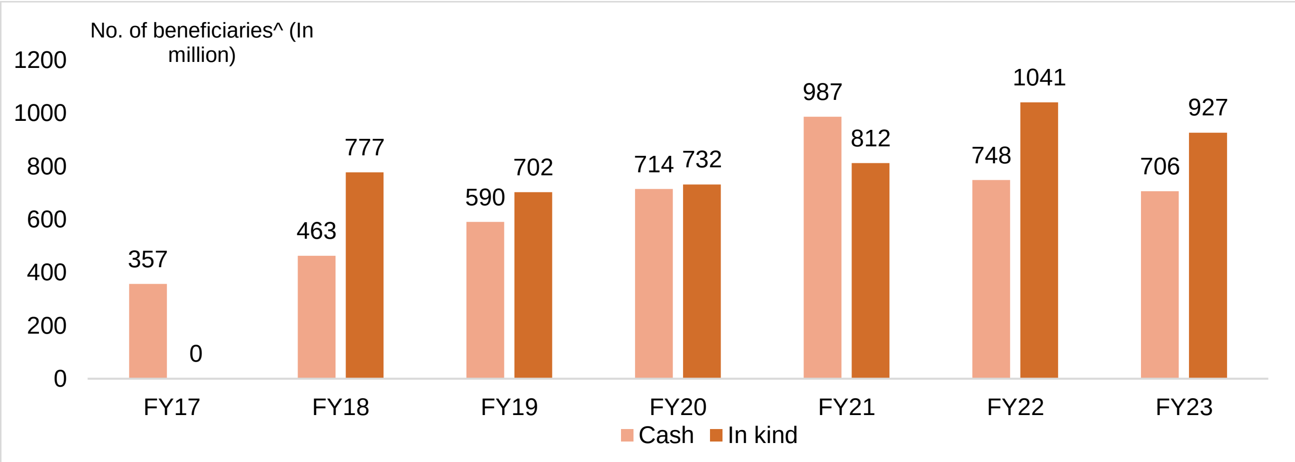
According to Census 2011, there are about 640,000 villages in India, which are inhabited by about 893 million people, comprising about 65% of the country's population as of CY2021. The rural economy is far more resilient today due to increased spends under MNREGA and irrigation programmes, direct benefit transfer (DBT), the PM-Kisan scheme, PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, will improve rural business prospects, provide business opportunities for the banking and financial services sector and drive the long-term growth of the economy.

Total direct benefits transfer by the government grew at CAGR of 44% between fiscal 2017 and fiscal 2023



Source: DBT Bharat, CRISIL MI&A

Direct benefits transfer (DBT) beneficiaries



Note: ^Sum total of beneficiaries across schemes

Source: DBT Bharat, CRISIL MI&A

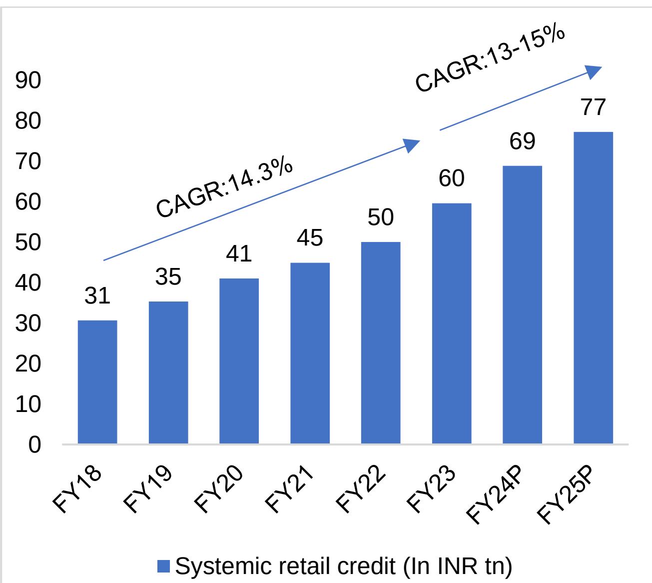
Retail credit market to grow at a healthy pace and remain profitable

Over last few years, retail credit grew at a strong pace from Rs 30 trillion in fiscal 2018 to Rs 60 trillion in fiscal 2023 and it constituted 32% of total systemic credit in India. The credit gap is much larger in case of Emerging Self-Employed Individuals.

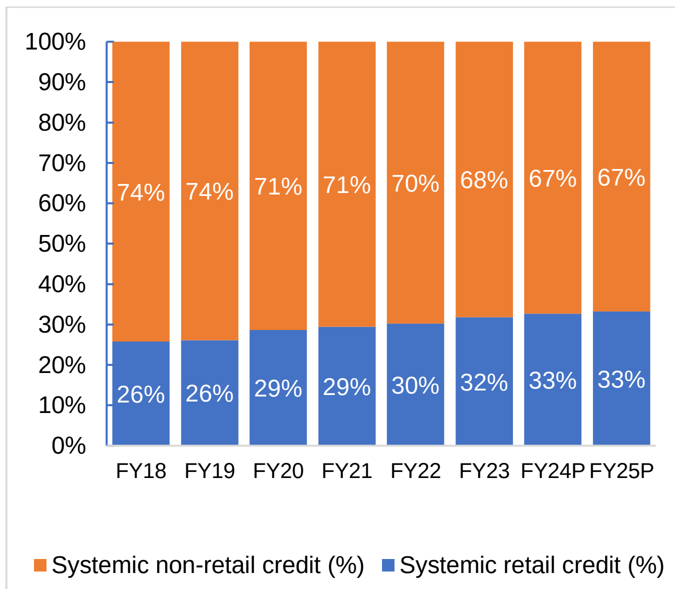
Retail credit is expected to further log a CAGR of 13-15% between fiscals 2023 and 2025. It is likely to be propelled by an increase in private consumption with a steady rise in GDP growth, a shift in attitude of consumers towards debt, the continuing trend of urbanisation and nuclearization, increased availability of data from credit bureaus as well as non-traditional data and financiers leveraging technology and data analytics to serve their target markets more efficiently. In addition, CRISIL MI&A sees that despite fast growth in retail credit, India's household debt in relation to its GDP still remains low at 26% as of fiscal 2023, compared with the BRICS countries – 34% in Brazil, and 62% in China.

From a profitability perspective as well, retail lending is an attractive proposition with NBFCs across various asset classes being able to earn fairly healthy return on assets over the course of a business cycle. Given that the market is large, has good growth prospects, is under penetrated and profitable, CRISIL MI&A expects retail credit to continue to remain a key focus area for banks and NBFCs.

Retail credit growth to continue on a strong footing in Fiscal 2024

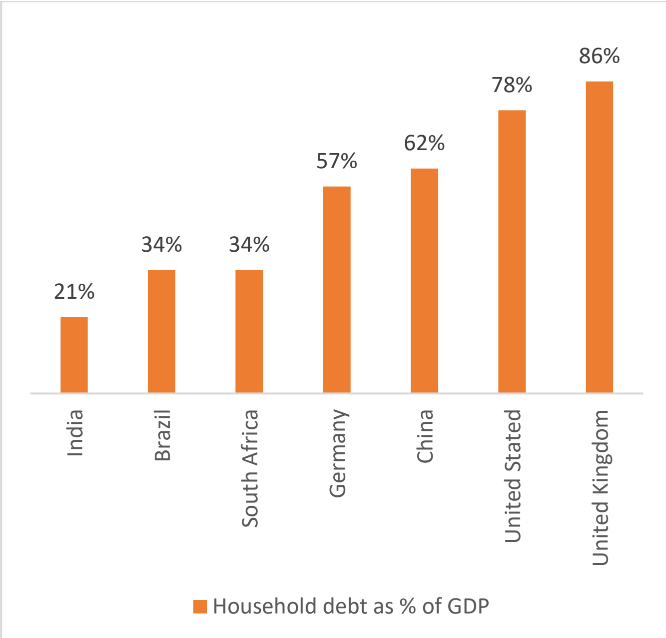


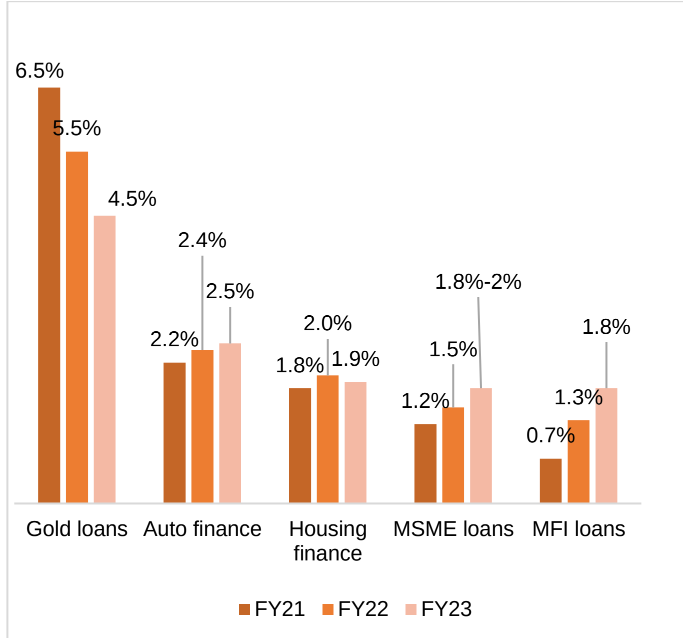
Retail segment is estimated to account for 32% of overall systemic credit as of Fiscal 2023



India most underpenetrated in terms of retail credit indicating significant potential for growth

Retail lending is profitable for NBFCs across various asset classes as indicated by their Return on Assets



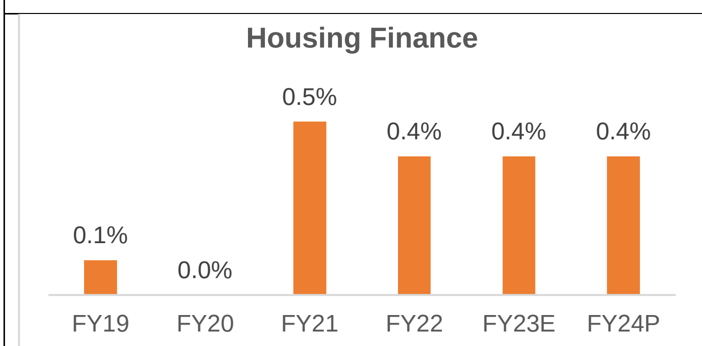


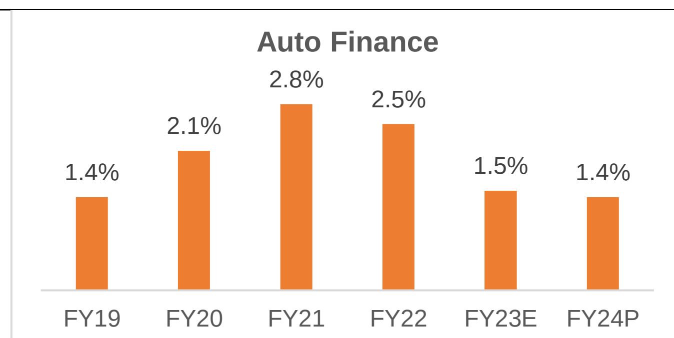
Note: E = Estimated; P = Projected, above retail credit market includes housing finance, Auto finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans

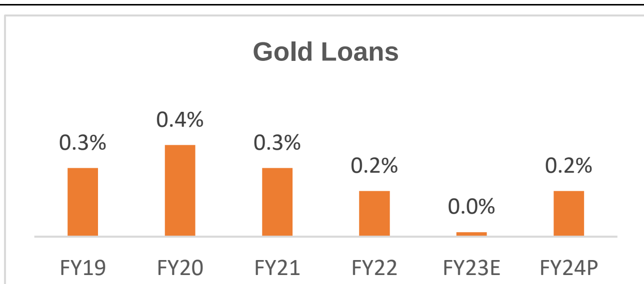
For countries except India, data is represented for calendar years. For India, data represented is for fiscal year 2022.

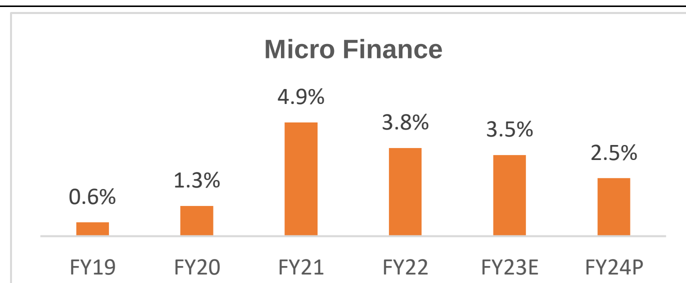
Source: RBI, Bank of International Settlements, Company reports, CRISIL MI&A

Housing Finance had second lowest credit cost among retail loans, which is expected to continue



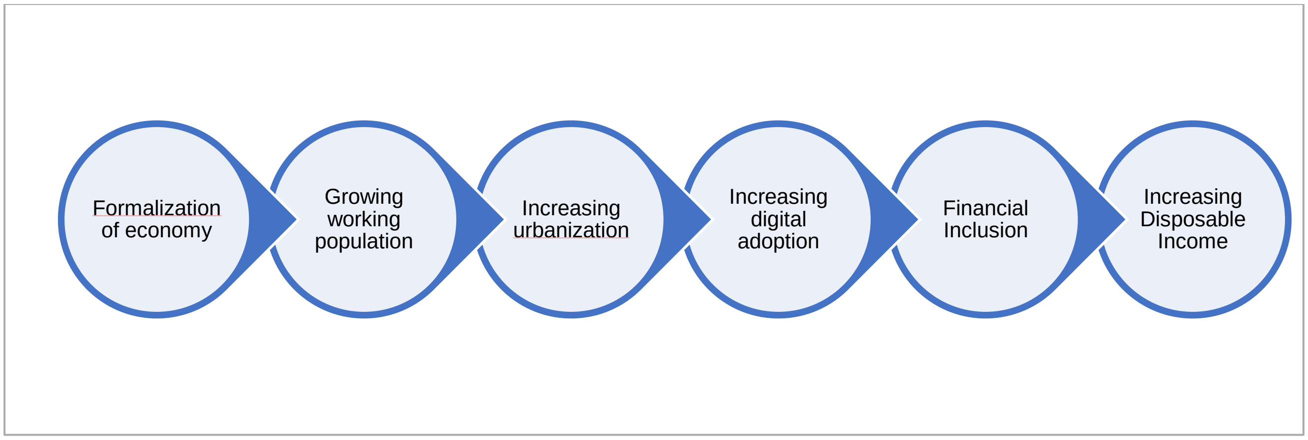






Note: E = Estimated; P = Projected, Source: CRISIL MI&A

Factors that will support retail credit growth



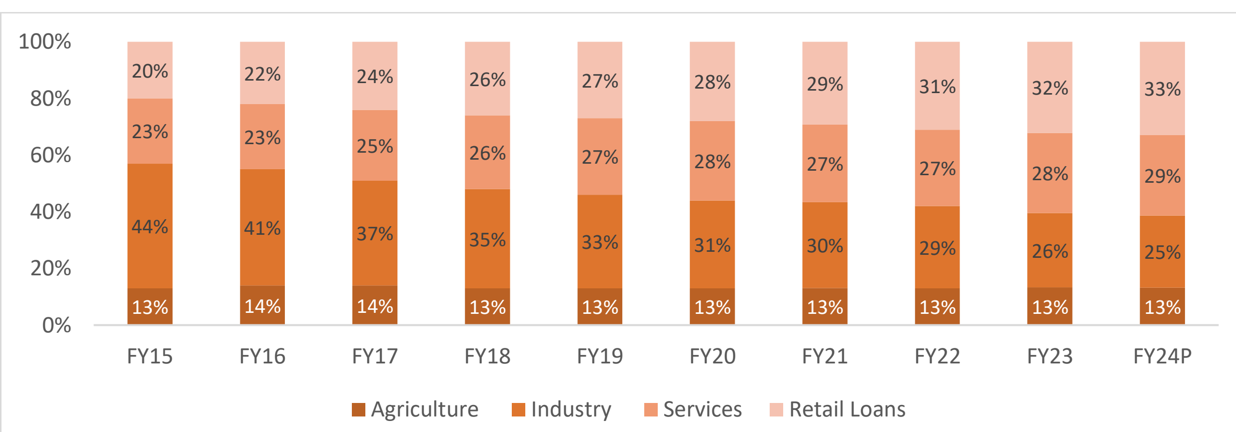
Source: CRISIL MI&A

Retail Loan and Service segment to drive credit growth in Fiscal 2024

Industrial credit accounted for nearly one fourth of the overall banking credit mix in Fiscal 2023. The demand has been lower in the past three Fiscal years, owing to subdued capital expenditure, low commodity prices and low asset quality. This has led to gradual reduction of share of industry credit in the overall banking sector's credit. In contrast, credit towards the retail and services segments has risen rapidly over the past five Fiscal years, driven by strong consumer demand, lower NPA and better margins.

Retail Loans segment grew in Fiscal 2023 driven by demand in housing segment and pent-up demand in vehicle loans segment. Going forward, CRISIL MI&A expects personal loans and services segment to drive credit growth in Fiscal 2024. Retail Loans segment is expected to show strong growth in Fiscal 2024 on back of credit demand from housing loans, consumer durables and other retail loan segment. Going forward, CRISIL MI&A expected overall housing loan to grow at 14-16% in the fiscal 2024.

Retail loan share reached 32% as of March 31, 2023

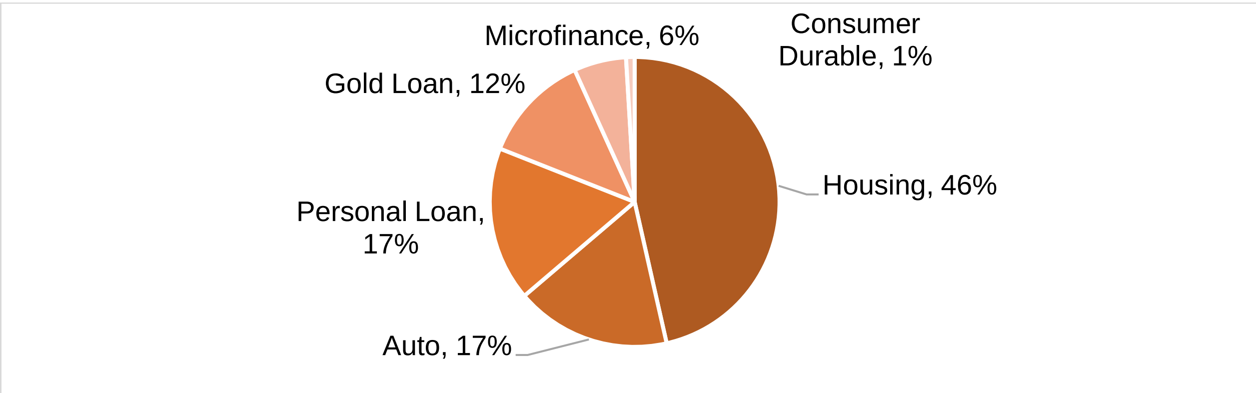


Note: As at end of each Fiscal 2023, P: Projected, Source: RBI; CRISIL MI&A

Housing loans accounts for 46% of overall retail loans as of March 31, 2023

As of March 31, 2023, Housing finance accounts for almost half of overall retail loans in the country followed by auto loans (17%), personal loans (17%) and gold loan (12%).

Retail credit mix as of March 31, 2023

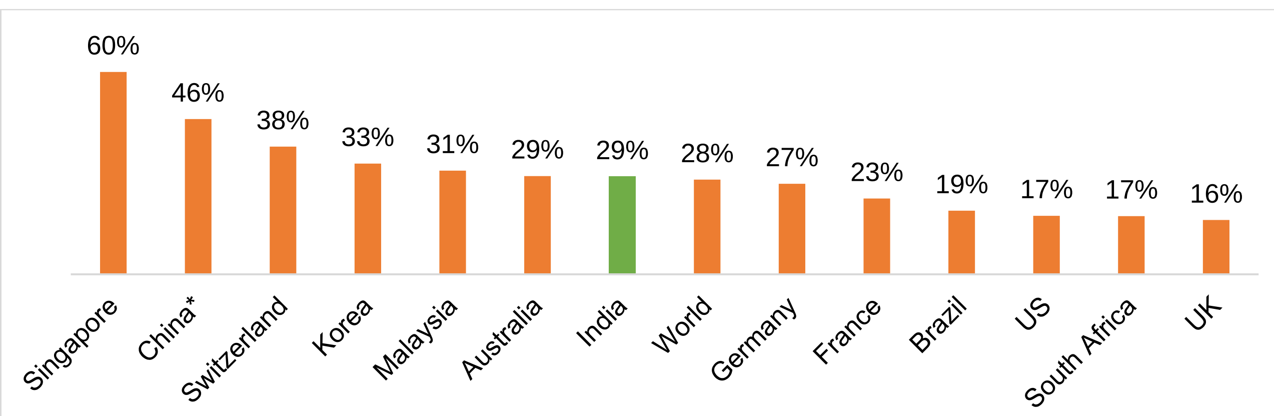


Source: CRISIL MI&A

Household savings to increase

India's savings touched a 15 year low in fiscal 2020 with gross domestic savings witnessing a decline to 27.1%, post which in the next two fiscals the savings have witnessed a growth and touched ~29% during fiscal 2022.Despite the slow-down, with rise in India's savings rate it remains favourable as compared with most emerging market peers with 29% in fiscal 2022, greater than the world average of 28%.

Gross Domestic Savings rate (in %): India vs other countries (CY 2022)

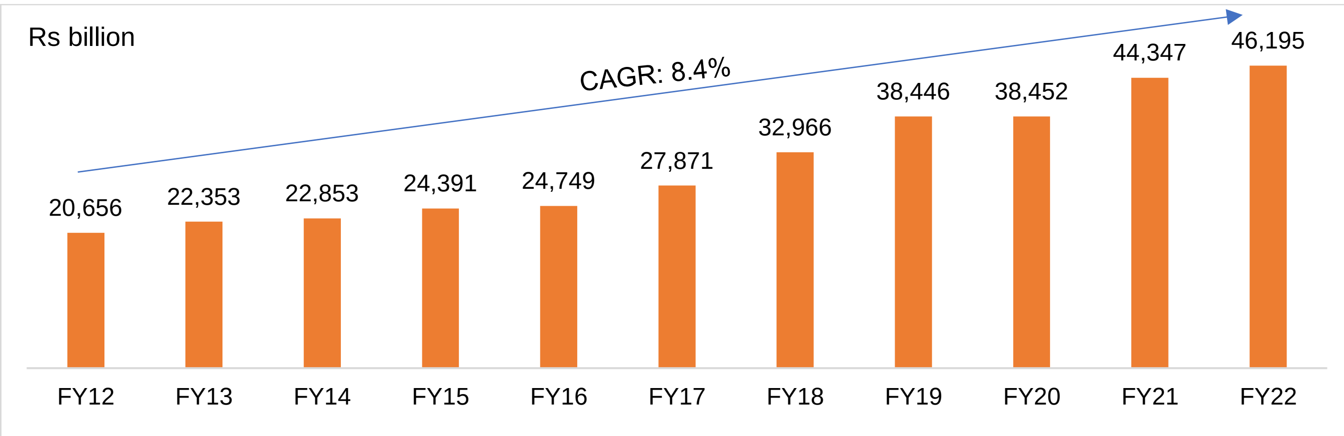


Note: Gross Domestic Saving consists of savings of household sector, private corporate sector and public sector; (*) Data as of CY2020; Source: World Bank, Handbook of Statistics on Indian Economy 2020-21, RBI, MOSPI, CRISIL MI&A

India is also in a sweet spot to harness the economic dividend from demographic change. A larger working-age population is expected to lead to increased labour force participation, driving economic growth and productivity. Further, individuals in this group tend to also accumulate savings at a higher rate, facilitating further investment-led growth and development.

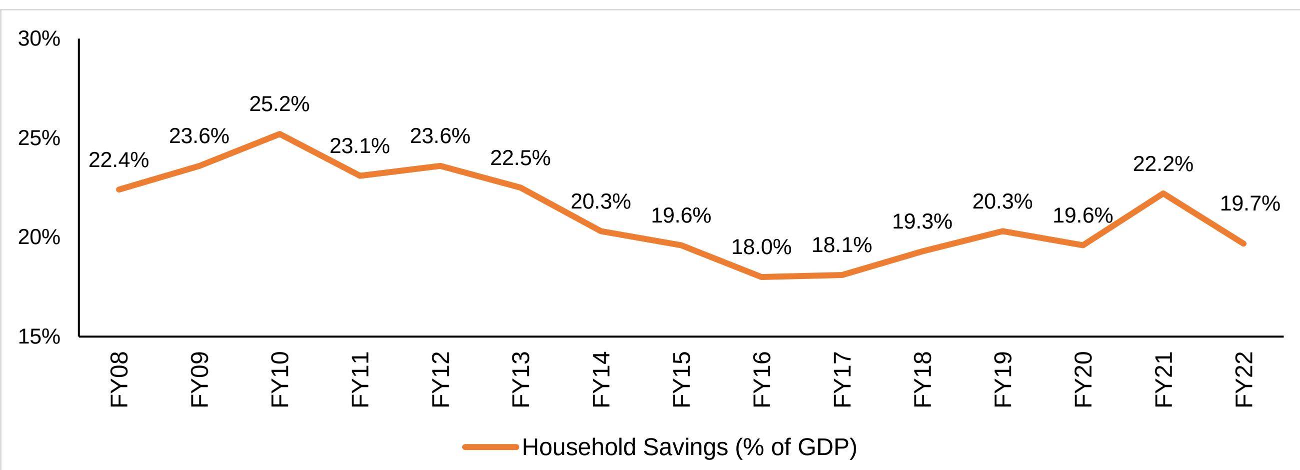
CRISIL MI&A expects India to be a savings economy, although households' savings in physical assets has declined to 61% in fiscal 2022 from 69% in fiscal 2012, it constitutes a substantial share in overall savings. On the other hand, the share of net financial savings has witnessed an uptrend to 39% in fiscal 2022 from 31% in fiscal 2012. In the long-term, with increase in financial literacy, CRISIL MI&A expects the share of financial assets as a proportion of net household savings to increase over the next five years, thereby boosting investments in assets such as insurance and mutual funds.

Household savings growth



Source: MOSPI, CRISIL MI&A

Household savings as a percentage of GDP is 19.7% in Fiscal 2022



Note: E: Estimated

Source: Ministry of Statistics and Programme Implementation (MOSPI), RBI, CRISIL MI&A

Gross domestic savings trend

Parameters (Rs billion)	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
GDS	36,082	40,200	42,823	48,251	54,807	60,003	59,411	57,168	70,766

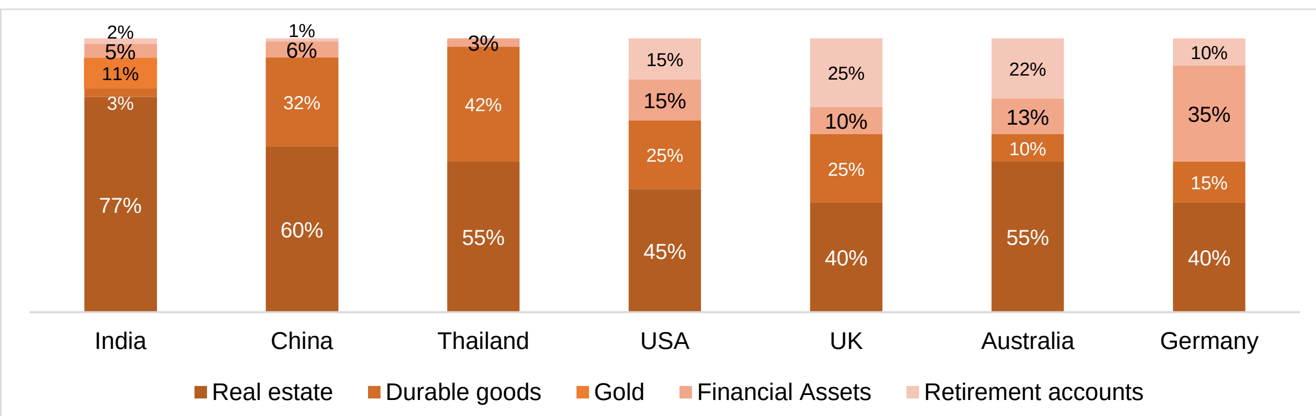
Household sector savings (net financial savings, savings in physical assets and in the form of gold and silver ornaments)	22,853	24,391	24,749	27,871	32,966	38,446	39,291	43,906	46,195
Gross financial savings	11,908	12,572	14,962	16,147	20,564	22,636	23,245	30,543	25,979
Financial liabilities	3,587	3,768	3,854	4,686	7,507	7,712	7,746	7,775	8,071
Savings in physical assets	14,164	15,131	13,176	15,946	19,442	23,094	22,735	20,484	27,690
Savings in physical assets as a proportion of GSD (%)	39%	38%	31%	33%	35%	38%	38%	36%	39%
Savings in the form of gold and silver ornaments	368	456	465	465	467	427	431	384	597

Note: The data is for financial year ending March 31; Physical assets are those held in physical form, such as real estate, etc.
Source: MOSPI, National Accounts National Accounts Statistics 2023, CRISIL MI&A

Physical assets still account for majority of the savings

Unlike most other countries, where financial savings account for a significant proportion of savings, physical assets in the form or real estate, gold and silver still account for most household savings in India.

Trend of savings in India and other economies



https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/HFCRA28D0415E2144A009112DD314ECF5C07.PDF *Source: Report of the Household Finance Committee- July 2017[3], RBI, CRISIL MI&A*

Housing Scenario in India

Housing is regarded as the engine of economic growth and can give a big push to the economy through its forward and backward linkages with more than 250 ancialry industries. The sector has strong inter-industry linkages and investments in housing can have multiplier effects on generation of income and employment in the country. Recognising the importance of housing as a basic human need, the government has announced multiple schemes to conitnue their focus on housing in the country.

Indian household investment in Real estate

In country like India, it is one of the largest Investment for majority of people in their lifetime and holds significant importance. With the large population, having decent housing is a dream many spend their lives fulfilling for. As per household finance committee report issued by the RBI in 2017, the average Indian household holds 77% of its total asset in real estate which includes residential buildings, buildings used for farm and non-farm activities, constructions such as recreational facilities, and rural and urban land.

As per 2011 census, India has 330.84 million houses of which only 130 million houses were good habitable condition

As per 2011 census, India has 330.84 million houses of which 244.64 million houses were used for residence purpose or residence-cum-other use purpose. Further, 130.12 million house amongst the occupied ones were classfiied as 'good habitable condition', followed by 101.44 million (41%) as 'liveable habitable condition' and remaining as ''dilapidated habitable condition'.

Housing shortage in India (in million)

Area	Total Number of Census Homes	Occupied Census House	Distribution of Occupied Census Houses			
			Residence	Residence cum other use	Total of Residence and Residence cum other use	All other Non-Residential Use
Rural	220.70	207.12	159.93	6.23	166.16	40.96
Urban	110.14	99.04	76.13	2.35	78.48	20.56
Total	330.84	306.16	236.06	8.58	244.64	61.52

**Other use – Shop, Office, School, College, Hotel, lodge, guest house, hospital dispensary, Factory, workshop, work shed, place of worship, etc; Source: Census 2011, Ministry of Housing and Urban Poverty Alleviation National Buildings Organisation; Planning Commission, CRISIL MI&A*

Housing shortage in India

Despite the constant focus on the housing segment, housing in India is far from adequate. The shortage of housing in India has been a perpetual problem, deterring the economic growth of the country. The shortage of overall house is much higher at 62.5 million (as per twelfth five-year plan 2012-17) due to changing social and demographic pattern in India such as nuclearization of families and rapid growth of urbanisation. The below graph clearly states that Urban housing shortage arising more from congestion and rural housing shortage due to non-serviceable and kutcha house (low quality house) followed by congested houses.

In its Twelfth Five Year Plan (2012-2017), the Government accorded this issue utmost importance and focused on increasing the amount of housing units available both in the urban as well as the rural sector. As per the estimates of the Twelfth Five Year Plan, the shortage of housing in the urban segment of the society stood at 18.78 million. The economically weaker section (EWS) accounts for ~56% of the shortage. Lower Income Group (LIG) approximately accounts for ~39% of housing shortage in urban regions.

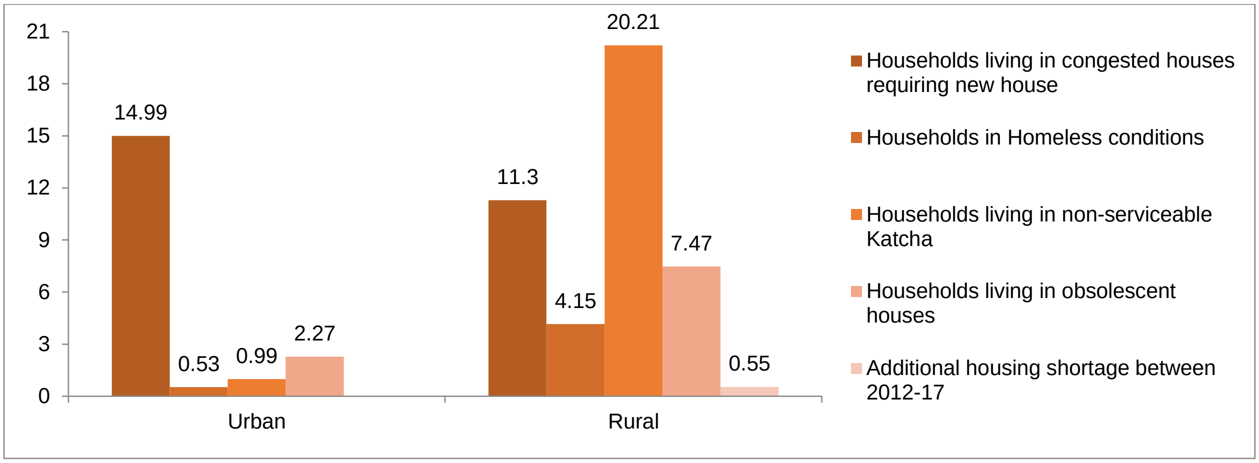
Urban Housing shortage split among Socio-Economic Group (2012) – million

Category	*Urban Housing Shortage*	*(in %)*
EWS	*10.55*	*56.2%*
LIG	*7.41*	*39.5%*
MIG & HIG	*0.82*	*4.3%*
Total	*18.78*	*100%*

Note: 2012 Estimates; Source: Ministry of Rural development, Ministry of Housing and Urban Poverty Alleviation National Buildings Organisation; Planning Commission, CRISIL MI&A

The erstwhile Planning Commission and Ministry of Rural Development, Government of India, has taken official initiative to assess the quantum of housing shortage in rural India. As per the estimates of the Twelfth Five Year Plan, the shortage of housing in the rural segment of society stood at 43.13 million.

Housing shortage split between urban-rural (2012) - million

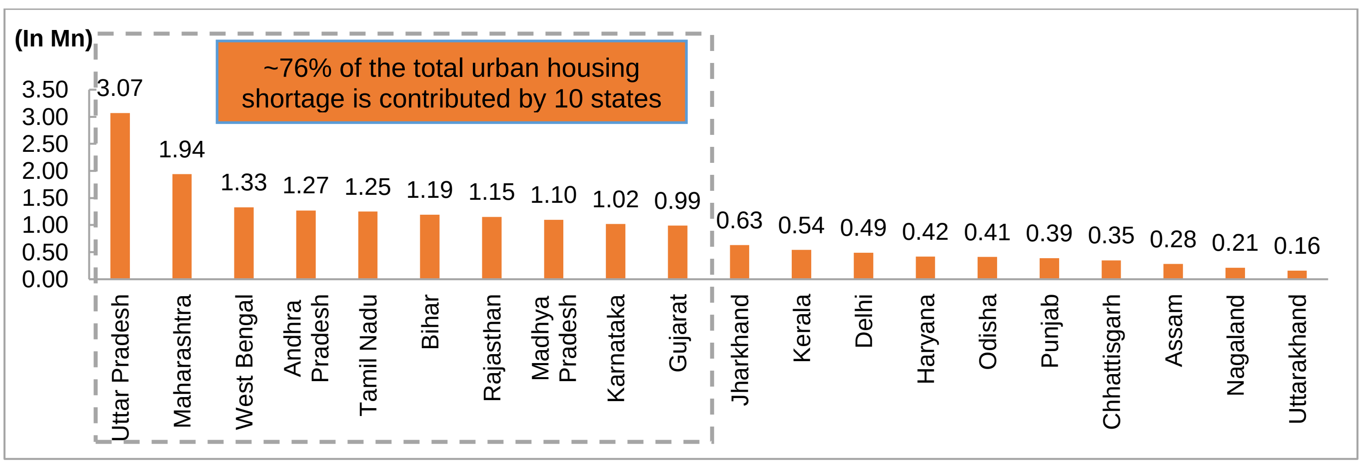


Source: 2012 Estimates, Ministry of Rural development, Planning commission, CRISIL MI&A

76% of total urban housing shortage is contributed by top 10 states (2012)

As per the estimates of the Twelfth Five Year Plan, 10 states accounted for ~76% of the urban housing shortage. Uttar Pradesh has a housing shortage of over 3 million, followed by Maharashtra (1.94 million), West Bengal (1.33 million), Andhra Pradesh (1.27 million) and Tamil Nadu (1.25 million).

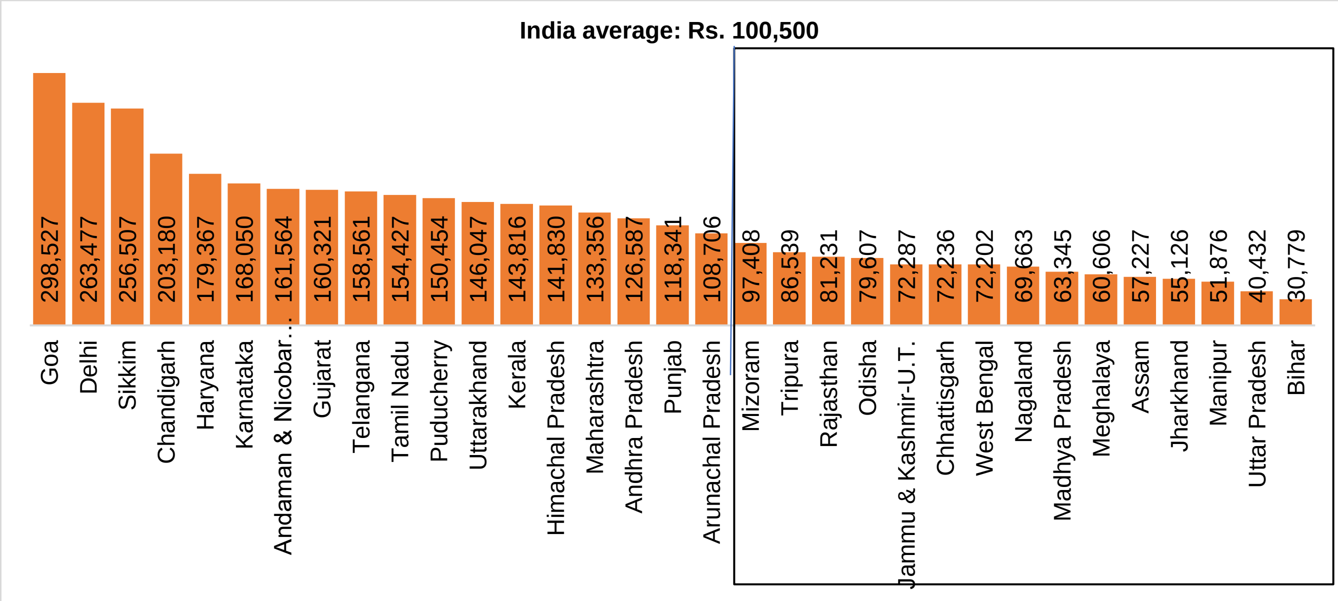
State-wise housing shortage



Source: Report of the Technical Urban Group on Urban Housing Shortage (TG-12), CRISIL MI&A

Amongst the top states with high shortage of homes, some states such as Uttar Pradesh, Bihar, West Bengal, Rajasthan & Madhya Pradesh have a lower per capita income, as compared to the national average. This shows that there is significant headroom for growth in terms of increasing per capita income and reducing the housing shortage in the country.

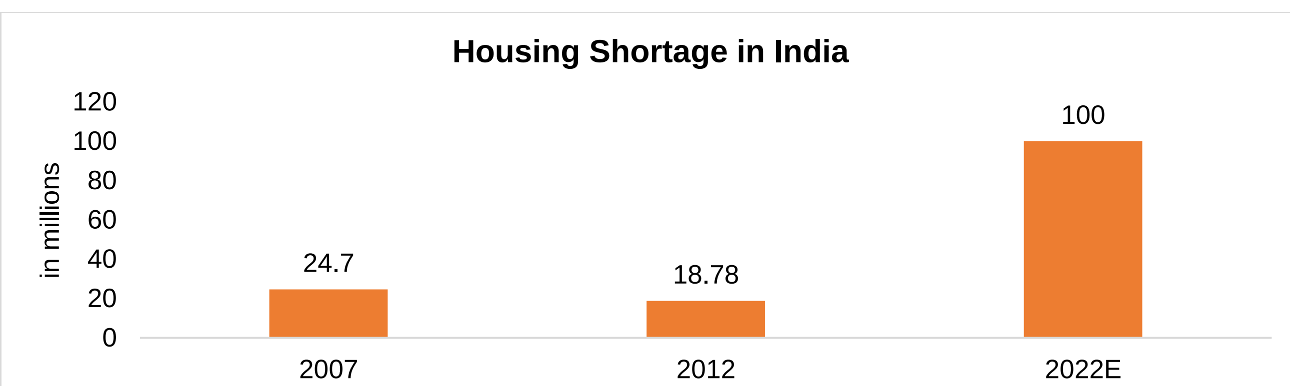
45% of the India's state have lower per capita income than national average (fiscal 2023)



Source: RBI CRISIL MI&A

Estimated shortage and requirement of ~100 million houses in 2022

The housing shortage in India has only increased since the estimates at the time of the Twelfth Five-year plan. As per the report of RBI-appointed Committee on the Development of housing finance securitisation market (September 2019), the housing shortage in India is estimated to increase to 100 million units by 2022. Majority of the household shortage is for Lower income group (LIG) and Economic weaker section (EWS) with a small proportion of shortage (5-7%) of the shortage coming from middle income group or above. Total incremental housing loans demand, if this entire shortage is to be addressed, is estimated to be in the region of Rs 50 trillion to Rs 60 trillion, as per the Committee report. In comparison, the overall housing loans outstanding (excluding PMAY loans) as of March 2023 is around Rs 31.1 trillion. This indicates the immense latent potential of the market, in case, a concrete action is taken for addressing the shortage of houses in the country.



Note: E: Estimated; Source: RBI, Planning Commission, CRISIL MI&A

Opportunity for financiers well established in Affordable Housing segment

As per the report of RBI-appointed Committee on the Development of housing finance securitisation market (September 2019), the total value of units to fulfil the entire shortage is estimated at Rs. 149 trillion, out of which Rs. 58 trillion is estimated to be the aggregate loan demand for housing.

Estimates for aggregate demand for Housing

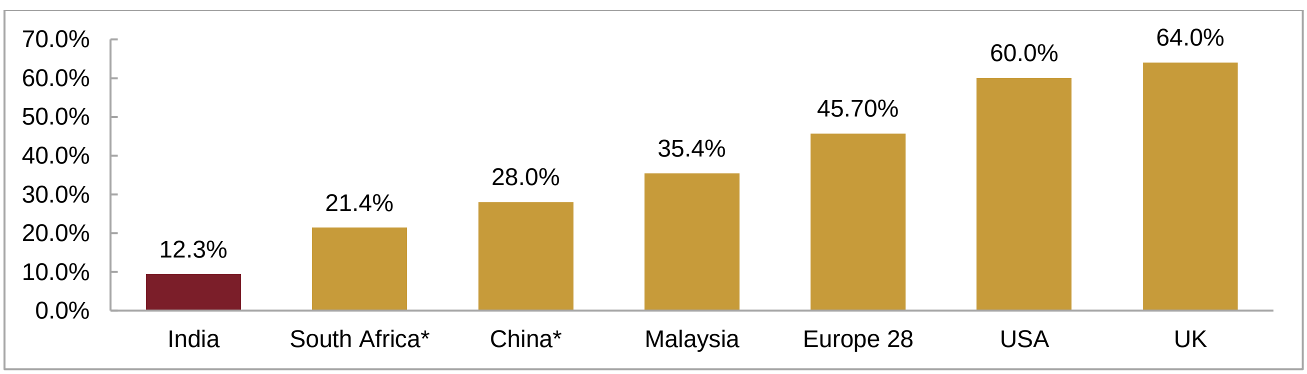
Income Segment	Housing Shortage (in Mn)	Avg ticket size (Rs. Mn)	Value of Units (in Rs. Tn)	LTV	Credit Penetration	Aggregate loans demand (in Rs. Tn)
EWS	45	0.75	34	40%	40%	5
LIG	50	1.5	75	50%	80%	30
MIG & above	5	8	40	65%	85%	22
Total	**100**		**149**			**58**

Source: RBI Committee Discussion (Sept 2019), CRISIL MI&A

India's mortgage penetration is lower than other economies

India has very low penetration in terms of housing finance as compared to its rising peers which shows the higher potential for Indian housing finance companies to expand. Housing finance market continues to face supply constraints from Banks and NBFCs, particularly for lower income group as they are perceived as risky due to informal sector.

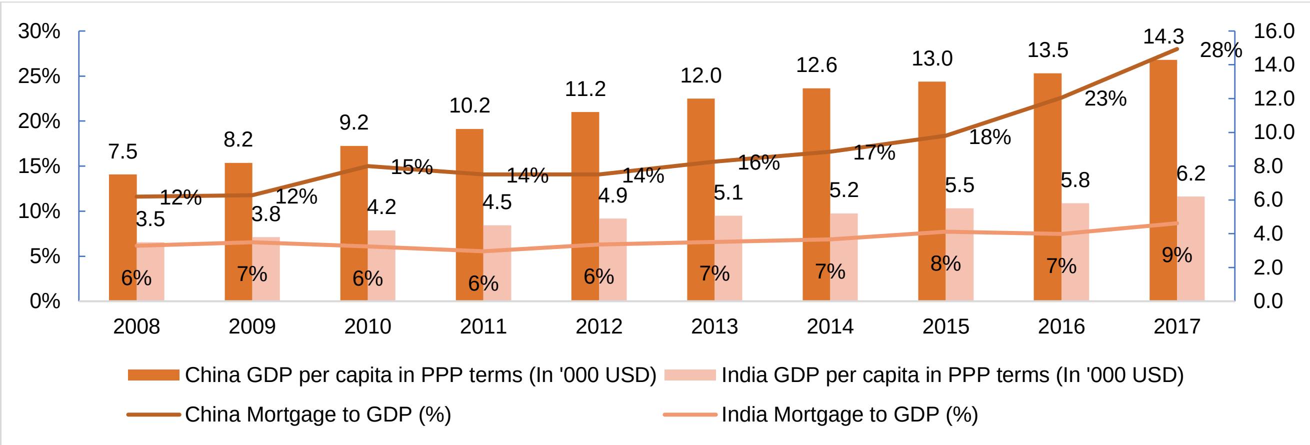
Mortgage-to-GDP ratio in India (FY23) compared with other countries (CY18)



Note: (*) – As of CY17, Indian mortgage to GDP is for Fiscal 2023 – 12.3%; Europe 28 includes the 28 European Union Member states as of December 2018; Source: HOFINET, European Mortgage Federation, NHB, CRISIL MI&A

Rise in per capita income to drive the growth of mortgage penetration in India

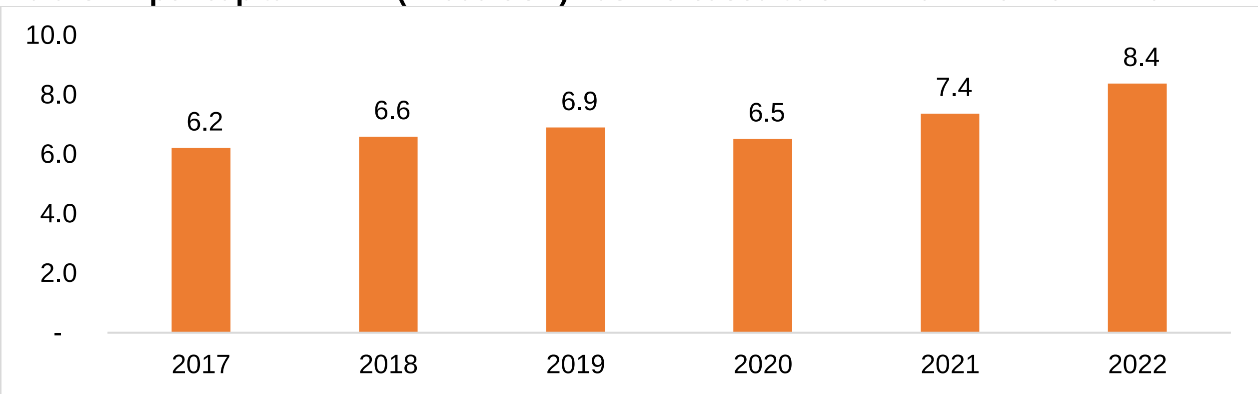
The mortgage penetration in China is correlated to the GDP per capita of the country and the GDP-to-mortgage ratio of China has grown from 12% in 2008 to 26% in 2017. The per capita income of the country has increased from USD 7,900 in 2008 to USD 15,300 in 2017. India has gone through a similar trajectory with mortgage penetration in the country increasing from 6% in 2008 to 9% in 2017 which is correlated to the increase in per capita income of the country from USD 3,500 in 2008 to USD 6,200 in 2017.



Source – HOFINET, Peoples Bank of China, World Bank, CRISIL MI&A

Between 2017 and 2022, the per capital income of the country has increased to USD 8,379, which is also one of the major reasons for rise in mortgage penetration in the country.

India GDP per capita in PPP (in 000 USD) has increased to 8.4 in 2022 from 6.2 in 2017

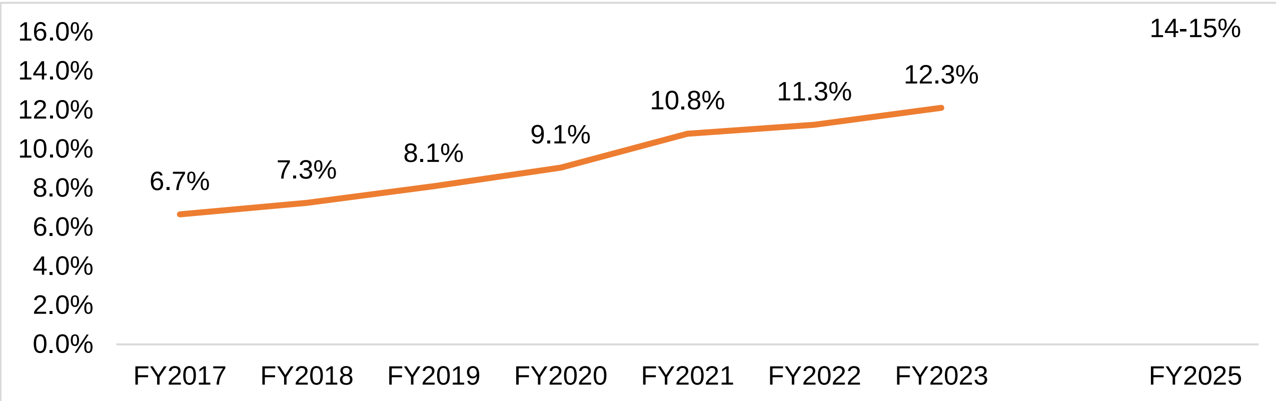


Source: World Bank, CRISIL MI&A

Mortgage-to-GDP ratio in India to grow to 14-15% by fiscal 2025

In fiscal 2023, India's mortgage-to-GDP ratio stood at 12.3%. Though low compared with other developing countries, it has significantly improved from 6.5% in fiscal 2009. The factors that contributed to the improvement are rising incomes, improving affordability, growing urbanisation and nuclearization of families, emergence of tier-II and tier-III cities, ease of financing, tax incentives, and widening reach of financiers. Given the expected steady growth from fiscal 2023, CRISIL MI&A projects the ratio at 14-15% by fiscal 2025.

Trend in mortgage-to-GDP ratio in India

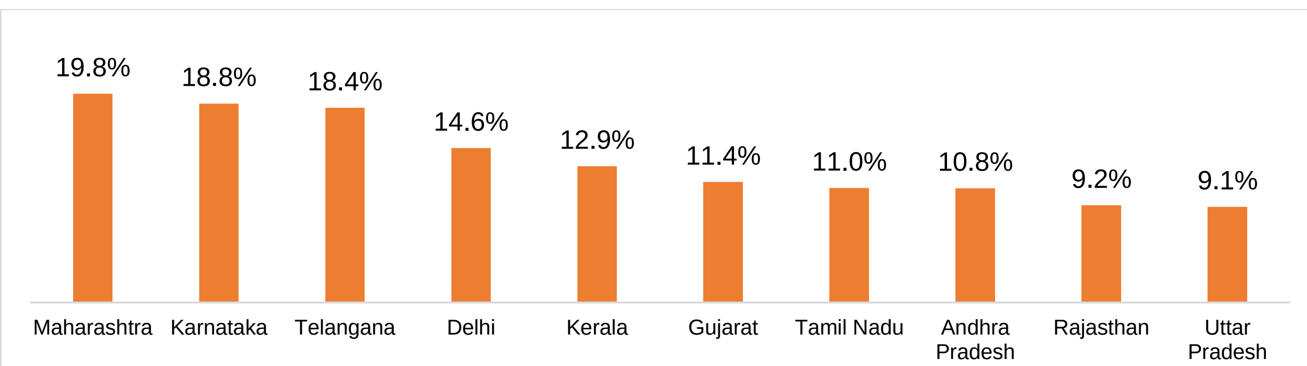


Note: P – Projected, Data for mortgage to GDP for India includes both Housing loans outstanding over constant GDP for India; Source – NHB, World Bank, CRISIL MI&A Estimates

State-wise mortgage penetration in India

The mortgage-to-GDP ratio varies widely for the top 10 states based on home loan market size, ranging between ~9% and ~20%. Maharashtra had the highest housing loan penetration with ~19.8% of GDP followed by Karnataka and Telangana at second and third position respectively. Uttar Pradesh has the lowest mortage penetration amongst the top 10 states at end of fiscal 2023.

Housing Loan Penetration in top 10 states by Housing Loan Outstanding as of Fiscal 2023



Note: Housing loans penetration is computed as Housing loan outstanding over GSDP at current prices; Source: CRIF Highmark, CRISIL MI&A, NSO, MOSPI, GOI, RBI, Indian Brand Equity Foundation, State Budgets 23-24

Below table indicates the housing loan penetration for top 10 states by housing loan outstanding and clearly indicates an increasing trend across all the geographies (except Tamil Nadu which has remained stable). Amongst the top states, Karnataka and Telangana has witnessed the sharpest rise in

States	Housing Loan Penetration (FY19)	Housing Loan Penetration (FY23)
Maharashtra	16.8%	19.8%
Karnataka	13.7%	18.8%
Telangana	13.9%	18.4%
Delhi	13.4%	14.6%
Kerala	10.8%	12.9%
Gujarat	9.7%	11.4%
Tamil Nadu	11.0%	11.0%
Andhra Pradesh	8.8%	10.8%
Rajasthan	7.3%	9.2%
Uttar Pradesh	7.1%	9.1%

Note: Housing loans penetration is computed as Housing loan outstanding over GSDP at current prices; Source: CRIF Highmark, CRISIL MI&A, NSO, MOSPI, GOI, RBI, Indian Brand Equity Foundation, State Budgets 23-24

Factors affecting mortgage-to-GDP ratio in India

Mortgage penetration in India is far lower than other emerging economies owing to lower per capita income and higher proportion of informal employment in the country. However, CRISIL MI&A believes rising urbanisation, growing disposable income, favourable demographics and government measures will lead to higher mortgage penetration going forward.

+	−
1- Higher affordability led by increase in disposable income	1- Relatively high house prices
2- Rapid growth in urbansisation	2- High percentage of population in informal employement
3- Higher proportion of young population	3- Information asymmetry in smaller cities
4- Government measures to push housing sector such as "Housing for all", impetus packages to tackle the pandemic, NHB Refinance scheme, SARFAESI Act, etc.	4- Insufficient long-term capital

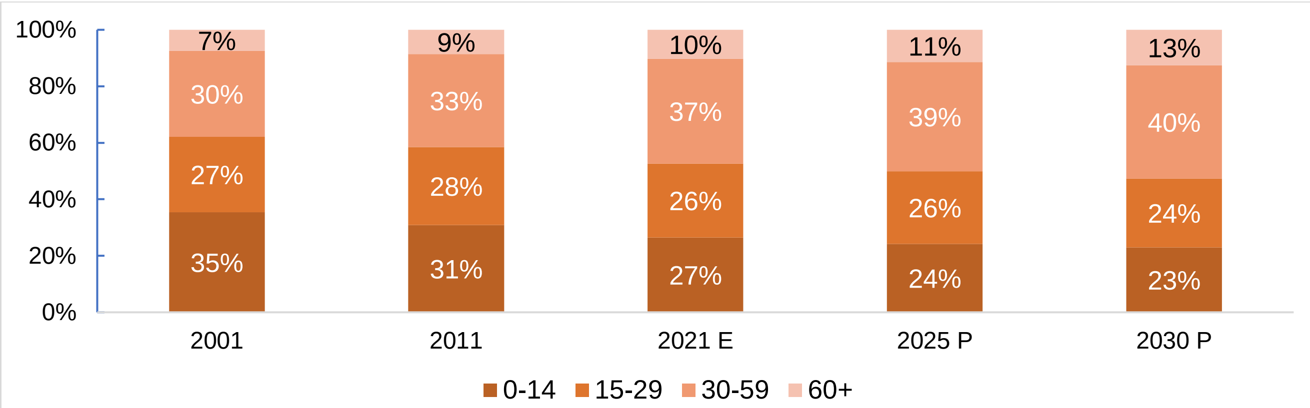
Source: CRISIL MI&A

Favourable demographic & Declining age of home loan borrowers

As of calendar year 2022, India has one of the largest young populations in the world, with a median age of 28 years. CRISIL MI&A estimates that 63% of them will be between 15 and 59 years. In comparison, in

2020, the United States (US), China and Brazil had 74%, 62% and 78%, respectively, of their population below the age of 60.

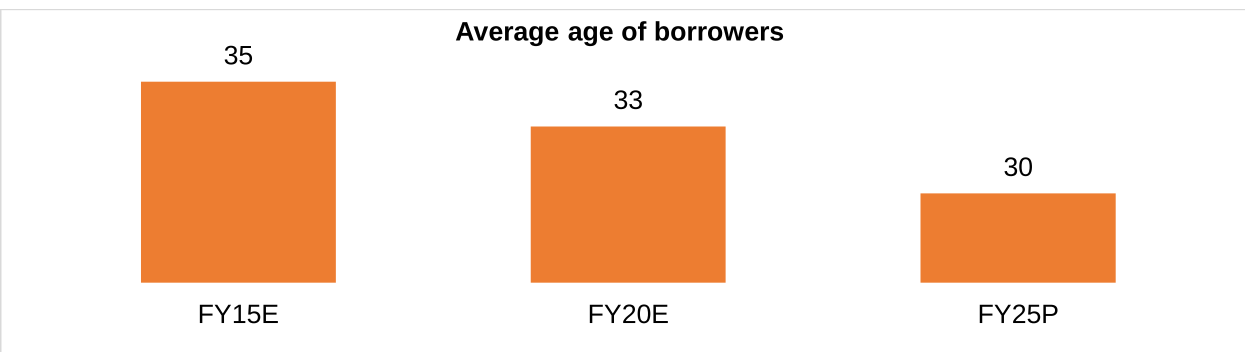
India's demographic dividend



Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs, CRISIL MI&A

Average age of borrowers has been declining over the years and was estimated at 33 years in fiscal 2020. We expect this figure to decline further with growth in salaries and people's strengthening preference for accumulating assets, both for investment purpose and tax benefits. India's demographic profile is expected to favour the industry, leading to growth in the Housing Finance market.

Declining age of borrowers



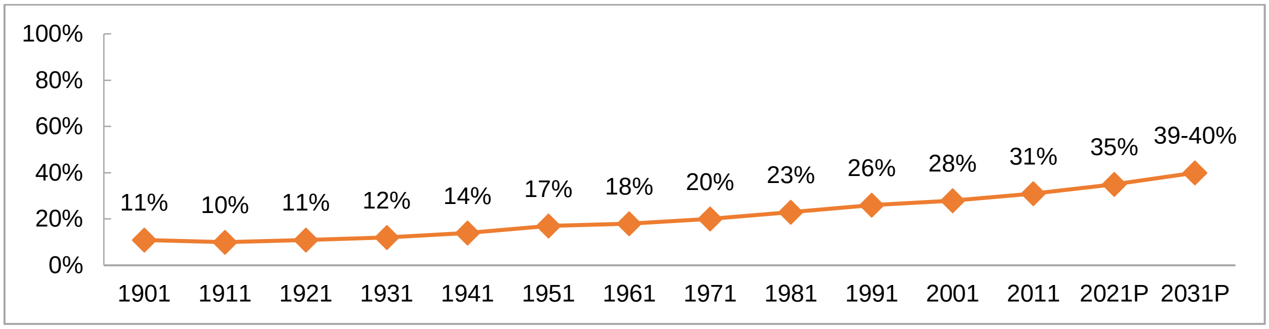
Note: E – Estimated, P – Projected, Source: CRISIL MI&A

Urbanisation crossed 35% in 2021

The share of urban population in relation to the total population has been consistently rising over the years. People from rural areas move to cities for better job opportunities, education, better life, etc. Entire families or only a few people (generally earning member or students) may migrate, while a part of the family continues to hold on to the native house. The urban population was 377 million in 2011, marking a CAGR of 2.8%; rural population was 833 million, up at a CAGR of 1.16%. Urbanisation levels rose from 28% in

2001 to about 31% in 2011. It is expected to have reached about 35% in 2021. This percentage is expected to increase further in the years to come, thereby translating into higher demand for housing and related amenities in the urban areas.

Urban population as a percentage of total population

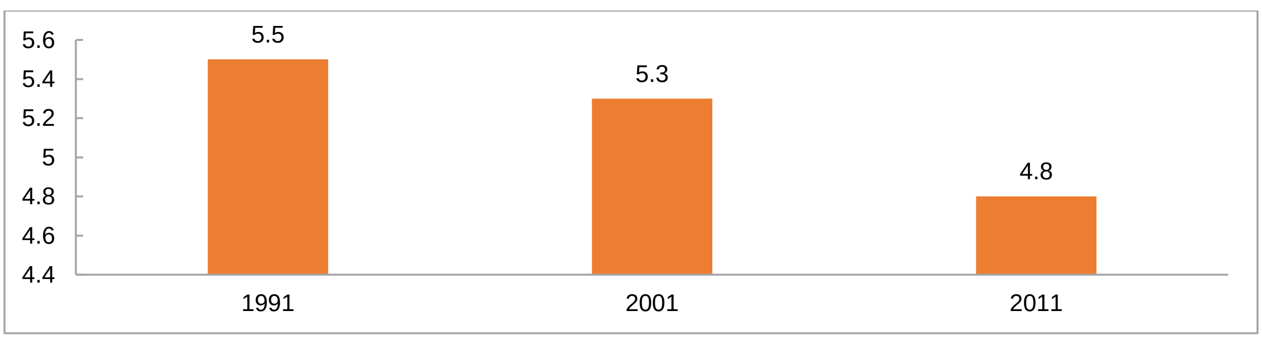


Note: P: Projected; Source: Census 2011, World Urbanisation Prospects: The 2011 Revision (UN), CRISIL MI&A

Rise in number of nuclear families leads to formation of new houses

Nuclearization refers to formation of multiple single families out of one large joint family. Each family lives in a separate house, while the ancestral house may be retained or partitioned to buy new houses. Nuclearization in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes, and increased mobility of labour in search of better employment opportunities. These trends are expected to continue in future.

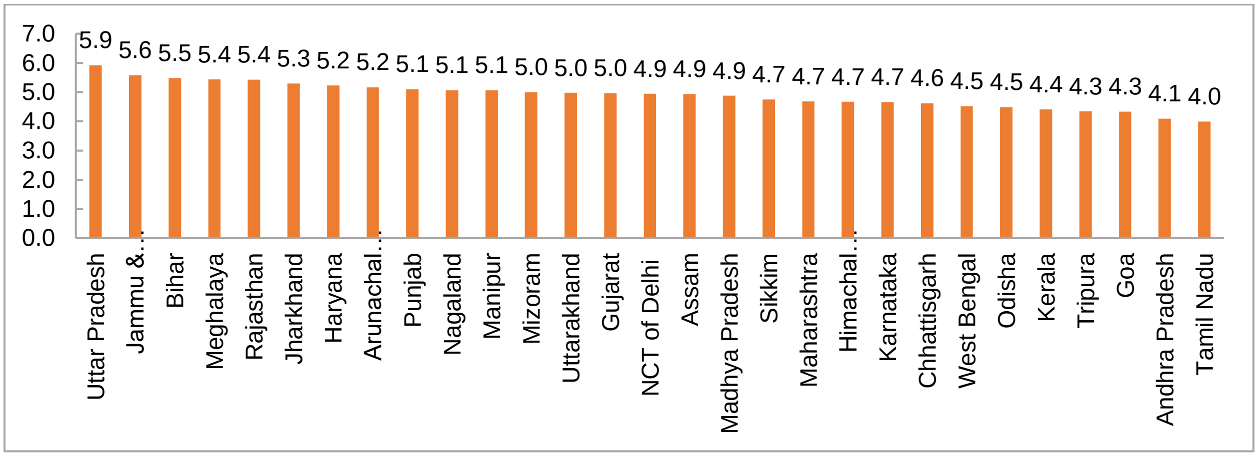
Trend in average household size



Source: Census 2011, CRISIL MI&A

Furthermore, according to the Census 2011, majority of the Indian households live in a one-room or two-room house. According to the NSSO Survey on Housing Conditions conducted in 2012, the average floor area of a dwelling unit was 40.03 sq. m in rural India and 39.20 sq. m in urban India during 2012. The average household size in India was 4.5. It was 4.8 in rural India and 4.2 in urban India. The states of Uttar Pradesh and Jammu and Kashmir had the highest average household size of 5.9 and 5.6 respectively, whereas in the states of Andhra Pradesh and Tamil Nadu, the average household size was 4.1 and 4.0 respectively.

State-wise average household size



Source: NSSO (National Sample Survey Organisation), CRISIL MI&A

Rising demand for independent houses

Indians traditionally prefer to live in independent houses. However, the increase in population density, especially in urban areas, has increased the demand for flats. As per Census Data it has been very clear that Indians do prefer independent housing. This will continue to drive the demand for such homes, which are often self-constructed, especially in the smaller cities.

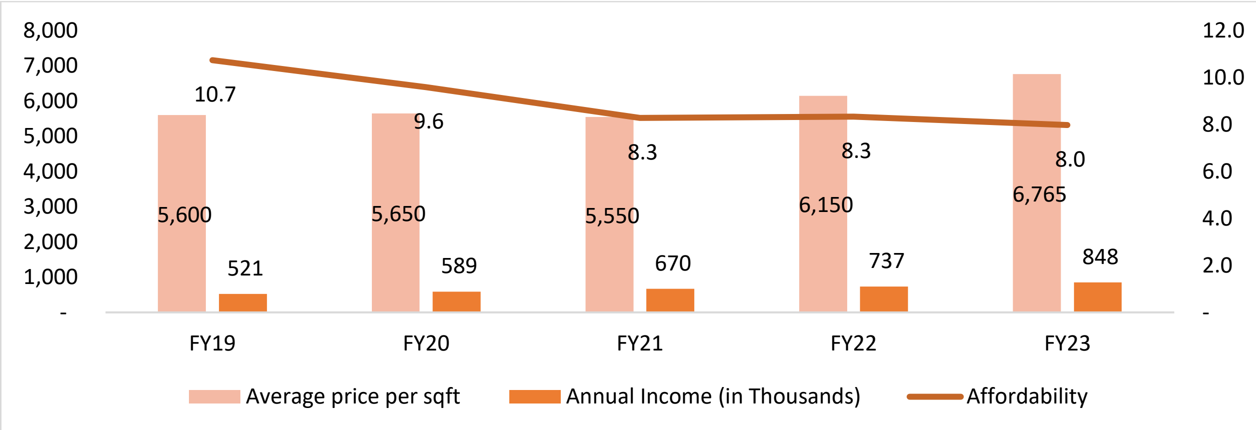
Infrastructure development to boost demand for Real Estate

Real estate market is impacted by infrastructure growth. Development of new infra such as such as roads, bridges, airports, smart cities etc., opens up new areas for development and increases the value of existing properties. It also attracts businesses and population growth to an area, which boosts the local economy and supports the real estate market.

Higher affordability

CRISIL forecasts that the per capita income will gradually improve with a pick-up in GDP growth and sustained low inflation. This will be an enabler for domestic consumption leading to rise in demand for housing. Further, increase in household savings over the last decade coupled with availability of underwrite and provide credit to the vulnerable or informal segment owing to advancement in technology has also led to higher demand for housing.

Real estate prices relatively higher though affordability has only improved historically

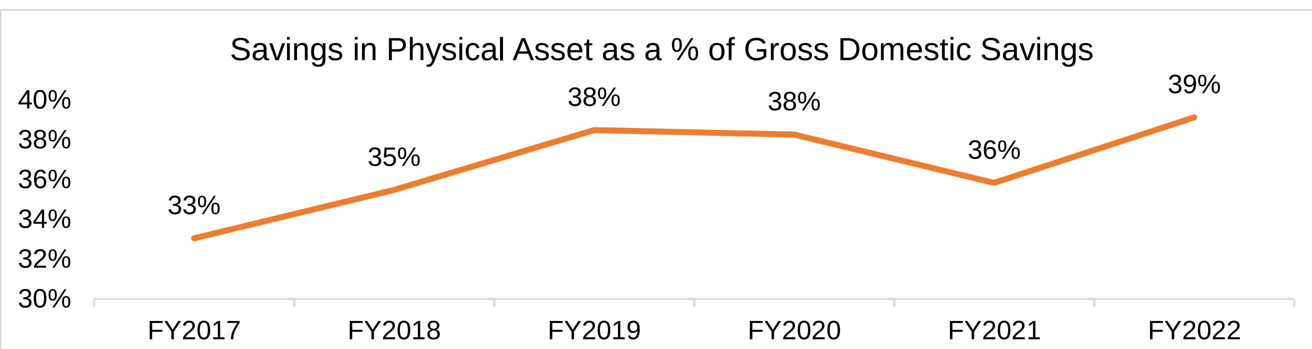


Note: The charts indicate the price per sqft based on top 10 markets -Delhi NCR, Mumbai, Pune, Ahmedabad, Chennai, Kolkata, Bangalore, Chandigarh, Hyderabad, and Kochi, at a Pan India level, the overall prices could be way lower than estimates, Affordability is computed as average price per sqft / annual income; Source: CRISIL MI&A

Shift in savings pattern of Indian household

Over the past few years, household savings have been witnessing a shift in with investments shifting away from bank deposits. Mutual funds and equity emerged as an important instrument for financial savings. Within physical savings, investments by households in real estate & gold also increased, but real estate wintessed a sharper growth in fiscal 2022.

Indian housing savings in physical assets (real estate, gold, and silver) has increased in fiscal 2022



Note: The data is for financial year ending March 31; Physical assets are those held in physical form, such as real estate, Gold & Silver etc. Source: MOSPI, National Accounts National Accounts Statistics 2023, CRISIL MI&A

Overview of Indian Housing Finance market

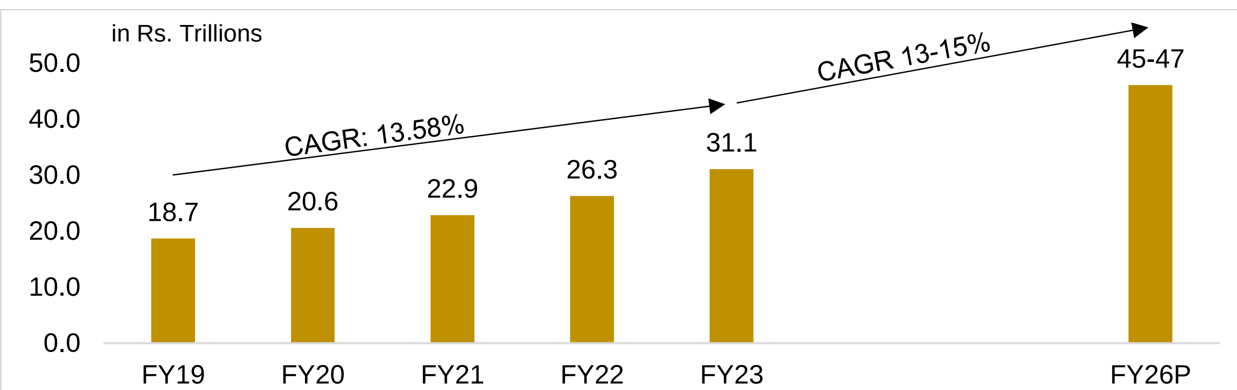
Housing Finance to log a CAGR of 13-15% in the long term between fiscal 2023 and 2026

The Indian housing finance market clocked a healthy ~13.5% CAGR (growth in loan outstanding) over fiscals 2019-2023 on account of rise in disposable incomes, healthy demand, and greater number of players entering the segment. Over the past two fiscals, housing finance segment has seen favourable affordability on account of stable property rates and improved annual income of individual borrowers. The overall housing finance segment credit outstanding is ~Rs. 31.1 trillion as of March 2023.

Rise in disposable income: India's per capita income grew at a 10% CAGR between fiscal 2012 and 2020. In fiscal 2021, the per capita income declined marginally due to COVID-19 pandemic impacting the economy but saw an increase of 7.4% in fiscal 2022. This continuous increase in per capita income, will aid housing finance demand in the country. As per IMF's estimates, India's nominal GDP per capita (at current prices) is projected to increase at a CAGR of 10-11% between fiscals 2023 and 2027 which will lead to demand for homes.

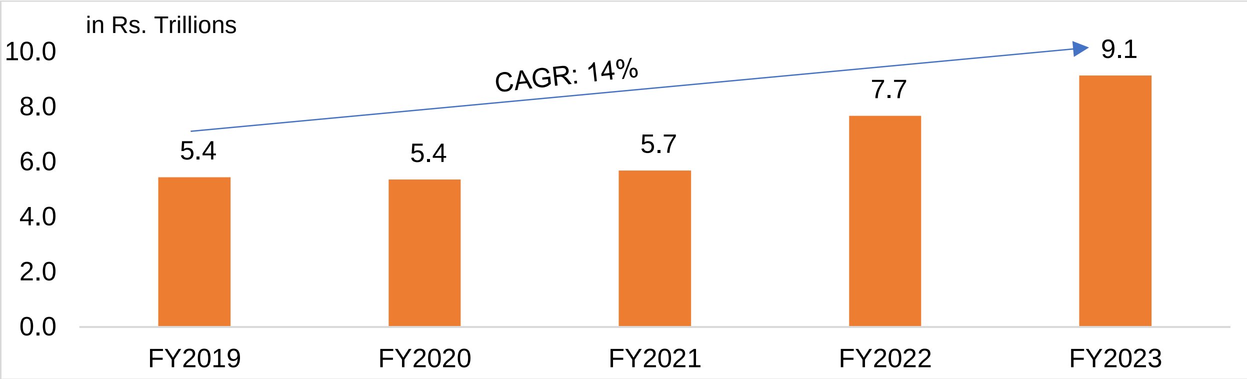
Healthy demand emanating from smaller markets: Faster growth in smaller districts and relatively muted demand for high ticket housing in metros have led to increased share of smaller districts (tier-II and below cities) in housing loans over the last couple of years. The top 50 districts in the country accounted for 63% of the housing loan outstanding in the country as of March 2023 compared to 73% as of March 2019. The districts where India Shelter Home Loans is present account for 44% of overall housing loans market. Amongst the top 50 districts, India Shelter is present in 21 districts.

Housing loans outstanding projected to grow at 13-15% over fiscal 2023-2026 (Rs. trillion)



Note: P- Projected, Data includes only Housing loan excluding PMAY; Source: CRIF Highmark, CRISIL MI&A

Housing loans disbursements increased by ~14% CAGR between fiscal 2019 & 2023



Note: Sanctioned amount has been taken for gauging disbursement trend for all the fiscals (excludes PMAY); Source: CRIF Highmark, CRISIL MI&A

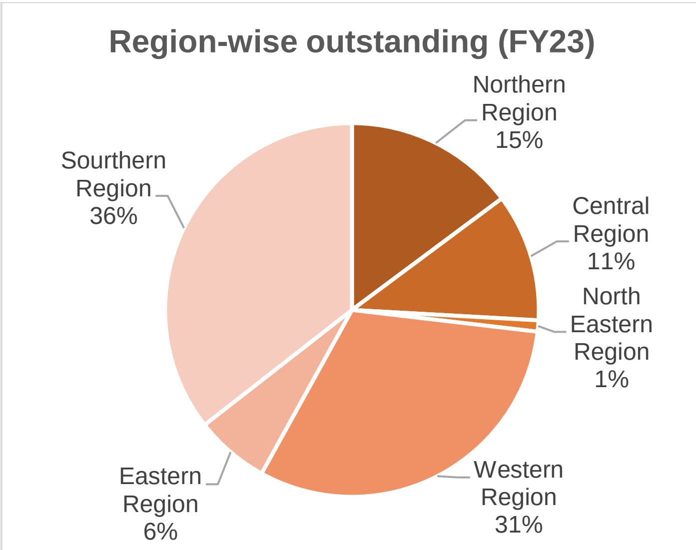
In fiscal 2021, credit growth slowed owing to outbreak of the Covid-19 pandemic, which impacted especially the low- and middle-income groups. However, there was a faster-than-envisaged revival in the second half of fiscal 2021 on the back of the RBI, the Centre and state governments providing impetus to the segment with tax sops, lower stamp duty and favourable interest rates. The growth in the housing sector continued in fiscal 2022, with middle income groups opting for homes in tier II and III cities. Also, the customers shifted their preference towards large homes on account of work from policies.

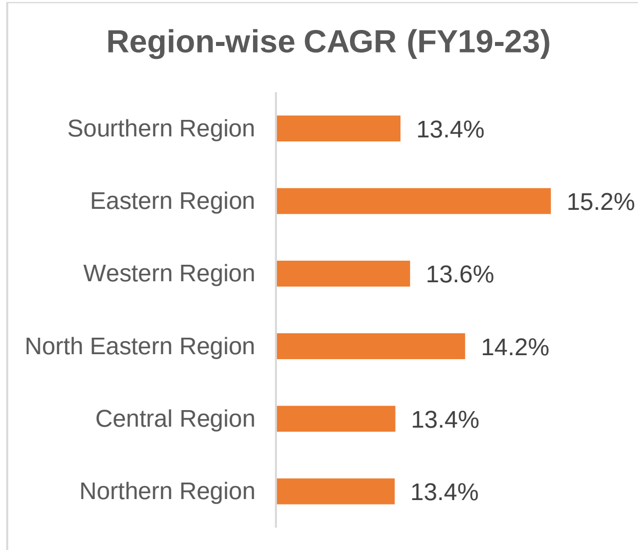
In fiscal 2023, the RBI started increasing repo rates owing to concerns over increasing inflation and its impact on the macro economy amid geopolitical issues. Despite the aggressive rate hikes during the fiscal, credit growth remained intact, with healthy growth by both banks and HFCs/NBFCs. In the past, demand for home loans rose due to higher demand from tier II and III cities, rising disposable incomes and government steps, such as interest rate subvention schemes and fiscal incentives. In fiscal 2024, the credit growth momentum is expected to continue for HFCs/NBFCs, with affordable HFCs getting back on track, and expected to post robust growth.

Region wise analysis of Housing Loan Market

At the end of fiscal 2023, Southern Region dominated the credit outstanding with the highest market share (~36%), followed by Western Region (~31%), North-eastern region had the lowest credit outstanding at end of fiscal 2023, with a market share of (~1%). During fiscals 2019-23, eastern region witnessed the fastest growth of 15.2% followed by North-eastern region with a CAGR of 14.2%.

Southern Region had the largest share of Outstanding at end of fiscal 2023





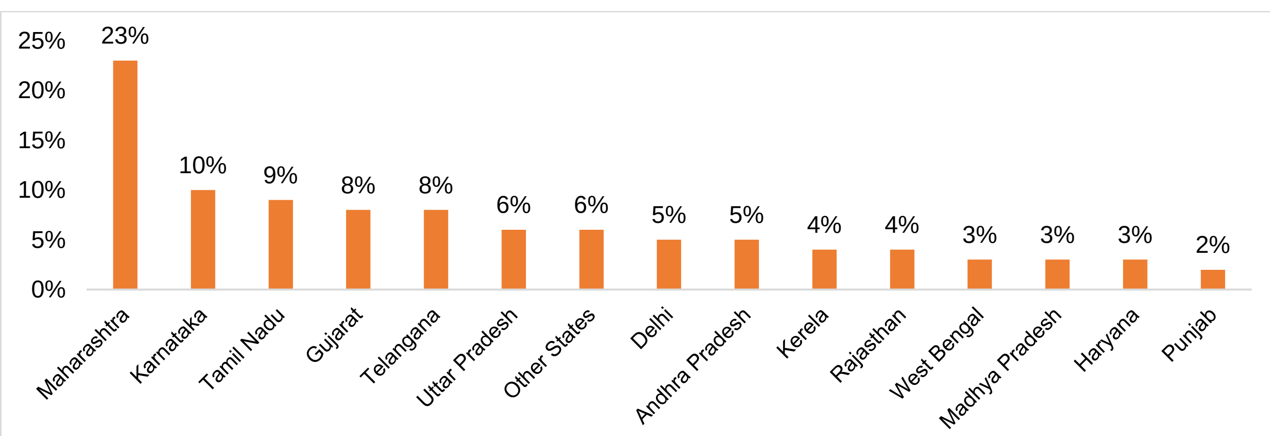
Source: CRIF Highmark, CRISIL MI&A

State wise analysis of Housing Loan Market

Top 15 states accounts for 94% of overall Housing loan market at end of March 2023

The housing loan market remains concentrated in top 15 states which account for ~94% of the loan outstanding as of March-2023. Among the Top 15 states, the top 10 states accounted for ~82% of market share. Maharashtra tops with the overall share of 23% followed by Karnataka (10%), Tamil Nadu (9%), Gujarat (8%) and Telangana (8%). Cumulatively, the top five states account for over half (58%) of the housing loans outstanding.

Maharashtra accounts for ~23% of Overall Housing Finance market at end of fiscal 2023



Source: CRIF Highmark, CRISIL MI&A

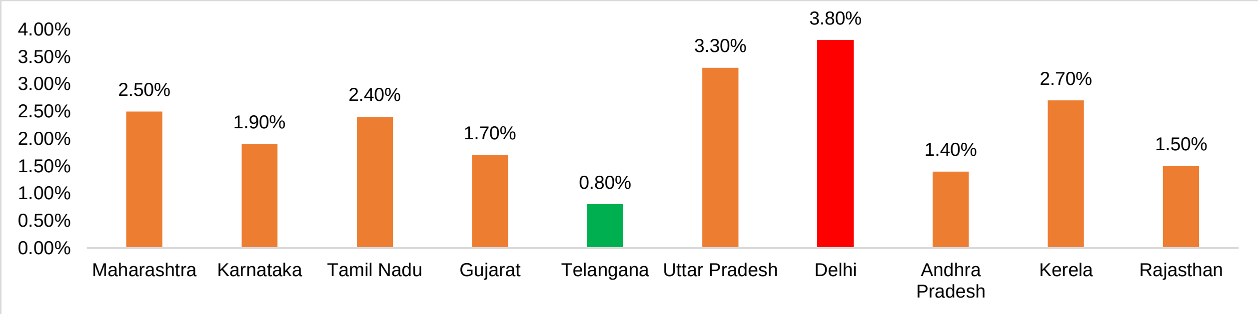
State-wise market share in Housing Loan Market (as a % of Overall Housing Loans) (FY2023)

States	FY2019	FY2021	FY2023	Market Share
Maharashtra	23%	23%	23%	Top 5 States: 58%
Karnataka	11%	10%	10%	
Tamil Nadu	10%	9%	9%	
Gujarat	8%	8%	8%	
Telangana	6%	7%	8%	
Uttar Pradesh	6%	6%	6%	Next 10 States: 36%
Delhi	5%	5%	5%	
Andhra Pradesh	4%	4%	5%	
Kerela	5%	4%	4%	
Rajasthan	4%	4%	4%	
West Bengal	3%	3%	3%	
Madhya Pradesh	3%	3%	3%	
Haryana	3%	3%	3%	
Punjab	2%	2%	2%	
Bihar	1%	1%	1%	
Other States	6%	7%	6%	Other States: 6%

Source: CRIF Highmark, CRISIL MI&A

Telangana, Andhra Pradesh & Rajasthan have the best asset quality amongst top 10 states in Housing loan market

At end of fiscal 2023, Maharashtra had the highest credit outstanding amongst the overall market. However, the asset quality for Maharashtra stood at 2.5%. Amongst the top 10 markets, Telangana had the lowest GNPA of 0.8% followed by Andhra Pradesh (1.4%) & Rajasthan (1.5%) at end of Fiscal 2023. Between fiscal 2019 and fiscal 2023, Arunachal Pradesh witnessed the highest compounded annual growth of ~24%.



Note: GNPA includes portfolio greater than 90 days excluding write-offs, Source: CRIF Highmark, CRISIL MI&A

Portfolio Outstanding and Asset Quality of states (Fiscal 2023)

All States	Total Home Loans Outstanding (Rs. Billion – FY23)	Housing Outstanding CAGR (FY19-23)	Overall GNPA (in FY23)
Maharashtra	7,077	13.2%	2.5%
Karnataka	3,207	12.1%	1.9%
Tamil Nadu	2,693	10.5%	2.4%
Gujarat	2,512	14.8%	1.7%
Telangana	2,404	19.1%	0.8%
Uttar Pradesh	1,854	13.1%	3.3%
Delhi	1,524	11.3%	3.8%
Andhra Pradesh	1,425	16.5%	1.4%
Kerela	1,289	10.9%	2.7%
Rajasthan	1,227	16.3%	1.5%
West Bengal	1,042	14.1%	2.7%
Madhya Pradesh	967	13.7%	3.9%
Haryana	958	13.0%	2.8%
Punjab	541	12.4%	3.4%
Bihar	391	19.4%	1.8%
Orissa	332	15.0%	2.2%
Uttarakhand	314	13.2%	2.2%
Chhattisgarh	309	13.6%	1.8%
Assam	197	12.1%	1.5%
Jharkhand	193	14.3%	2.1%
Himachal Pradesh	139	12.0%	4.5%
Jammu & Kashmir	123	20.3%	1.3%
Goa	101	8.9%	2.1%
Chandigarh	98	14.4%	1.1%
Puducherry	41	9.0%	2.1%

Tripura	31	21.8%	1.6%
Sikkim	29	12.1%	1.5%
Mizoram	23	20.7%	1.8%
Manipur	20	17.9%	0.9%
Meghalaya	16	10.6%	2.1%
Andaman & Nicobar Islands	11	11.1%	0.5%
Arunachal Pradesh	9	24.4%	1.3%
Dadra and Nagar Haveli	8	9.0%	0.9%
Nagaland	6	13.4%	2.0%
Daman and Diu	4	7.1%	1.4%
Lakshadweep	1	16.6%	0.0%
Total	**31,116**	**13.6%**	**2.3%**

Source: CRIF Highmark, CRISIL MI&A

Credit variation exists across states (Fiscal 2023)

Among all states, Maharashtra had the highest credit outstanding, district wise top 5 districts of Maharashtra accounted for 78% of total portfolio, a similar trend was witnessed in Karnataka with an 82% concentration of top 5 districts. Among the top 5 states, based on credit outstanding Tamil Nadu had a wider concentration of districts with top 5 districts accounting for 59% of total loan outstanding of the state.

District wise concentration of Housing Loans in States as of fiscal 2023

All States	No. of districts	Top 5 districts based on Outstanding	Concentration of accounts in top 5 districts (in terms of Loan Accounts)	Concentration of credit outstanding in top 5 districts (in terms of Portfolio)
Maharashtra	35	Pune, Thane, Mumbai, Mumbai Suburban, Nashik	62%	78%
Karnataka	30	Bangalore, Mysore, Dakshina Kannada, Belgaum, Dharwad	72%	82%
Tamil Nadu	32	Kancheepuram, Coimbatore, Chennai, Thiruvallur, Madurai	46%	59%
Gujarat	33	Ahmadabad, Surat, Vadodara, Rajkot, Gandhinagar	62%	71%
Telangana	10	Hyderabad, Rangareddy, Warangal, Karimnagar, Medak	80%	86%

Uttar Pradesh	75	Ghaziabad, Lucknow, Gautam Buddha Nagar, Agra, Kanpur Nagar	43%	50%
Delhi	9	South, Northwest, Southwest, West, East	87%	89%
Andhra Pradesh	13	Ap, Anantapur, Chittoor, East Godavari, Guntur	35%	35%
Kerala	14	Ernakulam, Thiruvananthapuram, Thrissur, Kozhikode, Kollam	55%	59%
Rajasthan	33	Jaipur, Jodhpur, Bhilwara, Ajmer, Alwar	50%	55%
West Bengal	19	Kolkata, North Twenty-Four Parganas, Barddhaman, Hugli, South Twenty-Four Parganas	63%	69%
Madhya Pradesh	51	Indore, Bhopal, Jabalpur, Ujjain, Gwalior	36%	60%
Haryana	21	Gurgaon, Faridabad, Panchkula, Karnal, Hisar	55%	69%
Punjab	22	Ludhiana, Sahibzada Ajit Singh Nagar, Jalandhar, Patiala, Amritsar	62%	68%
Bihar	38	Patna, Muzaffarpur, Gaya, Darbhanga, Bhagalpur	49%	52%
Odisha	30	Khordha, Cuttack, Ganjam, Baleshwar, Sundargarh	54%	59%
Uttarakhand	13	Dehradun, Hardwar, Udham Singh Nagar, Nainital, Garhwal	86%	87%
Chhattisgarh	27	Raipur, Durg, Bilaspur, Janjgir - Champa, Rajnandgaon	70%	74%
Jharkhand	24	Ranchi, Purbi Singhbhum, Dhanbad, Bokaro, Hazaribagh	75%	77%
Assam	27	Kamrup Metropolitan, Kamrup, Jorhat, Nagaon, Sonitpur	47%	56%
Himachal Pradesh	12	Kangra, Shimla, Solan, Mandi, Hamirpur	71%	72%
Jammu and Kashmir	22	Jammu, Srinagar, Baramula, Badgam, Anantnag	58%	58%
Goa	2	North Goa, South Goa	100%	100%
Chandigarh	1	Chandigarh	100%	100%
Puducherry	4	Karaikal, Mahe, Puducherry, Yanam	100%	100%
Tripura	4	Dhalai, North Tripura, South Tripura, West Tripura	100%	100%
Sikkim	4	East District, North District, South District, West District	100%	100%

Mizoram	8	Aizawl, Lunglei, Lawngtlai, Saiha, Champhai	88%	89%
Manipur	9	Imphal West, Imphal East, Churachandpur, Senapati (Excluding 3 Sub-Divisions), Thoubal	91%	90%
Meghalaya	9	East Khasi Hills, West Garo Hills, West Jaintia Hills, Ribhoi, West Khasi Hills	95%	96%
Andaman and Nicobar Islands	3	Nicobars North & Middle Andaman South Andaman	100%	100%
Daman and Diu	1	Dadra & Nagar Haveli	100%	100%
Arunachal Pradesh	17	Papum Pare, Lower Subansiri, Kurung Kumey, Anjaw, West Kameng	78%	82%
Nagaland	11	Dimapur, Kohima, Mokokchung, Wokha, Zunheboto	95%	95%
Dadra and Nagar Haveli	2	Daman, Diu	100%	100%
Lakshadweep	1	Lakshadweep	100%	100%

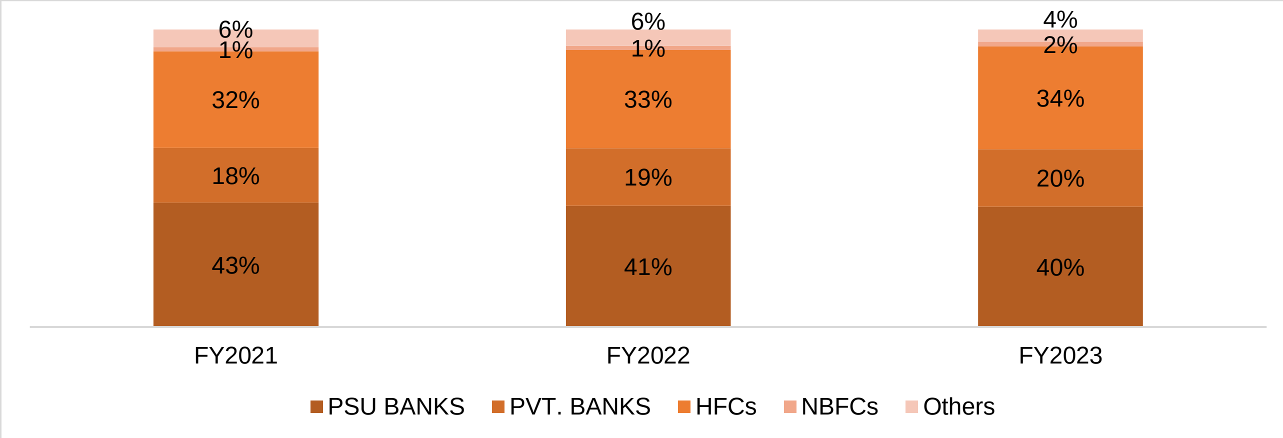
Source: CRIF Highmark, CRISIL MI&A

Market share of HFCs increased to 34% in overall housing loans Fiscal 2023

The housing finance sector of India comprises of Public Sector Banks, Private Sector Banks, Housing Finance Companies, NBFCs and other players (including foreign banks, Small Finance Banks etc.), Of the total ~Rs. 31 trillion credit outstanding of the housing loans market, public sector banks dominated the sector with a 40% market share, followed by HFCs with the second highest market share of 34% during the fiscal 2023, similarly Private Banks had a market share of 20% followed by other players and NBFCs with 4% and 2% market share, respectively. During fiscals 2021-23, HFCs witnessed a compounded annual growth rate of 13% in their total credit outstanding. HFCs have maintained the second highest market share in the segment, with Public Sector Banks leading the pack.

In the past, demand for home loans rose due to higher demand from tier-II and -III cities, rising disposable incomes, and government steps, such as interest rate subvention schemes and fiscal incentives. Banks continued to gain market share over HFCs/NBFCs, because of their competitive advantage of higher liquidity compared with HFCs/NBFCs and the ability to offer low interest rates. However, in the fiscal 2023, HFCs (affordable and non-affordable) cumulatively increased their market share to 34%, up from 32% in fiscal 2021.

HFCs had the 2nd highest market share in overall housing loans at end of fiscal 2023

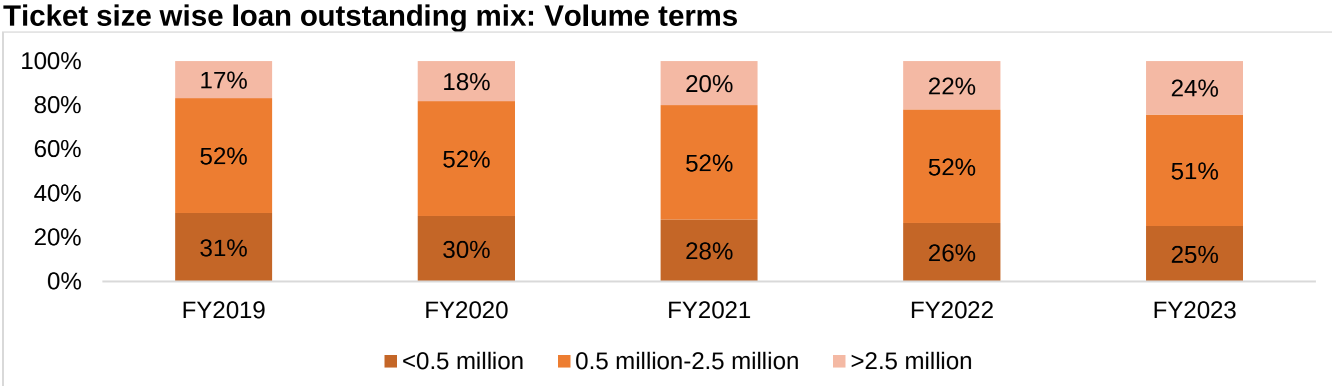


Note: Numbers are rounded off to show the market share; Source: CRIF Highmark, CRISIL MI&A

Housing loan market is dominated by lower ticket size loans (Rs. <2.5 mn) in volume terms

The housing loan market grew at ~13.5% CAGR between fiscals 2019 and 2023, spurred by growth in the higher ticket size segment, the above 2.5 million segment witnessed a growth from a share of ~53% to ~63% during fiscals 2019-23 in value terms. During fiscal 2023, loans under Rs. 2.5 million had a share of ~37% in value terms and ~76% in volume.

Ticket size wise loan outstanding mix: Volume terms

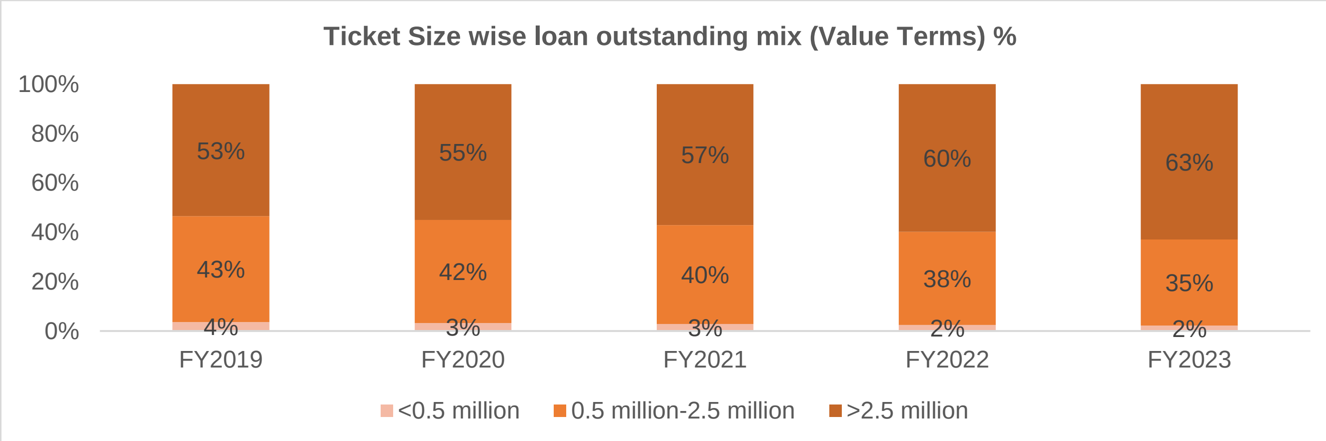


Note: Data excludes PMAY loans, Source: CRIF Highmark, CRISIL MI&A

	Ticket Size wise no. of loan outstanding (million)					Ticket Size wise no. of loan outstanding mix (Volume Terms) %				
Ticket Size	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
<0.5 million	4.68	4.79	4.80	4.88	5.07	31%	30%	28%	26%	25%
0.5 million-2.5 million	7.82	8.39	8.84	9.50	10.29	52%	52%	52%	52%	51%
>2.5 million	2.56	2.94	3.41	4.07	4.92	17%	18%	20%	22%	24%
Overall	**15.08**	**16.13**	**17.05**	**18.44**	**20.28**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Data excludes PMAY loans, Source: CRIF Highmark, CRISIL MI&A

Ticket size wise loan outstanding mix: Value terms



Note: Data excludes PMAY loans, Source: CRIF Highmark, CRISIL MI&A

	Ticket Size wise loan outstanding (Rs trillion)					Ticket Size wise loan outstanding mix (Value Terms) %				
Ticket Size	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
<0.5 million	0.68	0.68	0.66	0.65	0.69	4%	3%	3%	2%	2%
0.5 million-2.5 million	8.03	8.59	9.17	9.91	10.83	43%	42%	40%	38%	35%
>2.5 million	9.99	11.34	13.05	15.74	19.58	53%	55%	57%	60%	63%
Overall	**18.70**	**20.61**	**22.88**	**26.30**	**31.12**	**100%**	**100%**	**100%**	**100%**	**100%**

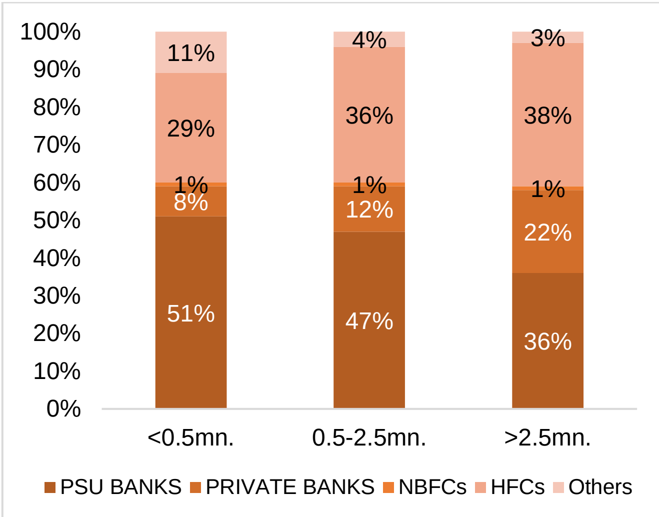
Note: Data excludes PMAY loans, Source: CRIF Highmark, CRISIL MI&A

PSU Banks lost share in terms of outstanding below Rs. 2.5 million over fiscal 2019-23

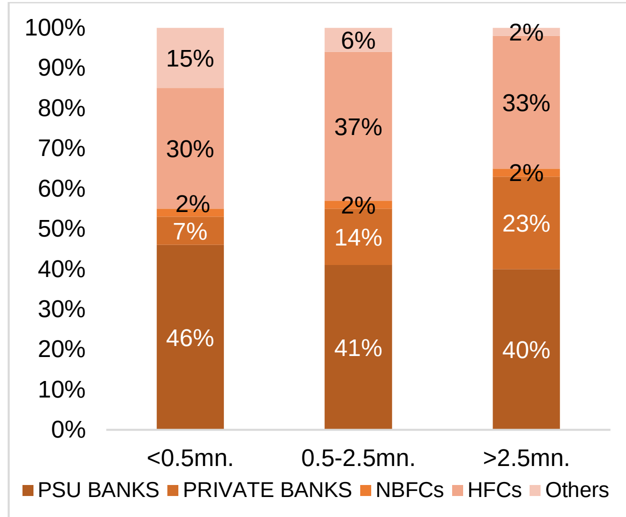
During fiscals 2019 to 2023, PSU Banks have witnessed a decline in their market share in the ticket size segment less than Rs. 0.5 million and between Rs. 0.5 million to 2.5 million, whereas private banks witnessed a decline in market share in the less than Rs. 0.5 million segments. This can be attributed to the fact that Banks primarily caters to the customers who have documented income proofs and banking history. The PSU Banks and Private Banks have witnessed a growth of ~21% and ~19% respectively in ticket size above Rs. 2.5 million between fiscals 2019 and 2023.

On the other hand, HFCs cater to customers whose formal income proofs may not be strong, and therefore, an HFC's understanding of underwriting for this customer segment as well as micro market related dynamics are critical for success. In overall housing loans, HFCs have been able to maintain their share in the market with a CAGR of 12% between fiscals 2019 and 2023. With categories, HFCs witnessed an CAGR of ~15.3% in the above Rs. 2.5 million ticket size buckets, followed by a CAGR of ~8.3% in the Rs. 0.5 million to 2.5 million ticket size segments.

Lender and ticket wise share in Fiscal 2019



Lender and ticket wise share in Fiscal 2023



Note: Others includes SFBs, foreign banks, regional rural banks, and co-operative banks; Source: CRIF Highmark, CRISIL MI&A

Fiscal 2019	**Player ticket-wise credit outstanding (in Rs billions)**			**Player ticket-wise credit outstanding market share (%)**		
Lender	**<0.5 million**	**0.5-2.5 million**	**>2.5 million**	**<0.5 million**	**0.5-2.5 million**	**>2.5 million**
PSU Banks	346	3,811	3,631	51%	47%	36%
Private Banks	56	994	2,218	8%	12%	22%
NBFCs	5	45	98	1%	1%	1%
HFCs	199	2,885	3,708	29%	36%	38%
Others	74	293	334	11%	4%	3%
Overall	**679**	**8,028**	**9,989**	**100%**	**100%**	**100%**

Note: Others includes SFBs, foreign banks, regional rural banks, and co-operative banks; Source: CRIF Highmark, CRISIL MI&A

Fiscal 2023	**Player ticket-wise credit outstanding (in Rs billions)**			**Player ticket-wise credit outstanding market share (%)**		
Lender	**<0.5 million**	**0.5-2.5 million**	**>2.5 million**	**<0.5 million**	**0.5-2.5 million**	**>2.5 million**
PSU Banks	321	4,499	7,744	46%	41%	40%
Private Banks	51	1,553	4,432	7%	14%	23%
NBFCs	14	195	295	2%	2%	2%
HFCs	205	3,970	6,557	30%	37%	33%
Others	100	624	555	15%	6%	2%
Overall	**692**	**10,841**	**19,583**	**100%**	**100%**	**100%**

Note: Others includes SFBs, foreign banks, regional rural banks, and co-operative banks; Source: CRIF Highmark, CRISIL MI&A

Growth drivers of the Housing Finance Industry

Government initiatives

- **PMAY-U**: Aims to fill the supply-demand gap in the housing sector. On the supply side, the scheme offers incentives for beneficiary-led housing, public-private partnerships in building homes for economically weaker sections and low-income groups by offering incentives such as allowing higher floor space index, and announcing grants and subsidies for slum redevelopment. On the demand side, PMAY provides credit-linked subsidies to stimulate demand
- **Relaxation of ECB guidelines**: The relaxed external commercial borrowing (ECB) guidelines will enable easier access to overseas funds and stimulate the sector
- **EPF corpus withdrawal**: Permission to withdraw 90% of Employees' Provident Fund (EPF) corpus enables prospective home buyers to make down payment and pay their home loan EMIs

Regulatory growth drivers

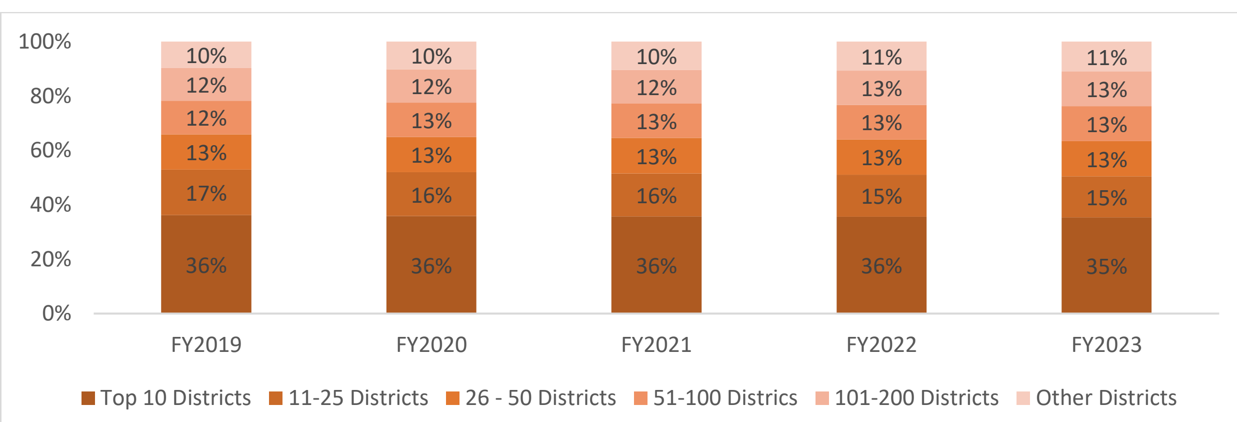
- **Risk weight rationalisation** on housing loans to improve sentiment for the real estate sector
- **Regulatory authority of HFCs to shift from NHB to RBI**: Union Budget 2019-20 proposed a change in regulatory oversight and supervision of HFCs from the NHB to the RBI. This shift will lead to more streamlined regulations and better risk management framework for HFCs
- **SARFAESI Act**: Bringing HFCs under the ambit of SARFAESI Act has helped them accelerate recoveries
- **NHB refinance**: The NHB refinancing schemes help HFCs lower their borrowing costs
- **PSL guidelines revised**: The RBI increased the threshold limit for home loans to be classified as PSL to promote PMAY
- **RERA to Improve Transparency and Accountability in the Sector**

Distribution of Housing Demand

District-wise share in Housing Loans Outstanding

At the end of fiscal 2023, top 10 districts accounted for ~35% of the overall housing market, among all the districts highest growth during the fiscals 2019 to 2023, was witnessed in other districts with a CAGR of 17.2% followed by districts in the 101-200 district bracket with a CAGR growth of 15.1%. The top districts witnessed a CAGR growth of 12.9% during the fiscals 2019 to 2023.

Top 10 districts account for ~35% of Total Housing Outstanding at end of fiscal 2023



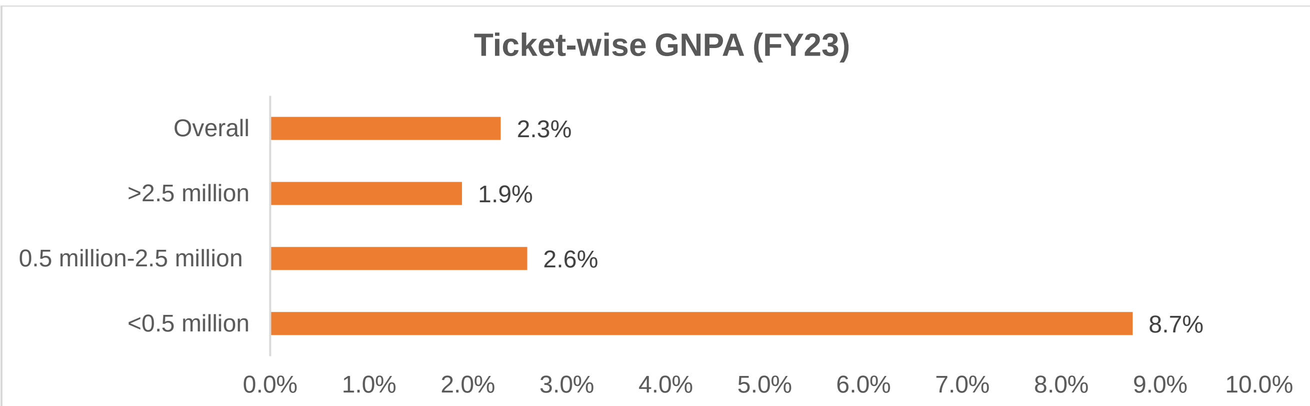
Source: CRIF Highmark, CRISIL MI&A

Asset Quality in Housing loans

Overall housing finance market had GNPA of 2.3% with loans above Rs. 2.5 million having the lowest GNPA levels

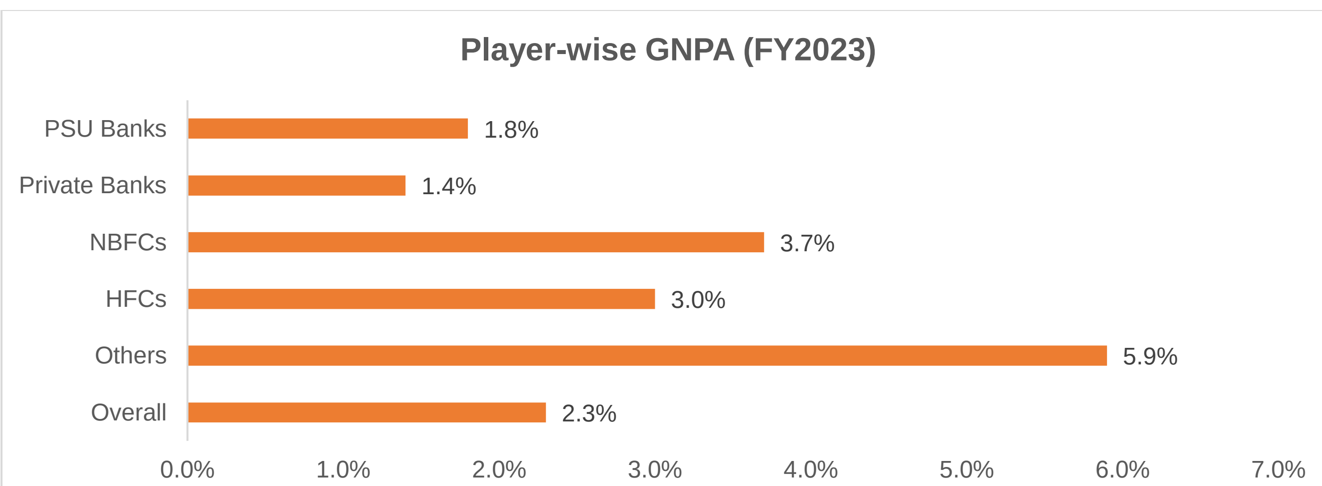
GNPA across all ticket sizes witnessed a growing trend among all ticket sizes, with loans above Rs. 2.5 mn having the lowest GNPAs. The overall GNPA level across ticket sizes during fiscal 2023 was 2.3%, loans less than Rs.0.5 million had a GNPA of 8.7%, followed by 2.6% GNPA for loans between Rs. 0.5 million to 2.5 million bracket and GNPA of 1.9% in the above Rs. 2.5 million ticket size buckets.

GNPA (%) across ticket size buckets in Housing loans



Note: Data excludes write-offs, Source: CRIF Highmark, CRISIL MI&A

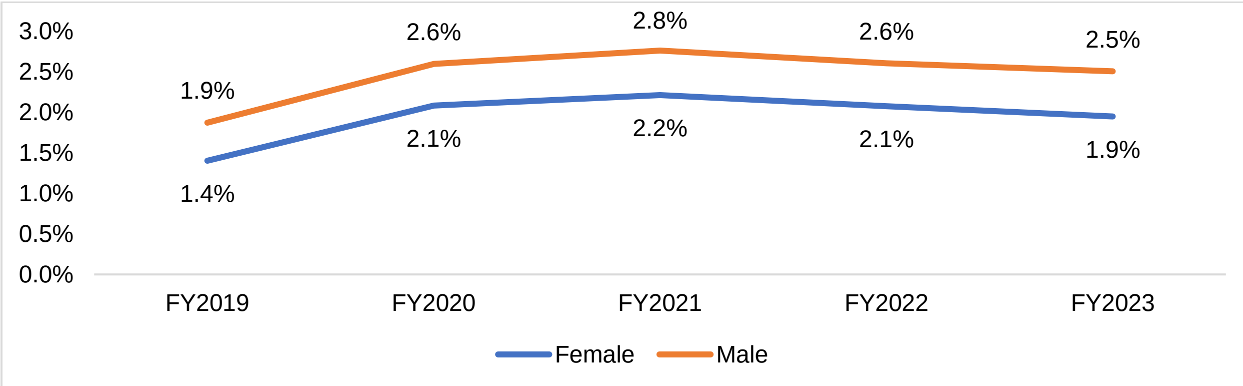
Player wise Overall GNPA during fiscal 2019 to 2023



Note: Data excludes write offs

Source: CRIF Highmark, CRISIL MI&A

Loans given to women borrowers performed better in comparison to male borrowers

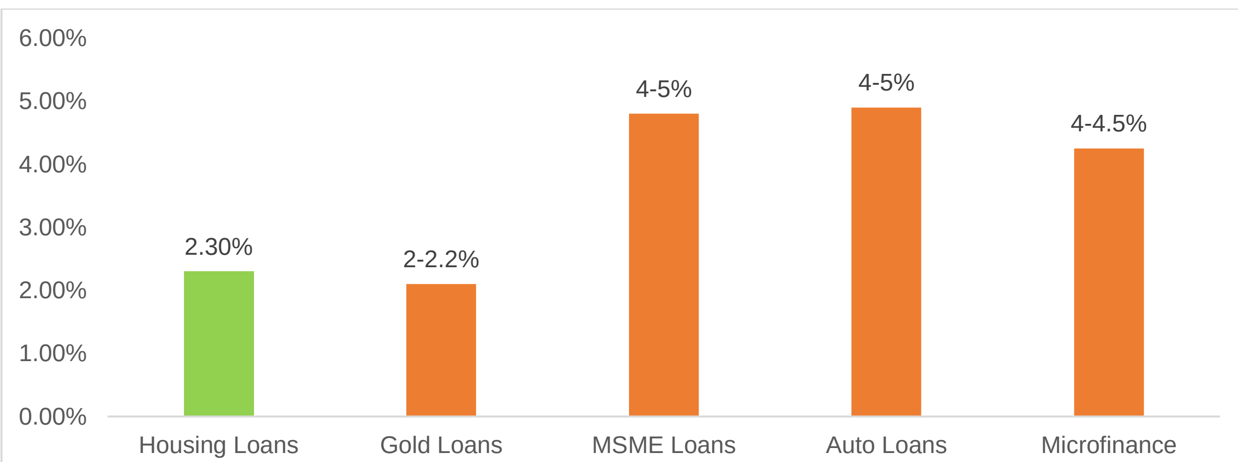


Source: CRIF Highmark, CRISIL MI&A

Home loans have the second lowest annual credit costs across major asset segments

Housing finance as an asset class has the second lowest annual credit costs amongst all large financial asset classes mainly on account of the collateral and the secured nature of the funding. The GNPA ratio for Gold Loans has been in the 2-2.2% range in fiscal 2023 while MSME loans has been 5.0-5.2% in fiscal 2022 and is expected to be in the range of 4-5% in fiscal 2023. In fiscal 2022, Auto loans has been 6.60% for NBFCs and 5.90% in microfinance whereas, for housing loans it has been comparatively better at 2.4% in fiscal 2022 which is expected to further reduce by fiscal 2024. Thus, for HFCs the asset quality is better in comparison to other NBFCs operating in asset classes having higher GNPA levels.

GNPA levels across asset segments at end of fiscal 2023:



Note: GNPA levels for Gold Loans, Micro-finance, Auto and MSME loans are Crisil estimates for fiscal 2023, GNPA for Housing Loan is actual figure for fiscal 2023. Source: CRIF Highmark, CRISIL MI&A

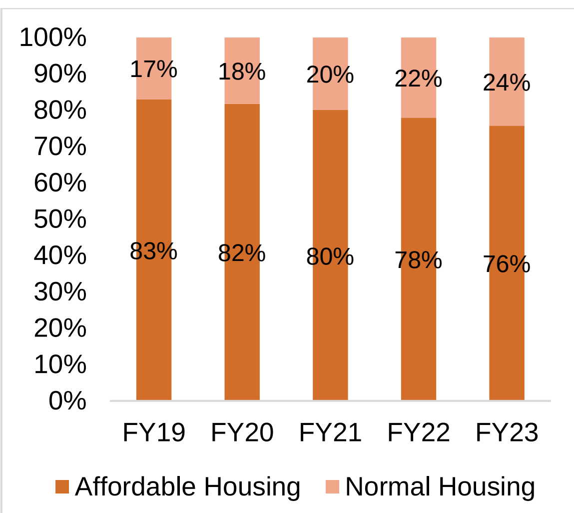
Affordable Housing Finance Market (< Rs 2.5 Mn)

India's mortgage market can broadly be divided into two segments by ticket size of the housing loan at the time of disbursement – prime loans or normal housing loans and affordable housing loans.

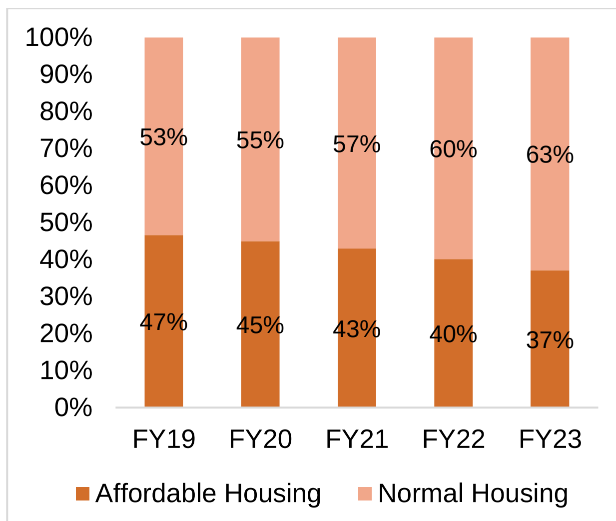
In this report, housing loans with ticket size greater than Rs 2.5 million are termed normal housing loans, and loans with ticket size lower than Rs 2.5 million are referred to as housing loans focusing on low-income housing segment or affordable housing loans (AHL). The former, called normal housing loans, is prominent in the metro/urban areas, and the latter which generally includes houses in the outskirts of these areas and semi-urban and rural areas i.e., defined as housing finance market focusing on low-income housing segment.

Affordable housing finance accounts for 37% in overall Housing loans

Affordable housing comprises major share in outstanding housing loans in volume terms…



…Leading to 37% share in credit outstanding in fiscal 2023



Source: CRIF Highmark, CRISIL MI&A

Encouraging trends in Affordable Housing Finance market (loans < Rs 2.5 mn.); Market to bounce back more strongly in long term

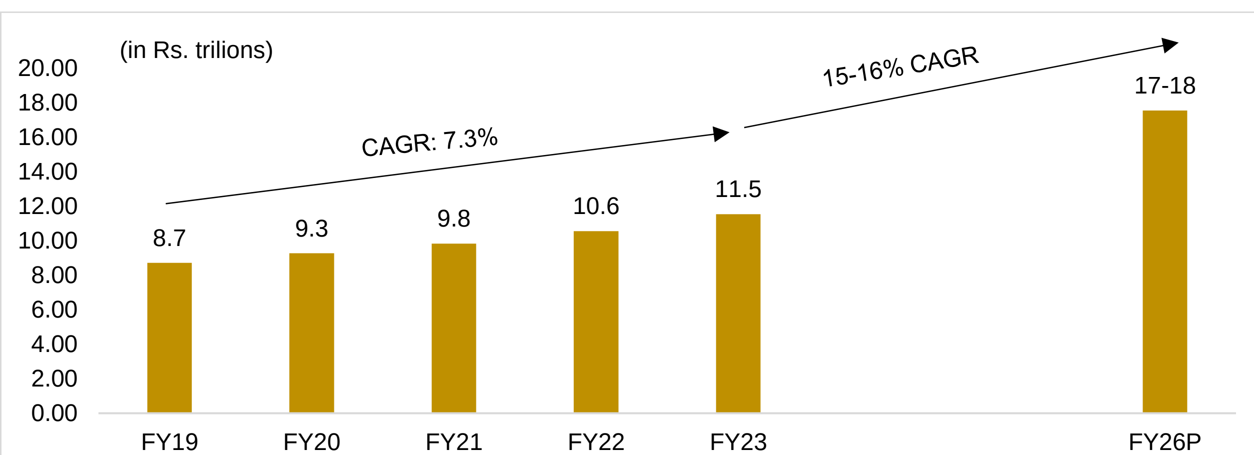
The overall size of the affordable housing finance market in terms of loan outstanding was around Rs 11.5 trillion as of March 2023, constituting around 37% of the overall housing finance market, as per CRIF data. With outstanding loans of Rs 4.8 trillion as of March 2023, PSBs have the highest market share of 42% in the Affordable Housing finance segment. HFCs accounted for 36% of the market (Outstanding loans of Rs 4.2 trillion as of March 2023) followed by private banks which had a market share of 14% (outstanding loans of Rs 1.6 trillion as of March 2023). All other player groups (foreign banks and other small players) had a cumulative market share of 6% in Affordable housing finance market as of March 2023.

Between fiscals 2019 and 2023, the growth in the affordable housing loans has remained subdued, with the segment having witnessed a CAGR of 7.3% as compared to overall housing loans, which has grown by ~13.5% during the same time. This can be primarily attributed to a slowdown in economic activity, funding challenges due to NBFC crisis and the Covid-19 pandemic. Further, rise of hybrid work model and working from home led to an increase in demand for bigger residential homes. As a result, the sale in affordable housing took a beating whereas high-end and mid-segment housing gained the maximum in the last couple of years.

In fiscal 2020, the disbursement growth for affordable segment slowed down and decreased considerably by ~6% on-year due to liquidity constraints in NBFCs and HFCs. The segment further weakened and decreased in terms of disbursement by 4% year-on-year in fiscal 2021 due to the economic slowdown and pandemic=, which impacted the economic activities and overall income levels of economically weaker section (EWS) and low-income group (LIG). In fiscal 2021, with the onset of pandemic in the first half of the fiscal, it had a disproportionate impact on the segment's customers – EWS and LIG – vis-a-vis the overall segment that caters to salaried individuals, whose incomes have been relatively stable. However, with faster-than-expected recovery in the second half because of the Central and State government measures, tax sops and low interest rates led to growth in the affordable housing segment.

The segment growth was again curtailed by the pandemic's second wave in the first quarter of fiscal 2022, leading to localized lockdowns by the state governments, which affected economic activities in tier II and III cities. But continued assistance from the government and the central bank, supported by higher demand for housing, and continued penetration in tier II and III cities by affordable HFCs helped the segment recover and bounce back.

Affordable Housing finance market to grow at 15-16% between fiscals 2023 and 2026



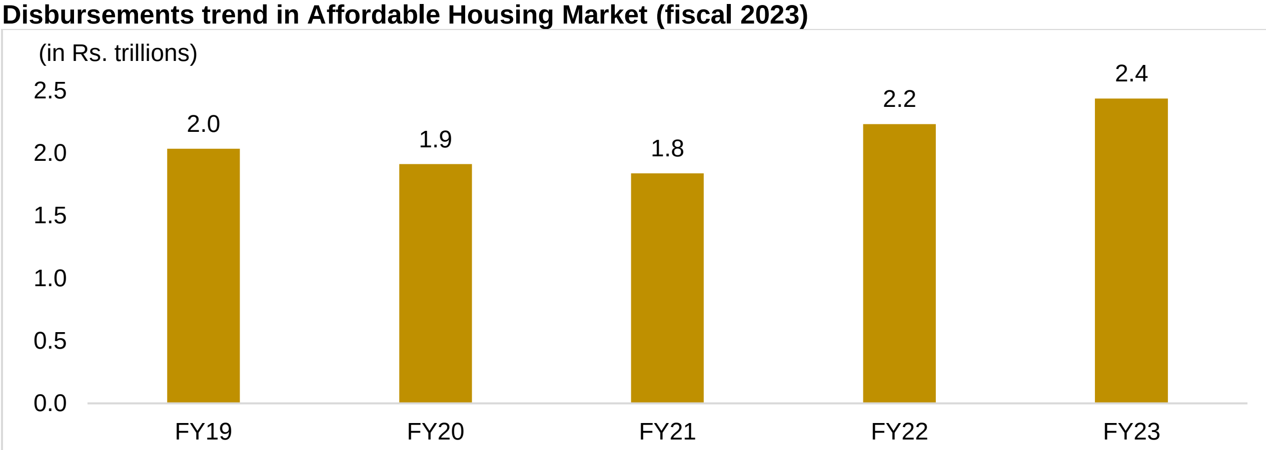
Note: P: Projected; Source: CRIF Highmark, CRISIL MI&A

In fiscal 2023, with normalization of economic activities for EWS and LIG segments and effect of pandemic waning, the demand for increase in housing bounced back strongly, leading to affordable HFCs to be up by 9.1% year on year in terms of disbursement and 9.2% in terms of loan outstanding in Affordable Housing finance segment. In the longer term, CRISIL MI&A expects the segment to bounce back sharply in terms of loan outstanding and grow at ~15-16% CAGR over Fiscals 2023-2026.

While the market has grown at a tepid pace in the past 2-3 years, CRISIL MI&A is sanguine on future growth due to the following reasons:

- Economic recovery post Covid-19 pandemic and Return to Office initiated by employers
- Government focus on housing and sops being given by some state governments such as lowering stamp duties to aid housing demand
- Increased supply of affordable homes
- Rising demand for affordable homes as consumers increasingly work out of Tier 2/3/4 cities in a post-Covid world
- Preference for owning homes seems to be on the rise in the post-Covid world

Disbursements trend in Affordable Housing Market (fiscal 2023)



Source: CRIF Highmark, CRISIL MI&A

HFCs reported second highest CAGR growth of 13% from fiscal 2020 to 2023

In terms of loan outstanding in affordable housing finance market, the HFCs reported the second highest CAGR growth at 13% when compared to its peers, followed by private banks (11%), and public banks (3%). Within the affordable housing finance, the NBFCs reported highest CAGR growth of 50% between fiscal 2020 and 2023, albeit a low base.

Lender wise Affordable Housing Finance market loan outstanding

In Rs. trillion	FY20	FY21	FY22	FY23	CAGR (FY20-23)
Public Banks	4.36	4.45	4.59	4.82	3%

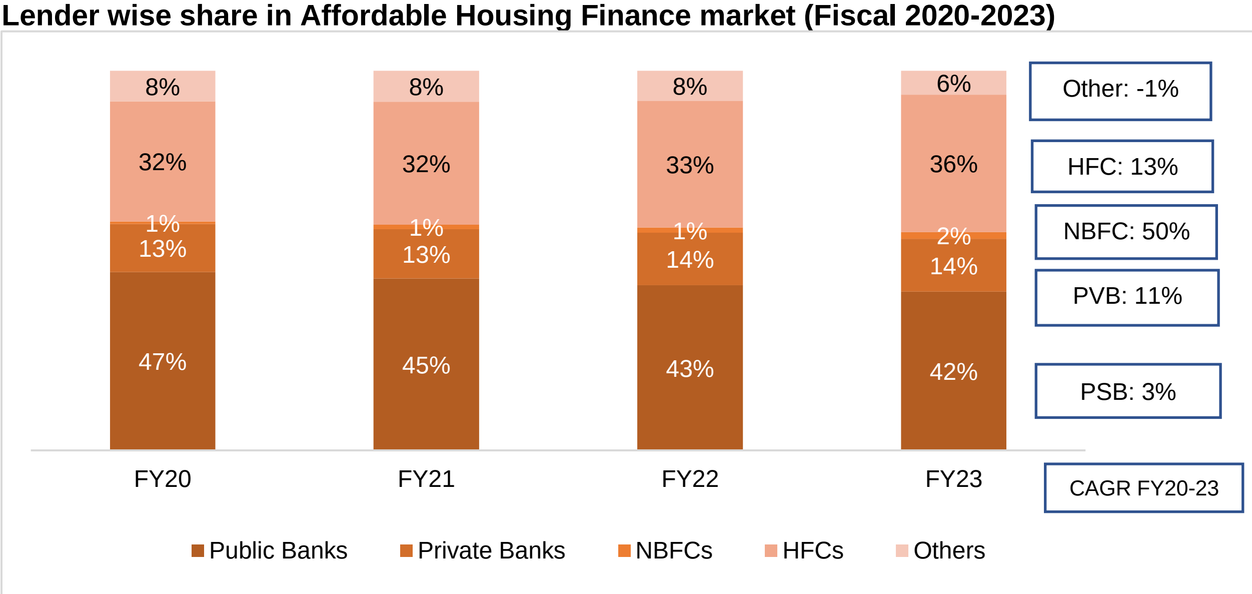
Private Banks	1.17	1.28	1.46	1.60	11%
NBFCs	0.06	0.11	0.14	0.21	50%
HFCs	2.93	3.19	3.53	4.18	13%
Others	0.75	0.80	0.84	0.72	-1%
Total	**9.27**	**9.83**	**10.56**	**11.53**	**8%**

Source: CRIF Highmark, CRISIL MI&A

HFCs gaining share in affordable housing finance market

At the end of fiscal 2023, HFCs had the second highest market share in the Affordable housing finance market with a total credit outstanding of Rs. 4.18 trillion accounting for ~36% of the total market, which has grown from ~33% as of fiscal 2022. Public Banks reported highest market share at 42% however it has been continuously losing its market share from fiscal 2020 as Affordable housing finance market requires focused approach and requires a deep understanding on underwriting informal segment and proper technology. As this segment caters to customers from low-income group it requires high engagement with clients and last mile service, which are well suited and are strengths of HFCs. This has led to increase in market share of HFCs from 32% in Fiscal 2020 to 36% in Fiscal 2023.

Lender wise share in Affordable Housing Finance market (Fiscal 2020-2023)



Note: Others include foreign banks & other small lenders; Source: CRIF Highmark, CRISIL MI&A

HFCs have the highest share in housing finance disbursement (<Rs. 2.5 mn)

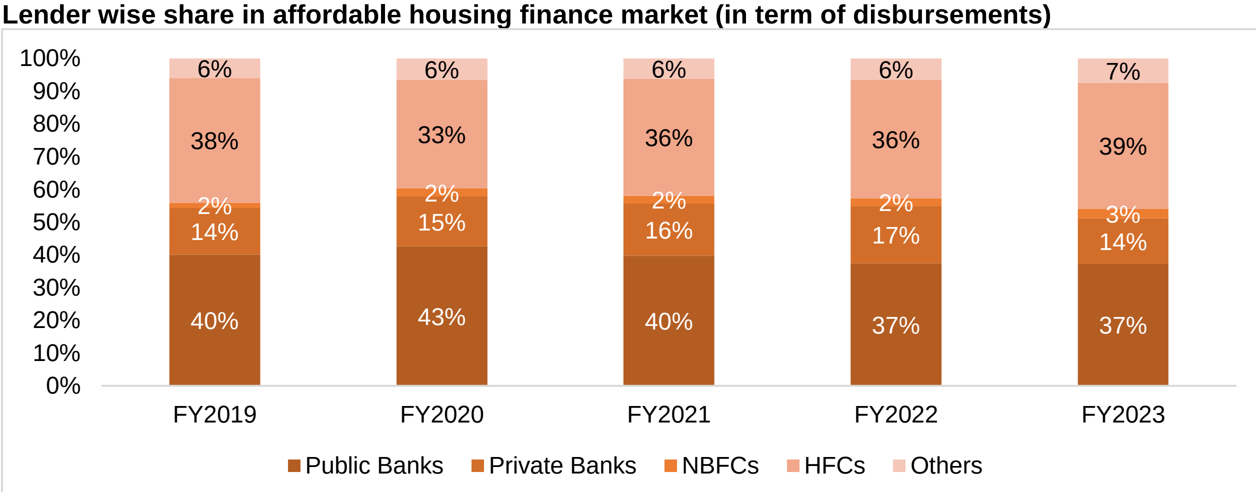
HFCs have 39% market share in terms of Disbursement in housing finance market during the fiscal 2023. They have been able to cultivate a strong market position in this segment due to the following:

- Strong origination skills and focused approach

- Creation of niches in catering to specific categories of customers
- Strong understanding of customer segment, excellent customer service and diverse channels of business sourcing
- Non salaried customer profile – around 50-55% of customers
- Focus and presence in smaller cities as well

These factors will help them maintain market share in the future as banks primarily focus on high ticket customers with. good credit profiles. By virtue of being largely focused on metros and urban areas, ticket sizes of banks and large HFCs have followed rising property prices. A focus on the urban salaried segment by banks and large HFCs has left non-salaried as well as Tier III, and rural market open to HFC/NBFCs with the capability to operate in that segment.

Lender wise share in affordable housing finance market (in term of disbursements)



Note: Others include foreign banks and other small players. Source: CRIF Highmark, CRISIL MI&A

Market share of player groups under Affordable Housing finance based on disbursement

Period	Disbursement by player groups (Rs billion)						Market share of player groups based on disbursement				
	PSBs	Private Banks	NBFCs	HFCs	Others	Total	PSBs	Private Banks	NBFCs	HFCs	Others
Q1 FY20	171	74	9	169	28	451	38%	16%	2%	37%	6%
Q2 FY20	193	74	13	163	30	474	41%	16%	3%	34%	6%
Q3 FY20	223	72	14	160	33	502	45%	14%	3%	32%	6%
Q4 FY20	226	70	11	143	33	484	47%	15%	2%	30%	7%
Q1 FY21	78	18	3	41	11	151	52%	12%	2%	27%	7%
Q2 FY21	177	66	10	156	25	433	41%	15%	2%	36%	6%
Q3 FY21	218	93	13	206	33	563	39%	16%	2%	37%	6%

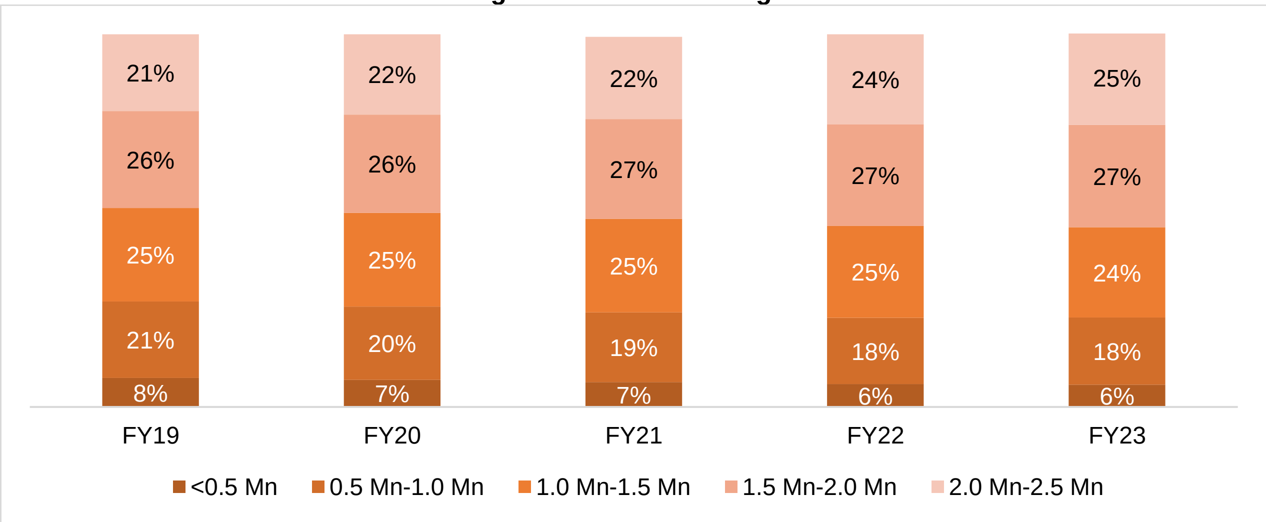
Q4 FY21	258	116	18	253	46	690	37%	17%	3%	37%	7%
Q1 FY22	121	64	6	107	22	320	38%	20%	2%	34%	7%
Q2 FY22	206	101	16	219	36	577	36%	17%	3%	38%	6%
Q3 FY22	233	104	15	222	39	614	38%	17%	2%	36%	6%
Q4 FY22	273	122	17	260	48	720	38%	17%	2%	36%	7%
Q1 FY23	197	93	15	219	39	562	35%	17%	3%	39%	7%
Q2 FY23	233	91	15	241	44	624	37%	15%	2%	39%	7%
Q3 FY23	226	81	18	235	49	608	37%	13%	3%	39%	8%
Q4 FY23	251	75	23	242	50	640	39%	12%	4%	38%	8%

Source: CRIF Highmark, CRISIL MI&A; Others include foreign banks and other small players

Ticket size between Rs 1.5-2.0 million have the highest share in affordable housing finance market

As of fiscal 2023, the share of ticket size Rs. 1.5 Mn to 2.0 million portfolios have had the highest share out of all the buckets at 27% which increased from 26% in fiscal 2019, followed by ticket size between Rs. 2.0 Mn to 2.5 Mn at 25% which increased from 21% in fiscal 2019. Share of loans of ticket size less than 0.5 Mn reduced from 8% to 6% between fiscal 2019 to 2023, similar trend was witnessed in ticket size of 0.5 Mn to 1.0 Mn and ticket size 1.0 Mn to 1.5 Mn which reduced from 21% to 17% and 25% to 24% in same period respectively.

Ticket wise share in Affordable Housing finance Outstanding

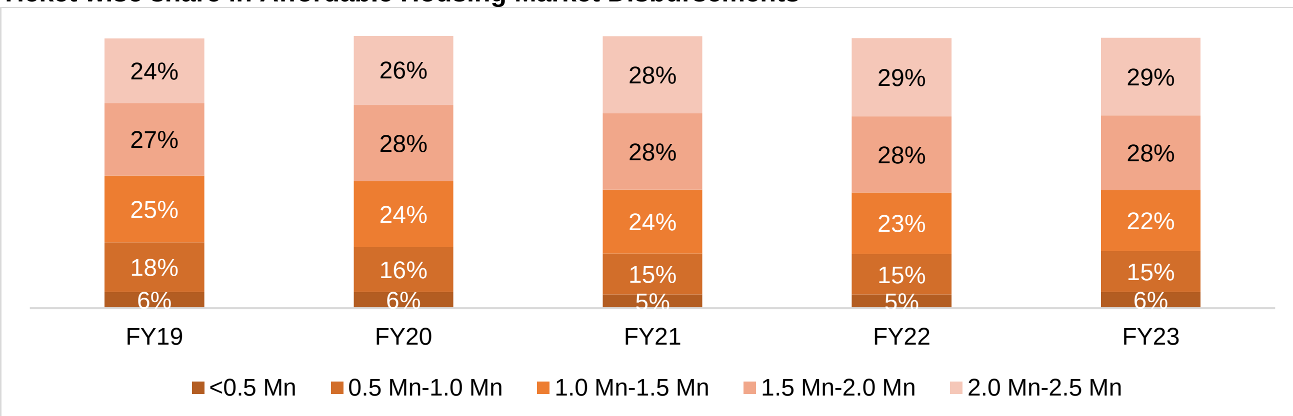


Source: CRIF Highmark, CRISIL MI&A

Share of loans between Rs. 2.0-2.5 million has increased between fiscal 2019 and 2023 in terms of disbursements

Disbursements in the affordable housing segment witnessed were at a total of Rs. 2.43 trillion during Fiscal 2023. In terms of disbursement, ticket sizes between 1.5 Mn to 2.0 Mn and 2.0 Mn to 2.5 Mn have had the highest share, which has increased from 27% and 24% respectively from fiscal 2019 to 28% and 29% respectively in fiscal 2023.

Ticket wise share in Affordable Housing Market Disbursements

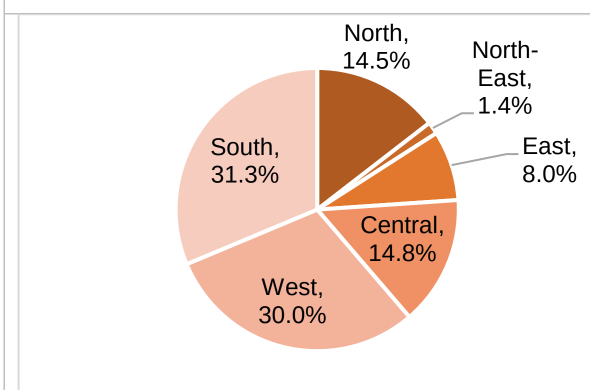


Source: CRIF Highmark, CRISIL MI&A

Region-wise loans outstanding in affordable housing finance market (Fiscal 2023)

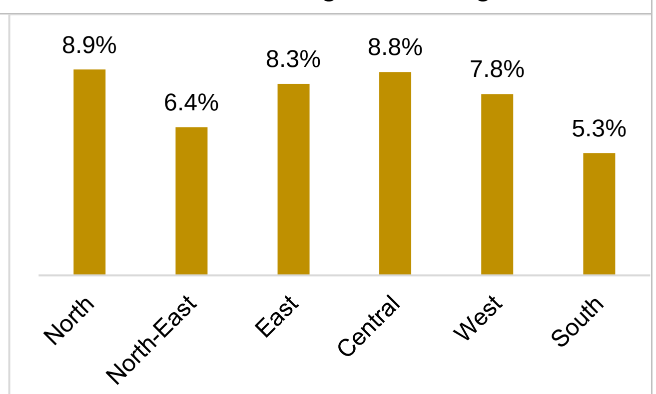
At end of fiscal 2023, Southern region has the highest share in affordable housing finance segment at 31.3%, followed by Western region at 30.0%, Central region at 14.8%, Northern region at 14.5%, Eastern region at 8.0% and Northeastern region at 1.4%. In terms of growth, Northern region has reported the highest growth in credit outstanding in affordable housing finance market between fiscals 2019 and 2023.

Region wise share for Affordable housing finance market as of Fiscal 2023



Source: CRIF Highmark, CRISIL MI&A

Region wise growth rate (FY19-FY23) for Affordable Housing finance segment

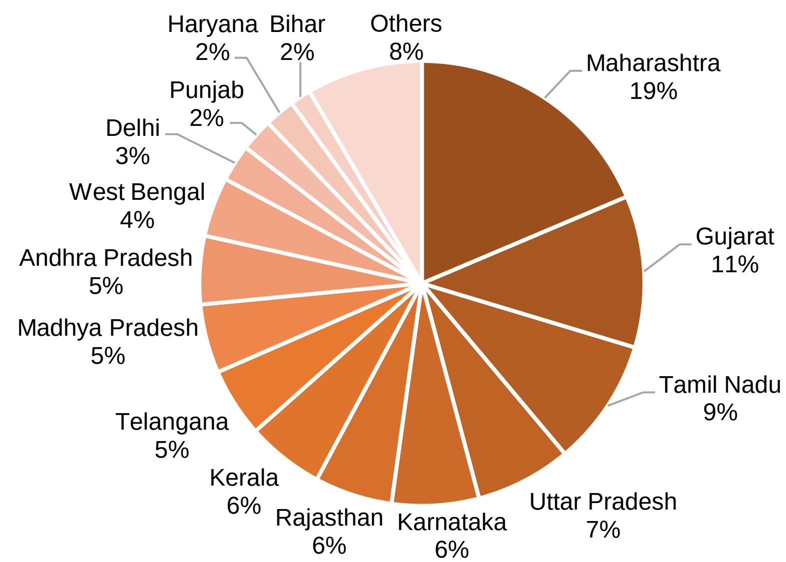


Source: CRIF Highmark, CRISIL MI&A

State-wise loans outstanding for Affordable housing finance market (Fiscal 2023)

There are wide variations in size and growth in the Affordable Housing finance segment across states and within various districts in the same state as well, which indicate latent opportunity for offering loans to unserved or underserved customers. Based on loans outstanding in the affordable housing finance market, the top 15 states/UTs account for ~92% of the market size as of March 2023. Maharashtra tops the list with the highest share of 19%, followed by Gujarat (11%), Tamil Nadu (9%), Uttar Pradesh (7%), Karnataka (6%) and Rajasthan (6%).

Maharashtra has the highest share in Affordable Housing finance segment



Source: CRIF Highmark, CRISIL MI&A

Rajasthan witnessed the fastest growth between fiscal 2020 and fiscal 2023 in Affordable Housing Finance market

In terms of growth in the affordable housing finance market, Rajasthan witnessed the fastest growth between fiscals 2019-23, with a CAGR of 13%, followed by Bihar (11%), Gujarat (10%) and Madhya Pradesh (10%). States such as Karnataka, Telangana & Kerala have witnessed a slower growth in affordable housing finance market as compared to the national average of ~8%. Below table indicates the credit outstanding of affordable housing finance and the growth witnessed by the states:

State wise analysis of top 15 states in affordable housing finance market

(In Rs Billion)	FY2020	FY2021	FY2022	FY2023	CAGR FY20-23
Maharashtra	1,749	1,844	1,970	2,148	7%
Gujarat	954	1,055	1,188	1,272	10%
Tamil Nadu	894	945	993	1,065	6%

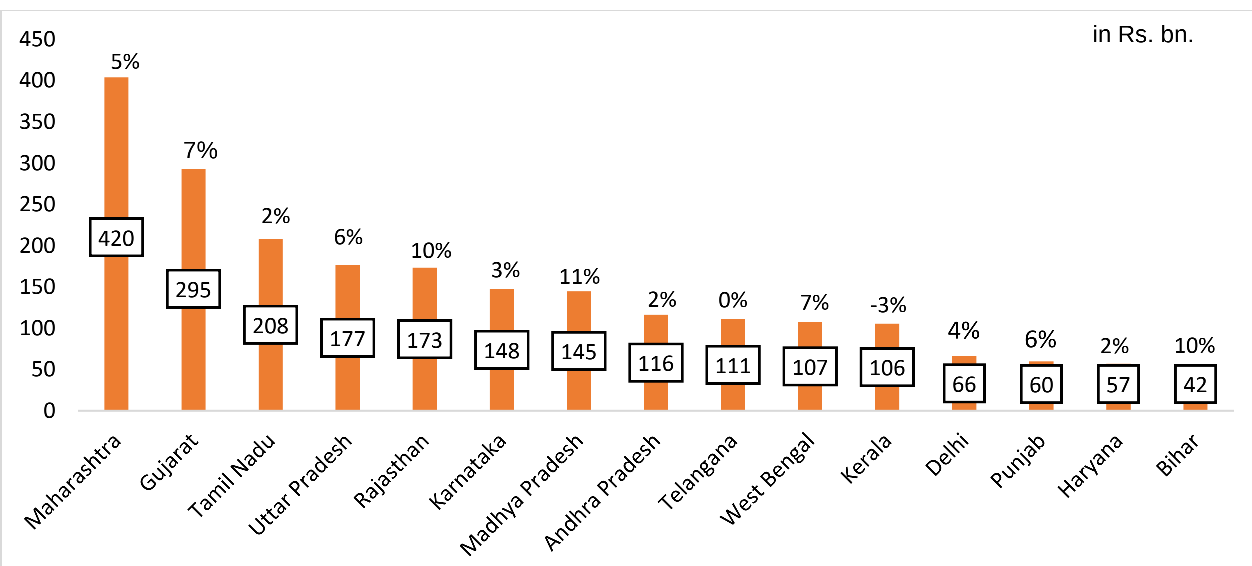
Uttar Pradesh	619	663	718	804	9%
Karnataka	636	643	661	729	5%
Rajasthan	455	498	568	651	13%
Kerala	553	586	616	648	5%
Telangana	502	518	541	580	5%
Madhya Pradesh	429	467	512	577	10%
Andhra Pradesh	479	498	525	573	6%
West Bengal	387	410	448	498	9%
Delhi	262	274	287	309	6%
Punjab	217	229	248	275	8%
Haryana	209	218	232	254	7%
Bihar	130	140	154	176	11%
Other States	793	841	896	972	7%
Overall AHL	**9,269**	**9,829**	**10,559**	**11,533**	**8%**

Source: CRIF Highmark, CRISIL MI&A

Madhya Pradesh, Rajasthan, and Bihar reported highest CAGR growth (disbursements) between fiscal 2019 and 2023

Among the top 15 states Madhya Pradesh with disbursement of 145 billion reported the highest CAGR growth of 11% followed by Rajasthan at 10%, Gujarat and West Bengal both at 7%. Kerela reported negative CAGR growth of 3%. The following graph sets forth top 15 state wise affordable housing disbursement along with CAGR growth from fiscal F2019 to fiscal 2023.

State wise Disbursement and Growth (FY2019-23) in affordable housing finance market



Note: the % on top of graph represents the CAGR Growth between fiscal 2019 and fiscal 2023, The number in boxes represent the disbursements in fiscal 2023; Source: CRIF Highmark, CRISIL MI&A

State wise analysis for top 5 districts in terms of portfolio and loan accounts for Affordable Housing finance segment

Among all states, Maharashtra had the highest credit outstanding as of Fiscal 2023. Among top 15 states, Delhi has the highest concentration of credit outstanding in top 5 districts for affordable housing finance market as of Fiscal 2023. Amongst the top states, Telangana had the best asset quality at 1.5% for affordable housing finance market at end of fiscal 2023.

State wise analysis of all states in Affordable Housing finance segment

States	No. of districts	Top 5 district of state in terms of credit outstanding in Affordable Housing Market	Concentration of credit outstanding in top 5 districts for Affordable Housing Segment	Concentration of accounts in top 5 districts for Affordable Housing finance accounts	GNPA in Affordable Housing Market (FY23)
Maharashtra	35	Thane, Pune, Mumbai, Mumbai Suburban, Nashik	61%	54%	3.6%
Gujarat	33	Ahmedabad, Surat, Vadodara, Rajkot, Gandhinagar	63%	59%	2.3%
Tamil Nadu	32	Kancheepuram, Coimbatore, Thiruvallur, Chennai, Madurai	42%	39%	2.6%
Uttar Pradesh	75	Ghaziabad, Lucknow, Agra, Gautam Buddha Nagar, Kanpur Nagar	40%	39%	3.5%
Karnataka	30	Bangalore, Dakshina Kannada, Mysore, Udupi, Belgaum	66%	63%	2.7%
Rajasthan	33	Jaipur, Jodhpur, Bhilwara, Ajmer, Alwar	50%	48%	1.8%
Kerala	14	Ernakulam, Thiruvananthapuram, Thrissur, Kozhikode, Kollam	55%	54%	3.1%
Telangana	10	Hyderabad, Rangareddy, Karimnagar, Medak, Warangal	77%	75%	1.5%
Madhya Pradesh	51	Indore, Bhopal, Jabalpur, Gwalior, Ujjain	51%	33%	5.3%
Andhra Pradesh	13	Visakhapatnam, East Godavari, Krishna, Guntur, West Godavari	61%	63%	2.1%
West Bengal	19	Kolkata, North Twenty Four Parganas, Barddhaman, Hugli, Haora	62%	61%	3.6%
Delhi	9	West, South West, North West, South, East	86%	86%	3.4%
Punjab	22	Ludhiana, Sahibzada Ajit Singh Nagar, Jalandhar, Patiala, Amritsar	62%	60%	4.0%
Haryana	21	Gurgaon, Faridabad, Panchkula, Karnal, Sonipat	50%	48%	3.8%
Bihar	38	Patna, Muzaffarpur, Gaya, Vaishali, Bhagalpur	47%	47%	2.7%
Uttarakhand	13	Dehradun, Hardwar, Udham Singh Nagar, Nainital, Garhwal	85%	86%	2.5%
Chhattisgarh	27	Raipur, Durg, Bilaspur, Janjgir - Champa, Rajnandgaon	70%	69%	2.4%

Odisha	30	Khordha, Cuttack, Ganjam, Baleshwar, Sundargarh	52%	51%	3.2%
Assam	27	Kamrup Metropolitan, Kamrup, Jorhat, Nagaon, Sonitpur	46%	44%	2.0%
Himachal Pradesh	12	Kangra, Solan, Shimla, Mandi, Hamirpur	70%	70%	6.2%
Jharkhand	24	Ranchi, Dhanbad, Purbi Singhbhum, Bokaro, Hazaribagh	72%	74%	3.1%
Jammu and Kashmir	22	Jammu, Srinagar, Baramula, Anantnag, Badgam	52%	56%	1.1%
Goa	2	North Goa, South Goa	100%	100%	3.0%
Chandigarh	1	Chandigarh	100%	100%	1.2%
Tripura	4	West Tripura, South Tripura, North Tripura, Dhalai	100%	100%	2.1%
Sikkim	4	East District, North District, South District, West District	100%	100%	2.2%
Puducherry	4	Karaikal, Mahe, Puducherry, Yanam	100%	100%	2.7%
Mizoram	8	Aizawl, Lunglei, Lawngtlai, Saiha, Serchhip	87%	87%	2.5%
Manipur	9	Imphal West, Imphal East, Churachandpur, Senapati (Excluding 3 Sub-Divisions), Thoubal	90%	91%	1.5%
Meghalaya	9	East Khasi Hills, West Garo Hills, West Jaintia Hills, Ribhoi, West Khasi Hills	96%	95%	3.2%
Dadra and Nagar Haveli	1	Dadra and Nagar Haveli	100%	100%	1.0%
Andaman and Nicobar Islands	3	South Andaman, North & Middle Andaman, Nicobars, ,	100%	100%	0.7%
Daman and Diu	2	Daman, Diu	100%	100%	2.3%
Arunachal Pradesh	17	Papum Pare, Lower Subansiri, Anjaw, Kurung Kumey, West Kameng	74%	75%	1.7%
Nagaland	11	Dimapur, Kohima, Mokokchung, Wokha, Zunheboto	94%	95%	2.0%
Lakshadweep	1	Lakshadweep	100%	100%	0.0%

Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Number of districts as reported by the bureau

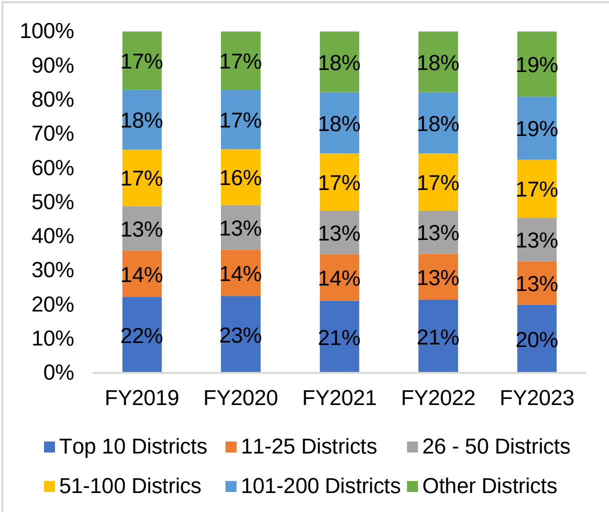
Source: CRIF Highmark, CRISIL MI&A

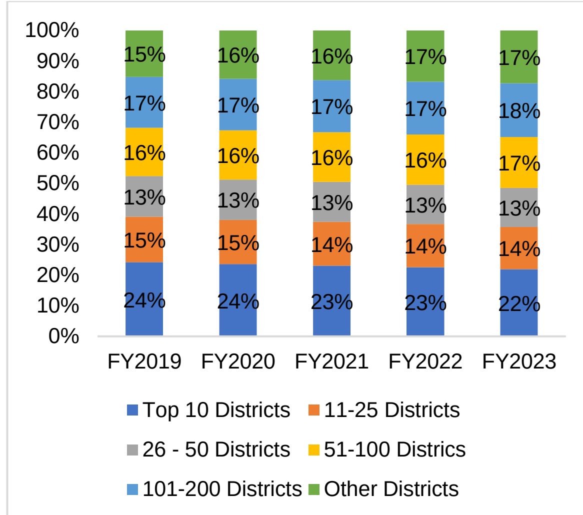
District-wise Distribution of affordable housing finance market

At the end of fiscal 2023, top 10 district accounted for 20% in terms of disbursement and 22% in terms of loan outstanding of the affordable market. It was observed that both in terms of disbursement and loan outstanding, highest share is captured by top 10 district. In terms of growth, highest growth was recorded by other district at 8% in terms of disbursement and 11% in terms of loan outstanding. This shows the huge untapped potential in smaller districts (beyond top 100) for housing loans. The following graphs set our district-wise disbursement mix and loan outstanding mix for affordable housing industry

Disbursement mix for affordable housing industry…

Loan outstanding mix for affordable housing industry….





Source: CRIF Highmark, CRISIL MI&A

The following table set our district-wise assessment of select states based on total affordable housing finance market. The table indicates the top 5 fastest districts in terms of credit outstanding in affordable housing finance as compared to the overall state. For instance, Morbi, Surendranagar has witnessed a growth of 25% and 22% CAGR in affordable housing finance market respectively between fiscal 2019 and fiscal 2023, as compared to the overall growth of 10% of the Gujarat.

Similarly, Mandya in Karnataka, Sangli in Maharashtra, Dhaulpur in Rajashtan and Morena in Madhya Pradesh has witnessed the fastest growth amongst their respective states.

State District wise Assessment	FY19	FY23	CAGR (FY19-23)
Gujarat	**866.3**	**1271.8**	**10%**
Morbi	7.5	18.3	25%
Surendranagar	8.3	18.6	22%
Devbhoomi Dwarka	3.0	5.7	17%
Banas Kantha	13.1	24.3	17%
Junagadh	14.1	25.8	16%
Other Districts	801.4	1,136.4	9%
Karnataka	**625.6**	**729.5**	**4%**
Mandya	7.6	12.8	14%
Haveri	5.3	8.5	12%
Ramanagara	5.6	8.7	12%
Gadag	4.3	6.6	12%
Bagalkot	6.1	9.2	11%
Other Districts	596.7	683.6	3%
Maharashtra	**1,655.7**	**2,148.2**	**7%**
Sangli	16.1	27.2	14%
Jalgaon	33.0	53.1	13%
Solapur	23.3	36.9	12%

Ahmednagar	30.4	48.0	12%
Gadchiroli	2.6	4.0	12%
Other Districts	1,550.2	1,979.0	6%
Rajasthan	**408.4**	**651.1**	**12%**
Dhaulpur	1.1	2.6	23%
Tonk	4.1	9.3	23%
Sikar	9.4	20.2	21%
Jhunjhunu	6.8	14.1	20%
Jalor	3.4	7.2	20%
Other Districts	383.6	597.7	12%
Madhya Pradesh	**395.5**	**577.3**	**10%**
Morena	3.6	7.9	21%
Harda	2.4	4.7	18%
Bhind	3.8	6.7	15%
Mandsaur	5.3	9.4	15%
Burhanpur	2.3	4.0	15%
Other Districts	378.1	544.6	10%

Source: CRIF Highmark, CRISIL MI&A

Business Model of housing financiers focused on affordable housing finance market

Housing financiers focused on Affordable housing finance market typically serve the underserved category of low-income or mid-income customers who may be salaried, working in the informal sector or self-employed running a small business. Many a times, these customers do not have adequate documentation that can serve as proof of their income.

The high cost of serving this category of customers has prompted financiers to adopt innovative models to source business. An HFC targeting this segment of customers usually has a hub and spoke model where retail branches of the HFC operate as 'hubs' in urban areas, while small kiosks are set up near areas where construction activity is taking place to source customers. Financiers also spread awareness about their products in rural areas by setting up kiosks at **'gram-sabhas'** and arranging 'loan melas' for potential customers. However, some players also rely on customers indulging in self-construction of their houses in tier-2 and 3 cities in need of credit. These players have sourcing strategies focussed on attracting customers with touch points in nearby locations.

Usually, close to 70% of the overall business of housing finance companies focused on affordable housing segment is sourced through direct sales teams. Direct customer contact through these teams enables better visibility and helps limit fraud, thus making for reliable customer assessment. Moreover, all critical functions like origination, verification and credit appraisal are performed in-house, while certain non-core activities like loan documentation and document processing may be outsourced. This allows HFCs in this segment to allocate more internal resources towards vital aspects of lending such as verification, credit appraisal and Credit assessment.

HFCs focused on Affordable Segment vs. Normal Housing finance players

The type of borrower's profile and higher risk-taking ability of players focused on affordable housing segment led these financiers to charge higher yields in comparison to that charged by normal housing players. Given below is the list of factors explaining higher yields charged by housing players focused on affordable housing segment.

Sl. no.	Parameters	Housing finance players focused on affordable housing segment	Normal housing finance players
1.	**Borrower profile**	Mostly self-employed customers and customers having weaker income documents; some HFCs though focus on salaried but low-income customers	Majorly focus on customers having proper income documents
2.	**Surrogate usage**	High surrogate usage to derive the income of borrowers	Very minimal usage of surrogates
3.	**Geographical focus**	Mainly focus on smaller towns, semi-urbans areas and outskirts of larger cities	Mainly present in major locations and Tier 1 cities
4.	**Credit appraisal**	Credit appraisal process involves high level of subjectivity to derive income and cash flow patterns	Credit appraisal process is based on pre-defined income and eligibility policies
5.	**Collection**	Relatively lower share of repayment through ECS / NACH leading to higher OPEX	Higher proportion of ECS and NACH in EMI payment leading to higher collection efficiency
6.	**Cost and sources of funds**	Higher reliance on bank borrowings leading to relatively higher cost of funds	Higher reliance on capital markets leading to cheaper funds

Source: CRISIL MI&A

Operational Parameters

CRISIL MI&A estimates the proportion of DSTs in sourcing business for affordable housing at ~70% in comparison with ~60% for normal housing players. In terms of customer profile, affordable players have higher share of self-employed customers (~50-55%) in comparison to normal housing players (~40-50%), which makes their portfolio relatively riskier (due to uncertainty of cash inflows for self-employed customers). This also leads to lower approval rates and lower LTV.

Sl. no.	Parameters	Affordable Housing Finance Players	Normal Housing Finance Players
1.	**Sourcing mix**	DSTs: 70%, DSAs: 20%, Branch walk-ins & others: 10%	DSTs: 60%, DSAs: 30%, Branch walk-ins & others: 10%
2.	**Average TAT**	8-10 Working days	9-11 Working days

3.	**Loan to value**	Average: 68%	Average: 75%
4.	**Customer profile mix**	Salaried: 45-50%, Self-employed: 50-55%	Salaried: 50-60%, Self-employed: 40-50%

Note: DSTs - Direct Sales Teams, DSAs – Direct Selling Agents; Source: Industry, CRISIL MI&A

Comparison of Affordable HFCs & Normal HFCs

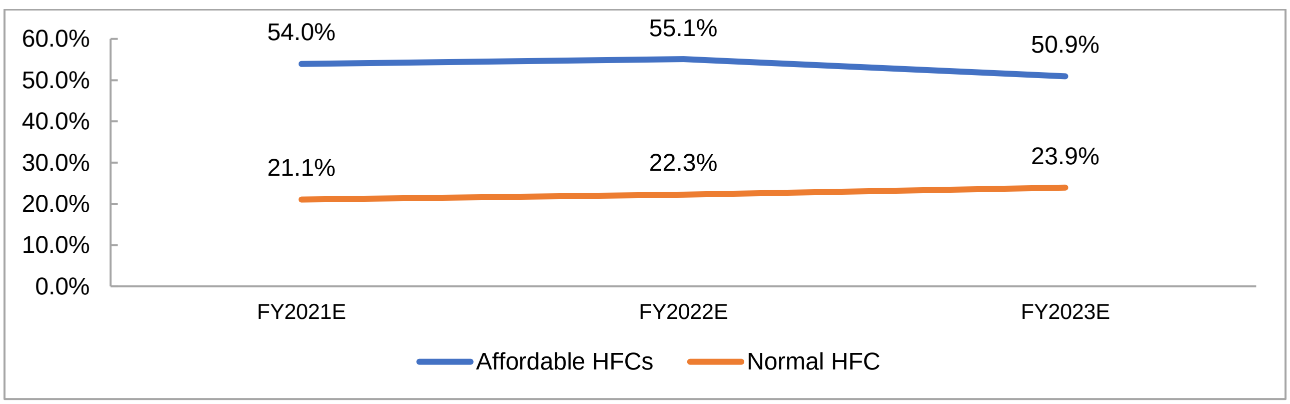
Comparison Metric	Affordable Housing Finance Companies	Normal Housing Finance Companies
Portfolio Composition	Portfolio majorly dominated by Housing Loans followed by Loan Against Property (LAP)	Major Composition of portfolio is housing loans also have significant share of other loan types (Project Loans, Construction Loans, etc.)
Loan Seeker Occupation	Majorly Dominated by Self Occupied Individuals (Avg.: 70%+)	Majorly Dominated by Salaried Individuals (Avg.: 75%+)
Collection Efficiency	Average collection efficiency of 100% at par with Generic Housing Finance Companies	Average Collection efficiency of 100%.

Note: Companies taken in consideration: India Shelter Home Loans, Aptus Housing Finance, HDFC, LIC Housing Finance, CanFin Homes, Aavas Financiers, Home First Home Finance; Source: CRISIL MI&A, Company Documents

Higher Capital Adequacy Ratio (CAR) for affordable housing players is highest amongst HFC peer groups

According to peer group set analysed, affordable HFCs have a higher capital adequacy ratio of 50.9%, followed by normal housing players (23.9%) at end of fiscal 2023.

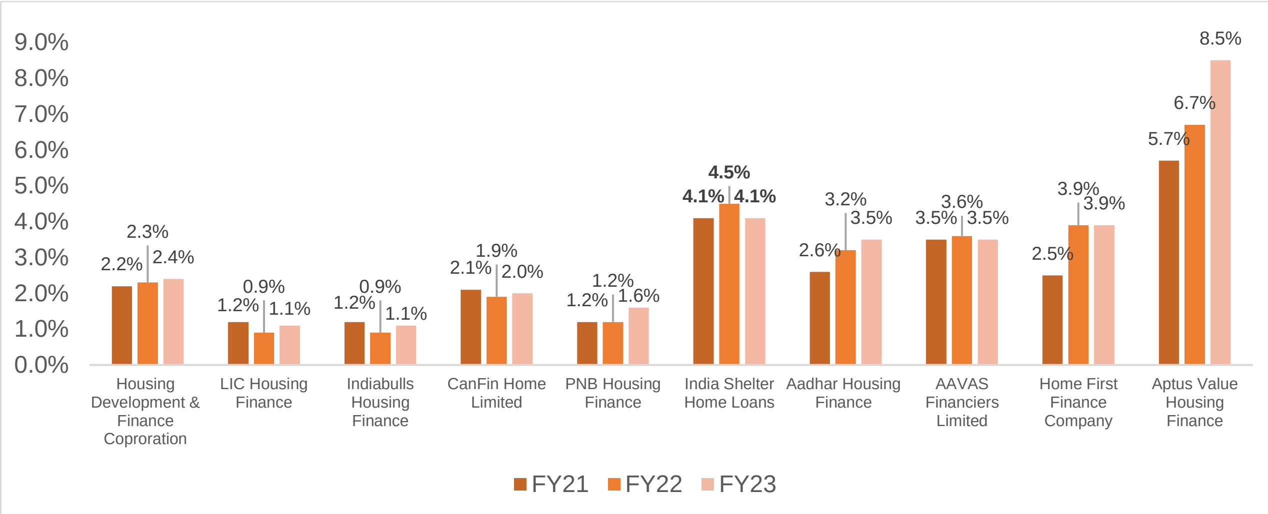
Capital adequacy ratio for Normal and Affordable segment focused HFCs



Note: Normal HFCs include data for Indiabulls Housing Finance Limited, LIC Housing Finance Limited, Bajaj Housing Finance, and PNB Housing Finance Limited. Piramal Capital& Housing Finance Limited, CanFin Homes Limited, TATA Capital Housing Finance Limited, IIFL Home Finance, Aditya Birla Housing Finance & Repco Home Finance; Affordable HFCs include data for Aavas Financiers, Aptus Value Housing Finance India Limited, Aadhar Housing Finance, India Shelter Home Loans and Home First Finance Company.

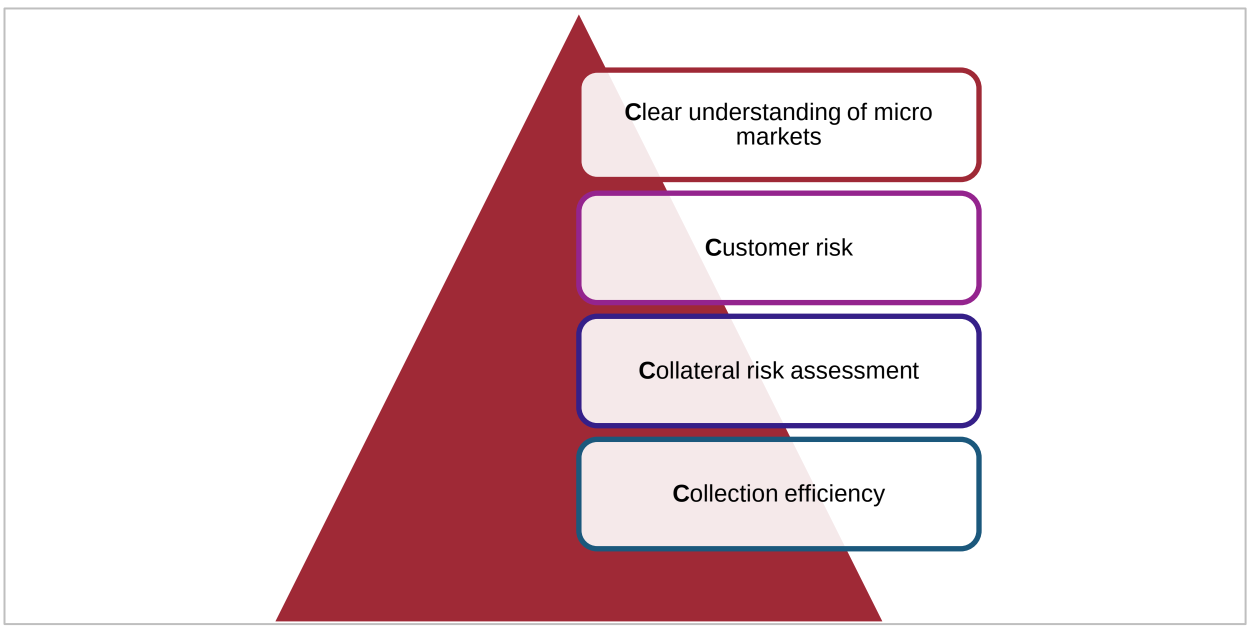
Source – Company Reports, CRISIL MI&A

HFCs primarily catering towards affordable housing segment reported superior RoA



Source: Company Reports, CRISIL MI&A

4C's to succeed in Housing Finance focused on affordable housing segment



Source: CRISIL MI&A

Clear understanding of micro markets

Given the target borrower's profile, players need to have a clear and deeper understanding of micro markets and develop a strong local network. The strong network helps players to source business from niche customer category by having references from their existing customers. It is observed that successful players in the segment generally focus on a few geographies where they have a good understanding and scale up gradually to manage costs and asset quality better.

Customer risk

Customers in housing finance focused on affordable housing segment are generally in formal sector jobs with low incomes, or are self-employed (carpenter, plumber, vegetable vendor, driver, etc.), people who may not have income proofs. Given the lack of income proofs, the underwriting process typically requires detailed personal discussion with the borrower as well as acquaintances and neighbors in order to assess the source of income and pattern of cash inflows and outflows as well as the stability and habits of the customer. Given the nature of the process, operating costs are typically very high; therefore, players who are, over a period of time, able to achieve a fair degree of standardization in the process by building models revolving around specific customer profiles and/or geographies are likely to better manage operating costs.

Customer credit risk assessment procedure

Understanding customer's stability

- Visit borrower's home to understand current situtaion, stability and duration of stay
- Interview neighbours to verify duration, understanding habits
- Check credit and banking history (if applicable)

Understanding customer's source of income

- Visit applicant's business to observe business flows, estimate revenue and costs, etc.
- Understand the business model and its key strength and weakness, fluctations in cash flows, etc.
- Interview business acquaintances, competitors, etc., to benchmark estimates

Standardisation

- Build a database of informal sector customers' income by profession in different localities to increase assessment reliability

Source: CRISIL MI&A

Collateral risk assessment

Properties under the affordable housing segment sometimes lack proper property titles, especially in the outskirts of large cities, semi-urban and rural areas. With better availability of information and due diligence by the technical team, players can mitigate the risk. While lenders do take appropriate due diligence measures to safeguard against this risk while sanctioning the loan, there have been instances of borrowers mortgaging the same property with multiple lenders.

For instance, A CERSAI Search is conducted to enumerate the details of a property and if it has been mortgaged against a loan. The field investigation team visits the property to look at the land and the construction status regularly. The financier also conducts a title search, which provides detail such as a size, location, boundaries, and ownership information. As of now, registration of charge on underlying property is undertaken by lenders on selective basis (high-ticket loans/in case of corporate borrowers) only.

Collection efficiency

Given that players in the segment typically cater to the lower income customer segment, many of whom may not be financially literate, a strong focus on collections and monitoring risk of default at customer level is vital to manage asset quality. It is observed that events that impact the economy as a whole (such as demonetization) and local factors (natural calamities or other events in the place of employment/work of the borrower) have a disproportionate impact on asset quality in the segment. Therefore, players are increasingly using analytical and monitoring tools enabled by technology to better predict default risk. In addition, there is an increasing focus on pushing customers to make EMI payment through ECS.

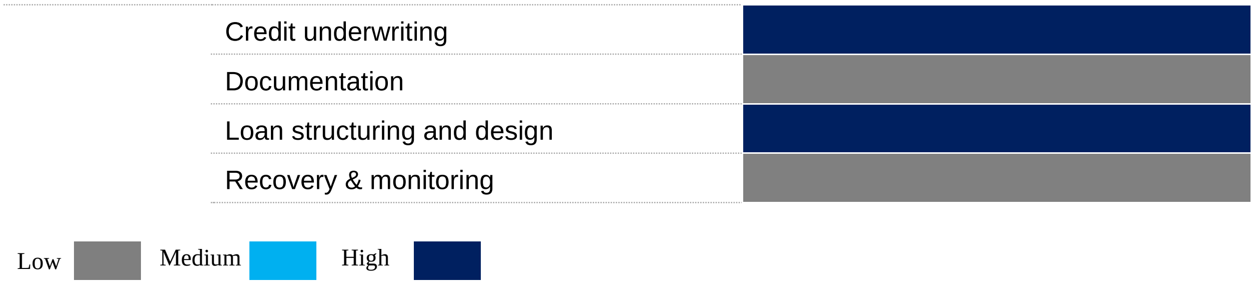
Technology Adoption

The financial ecosystem is evolving rapidly with the advent of tech enabled and branchless lending models. Housing Finance players are increasingly using digital field applications and credit scoring plarforms to improve customer experience, reach out to newer customer segments and enhance operational efficiency. Financiers in recent times have partnered with various technology providers in order to gain efficiency in sourcing of loans by using customer level data analytics tools, which helps them in generation of leads. For instance, large players like HDFC and Bajaj Finance use Salesforce to automate their lending processes.

Given that players in the affordable housing segment typically cater to the lower income customer segment, where proper income proofs and necessary documents for loans are inadequate. In order to improve efficiency in the credit assessment process, financiers are using various analytical tools to analyse the risk and eligibility of customers. For example, Home First Finance Company has a technology led ecoystem to digitally capture customer data points and all customer, internal communication, dcouments etc are available on a single cloud based platform. They have also developed internal lead management system for their business.

Usage of technology across value chain

		Affordable housing finance
Value chain	Client acquisition and onboarding	



Source: CRISIL MI&A

Technology usage in value chain of Affordable Housing Finance Industry

Parameter	Objective	Measures Used	Intensity of Technology Usage
Digital Loan Approval Process	To understand the magnitude of paperless process in the industry	- Existence of paperless leads to approval process - Availability of scanning facility for data and documents from field for credit evaluation - Facility to view the data centrally	High
Data Capture	To understand the intensity of customer data capture through digital channels in the industry	-Number of data points captured for each customer for each loan transaction and is it digitally captured -Access to all the data captured on a real time basis	Medium
Third Party Data Integration	To understand intensity of API integration with third party aggregators and public databases in the industry	-Existence of API integration with third party aggregators -Number of third party, aggregator tie-ups	Medium
Tech enabled processes	To understand how many processes are tech-enabled in the lifecycle of a loan	-Intensity of technology usage in different stages of loan processing such as credit approval, sanction, disbursal, fraud check, collections and query resolutions	Medium
e-Payments and NACH	To understand mechanisms in place for cashless and digital payments/collections	-ACH/ECS penetration in EMI repayment -Cash, cheque, UPI and NEFT penetration in processing fee collection -Penetration of electronic mode in field collection	High

Mobility Solutions	To evaluate if any mobility solutions exist for various stakeholders	- Existence of mobile application for customers, employees and channel partners - Intensity of customer application usage	Medium
Customer 360° View	To understand if customer information is available to all the employees on real-time and need-to-know basis	- Complete access to customer information on an ongoing basis - Real time tracking of current loan stage of any customer	Medium
Digital marketing	To identify existence of any digital presence and loan origination through digital channels	- Presence on social media websites - Intensity of presence on social media - Website ranking analysis, Organic and Inorganic Traffic - Proportion of total leads originated through digital channels - Proportion of total leads converted through digital channels	High

Source: CRISIL MI&A

Potential for risk adjusted returns across different customer profiles

The below table indicates the estimates of return on assets on various segment of customers catered by financiers. The salaried customer, given their inherent risk profile has a lower interest income as compared to self employed and customers availing loans under affordable housing segment, i.e. who have undocumented income proofs or operate in an informal segment. The risk is also indicated in the proviisons/credit cost of the customer segments. However, the potential for risk adjusted returns is also higher for affordable housing customers.

Risk adjusted returns in housing across different customer segments (Fiscal 2023E)

Particulars	Salaried Customer	Self Employed Home Loan	Affordable Housing
Yield on advances	9.5%	10.5%	14.0%
Cost of Funds	8.0%	8.5%	9.5%
Spread	1.5%	2.0%	4.5%
Other Income	0.3%	0.5%	1.0%
Total Income	1.8%	2.5%	5.5%
Opex	-0.6%	-0.9%	-1.5%

Credit Cost	-0.2%	-0.4%	-1.0%
PBT	1.0%	1.2%	3.0%
PAT	0.7%	0.9%	2.1%

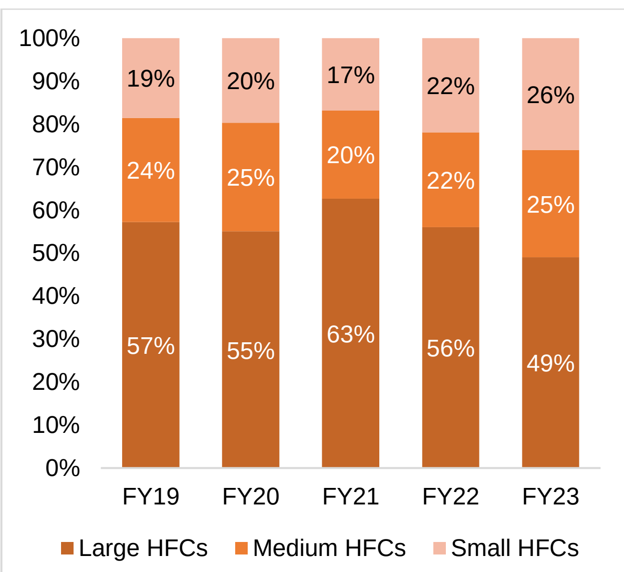
Note: The numbers are estimated based on Industry interactions and Profile of customers

Source: CRISIL MI&A Estimates

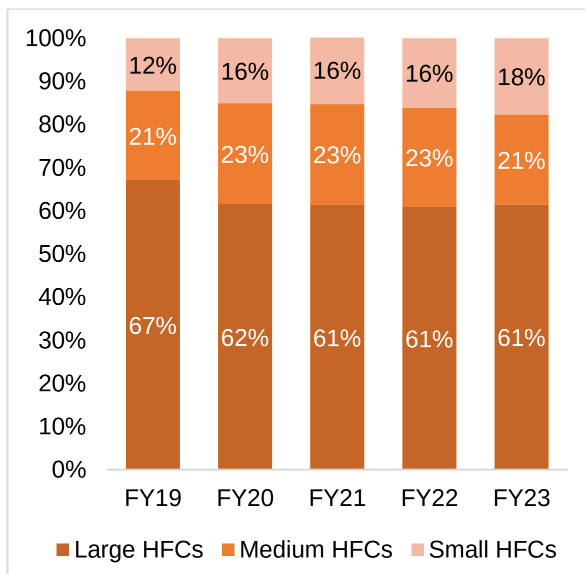
Competitive landscape among HFCs in Affordable Housing Finance

In terms of disbursement, the share of large HFCs has reduced from 57% to 49% between fiscal 2019 to fiscal 2023. Small HFCs disbursement share witnessed huge growth from 19% in fiscal 2019 to 26% in fiscal 2023. With respect to credit outstanding, the share of large HFCs has reduced gradually from 67% in fiscal 2019 to 61% in fiscal 2023. The share of small HFCs, in terms of credit outstanding, increased from 12%, as of March 2019, to 18%, in the same period. This increase in market share was majorly driven by penetration of these financiers in rural markets and semi-urban areas, government and regulatory thrust, as well as increased affordability and aspirations of the borrowers.

Small HFCs continue to gain share in Affordable Housing Market in terms of disbursement….



Leading to rise in share of small HFCs in outstanding loans in affordable housing…



Source: CRIF Highmark, CRISIL MI&A

State wise analysis of HFC groups in overall Housing Finance Industry

The following table sets out the state assessment of HFCs housing loans within overall housing loans for March 2023:

State	Credit Outstanding of HFCs in Overall Housing Finance Industry (In Rs. billion)	HFC Groups	Share of HFC Groups in Overall Housing Credit Outstanding	Growth in Credit outstanding of HFC Group (CAGR FY19-23)
Maharashtra	2,488	Large HFCs	79%	12%
		Medium HFCs	12%	1%
		Small HFCs	9%	8%
		Share of All HFCs in less than Rs. 2.5 mn	34%	6%
Gujarat	739	Large HFCs	70%	16%
		Medium HFCs	14%	3%
		Small HFCs	15%	11%
		Share of All HFCs in less than Rs. 2.5 mn	53%	8%
Tamil Nadu	1080	Large HFCs	74%	8%
		Medium HFCs	14%	8%
		Small HFCs	12%	12%
		Share of All HFCs in less than Rs. 2.5 mn	43%	5%
Uttar Pradesh	768	Large HFCs	79%	13%
		Medium HFCs	13%	4%
		Small HFCs	8%	34%
		Share of All HFCs in less than Rs. 2.5 mn	52%	11%
Karnataka	1138	Large HFCs	77%	13%
		Medium HFCs	17%	8%
		Small HFCs	6%	15%
		Share of All HFCs in less than Rs. 2.5 mn	21%	6%
Rajasthan	454	Large HFCs	59%	12%
		Medium HFCs	22%	11%
		Small HFCs	19%	30%
		Share of All HFCs in less than Rs. 2.5 mn	60%	12%
Kerala	283	Large HFCs	88%	10%
		Medium HFCs	6%	0%
		Small HFCs	6%	2%
		Share of All HFCs in less than Rs. 2.5 mn	45%	5%
Telangana	1011	Large HFCs	80%	21%
		Medium HFCs	14%	16%
		Small HFCs	6%	20%
		Share of All HFCs in less than Rs. 2.5 mn	23%	6%
Madhya Pradesh	361	Large HFCs	63%	12%
		Medium HFCs	18%	11%
		Small HFCs	19%	25%

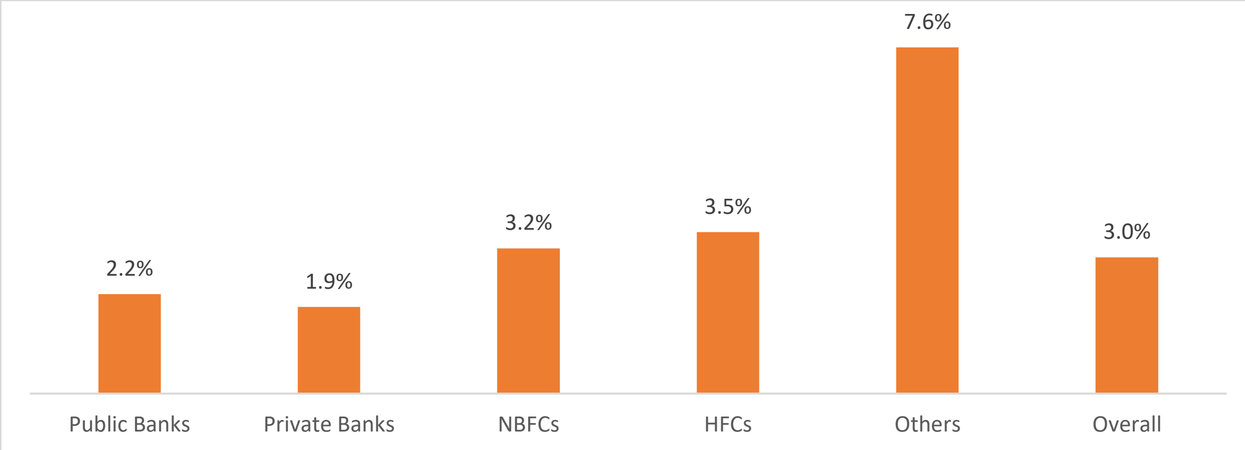
		Share of All HFCs in less than Rs. 2.5 mn	64%	12%
Andhra Pradesh	393	Large HFCs	68%	20%
		Medium HFCs	18%	12%
		Small HFCs	14%	21%
		Share of All HFCs in less than Rs. 2.5 mn	41%	10%
West Bengal	262	Large HFCs	84%	16%
		Medium HFCs	11%	3%
		Small HFCs	5%	1%
		Share of All HFCs in less than Rs. 2.5 mn	45%	10%
Delhi	640	Large HFCs	68%	11%
		Medium HFCs	23%	6%
		Small HFCs	10%	22%
		Share of All HFCs in less than Rs. 2.5 mn	29%	10%
Punjab	190	Large HFCs	80%	14%
		Medium HFCs	15%	8%
		Small HFCs	6%	32%
		Share of All HFCs in less than Rs. 2.5 mn	52%	12%
Haryana	349	Large HFCs	77%	11%
		Medium HFCs	16%	2%
		Small HFCs	7%	26%
		Share of All HFCs in less than Rs. 2.5 mn	32%	9%
Bihar	83	Large HFCs	88%	20%
		Medium HFCs	7%	11%
		Small HFCs	5%	23%
		Share of All HFCs in less than Rs. 2.5 mn	50%	15%

Source: CRIF Highmark, CRISIL MI&A

Asset quality in affordable housing segment

Within the affordable housing finance market, HFCs had a GNPA of 3.5% at end of fiscal 2023. Private banks reported lowest GNPA ratio at 1.9% in fiscal 2023, followed by public banks at 2.2%. Other players which include foreign banks and other small players booked highest GNPA ratio at 7.6% in the same period.

Player wise GNPA in Affordable Housing finance segment (Fiscal 2023)

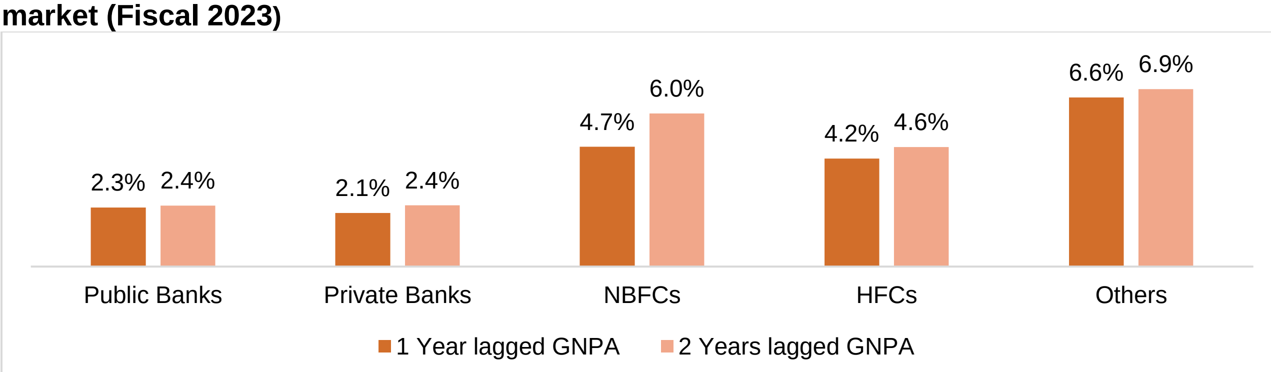


Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Others in the above data set, include foreign banks and other lenders in the affordable housing loans, Source: CRIF Highmark, CRISIL MI&A

1 & 2 Years Lagged GNPA for players in the affordable housing finance market

1 & 2 year lagged GNPA came highest for other players (which include foreign banks and other small players) at 6.6% & 6.9%, followed by NBFCs at 4.7% and 6.0% respectively. HFC players' 1 year lagged GNPA stood at 4.2% and 2 years lagged GNPA at 4.6% in fiscal 2023. Private banks 1 year and 2 years lagged GNPA was the lowest at 2.1% and 2.4% respectively followed by public banks and HFCs.

1-year and 2-year lagged GNPA trend among players in the Affordable housing finance market (Fiscal 2023)

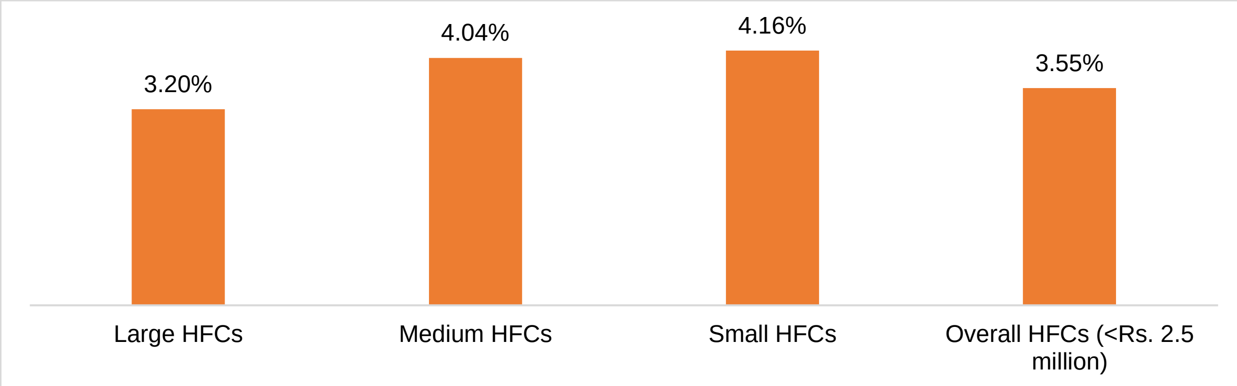


Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Others in the above data set, include foreign banks and other lenders in the affordable housing finance space; FY21 data has been used as outstanding loan to calculate 2 Year GNPA and FY22 for 1 Year GNPA

Significant variation in asset quality across player-levels observed; Large HFCs reported lowest GNPA as of Fiscal 2023

In the housing loans focused on Affordable housing finance market (<Rs. 2.5 million), the GNPA ratio for large HFCs is low at 3.20%. Large HFCs have the lowest GNPA as a proportion of total advances in this segment, compared to medium and small HFCs. Medium HFCs reported GNPA ratio of 4.04% in fiscal 2023. Small HFCs have the highest GNPA ratio of 4.16%, as of March 2023. The GNPA ratio of the overall HFCs in the market of less than Rs. 2.5 million stood at 3.55% in fiscal 2023

GNPA (90+ DPD) ratio of HFC groups in the Affordable Housing Market (Fiscal 2023)

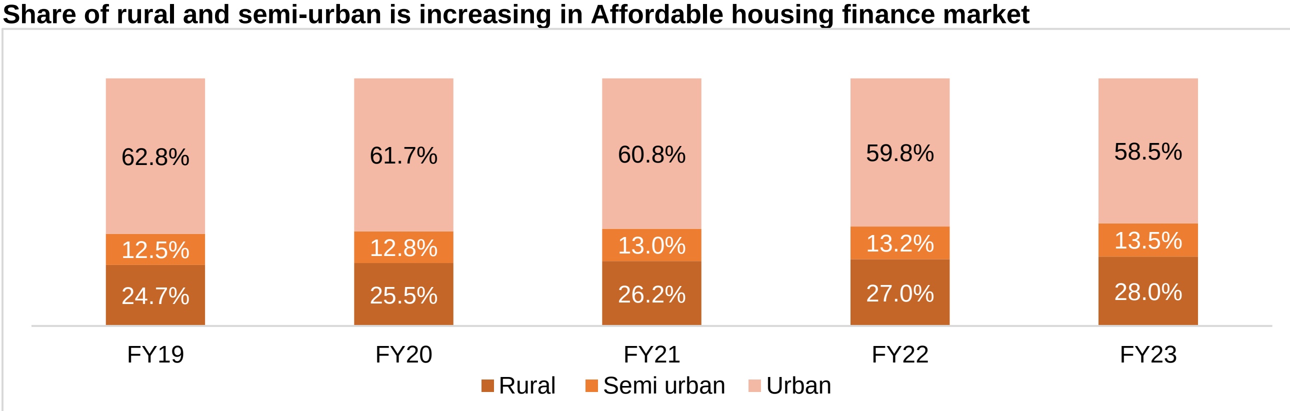


Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Source: CRIF Highmark CRISIL MI&A

Rural areas witnessed highest CAGR growth in Affordable Housing finance at 10.8% from fiscal 2019 and 2023

Rural areas witnessed the fastest growth during fiscals 2019-23, with a CAGR of ~10.8%, followed by semi urban areas witnessing a growth of CAGR ~9.2% and urban areas with a CAGR of ~5.4%. At end of fiscal 2023, urban areas had the highest share of affordable housing with share of 58.5%, followed by rural areas (28.0%) & semi urban areas (13.5%).

Share of rural and semi-urban is increasing in Affordable housing finance market



Source: CRIF Highmark, CRISIL MI&A

PSU has lost its share in rural markets, while HFCs continue to gain share in all markets – rural, semi-urban and urban areas

Lender wise share in Affordable Housing finance market in rural areas

Rural Share	FY19	FY20	FY21	FY22	FY23
Public Banks	52%	51%	49%	47%	45%
Private Banks	10%	11%	11%	12%	12%
NBFCs	1%	1%	1%	2%	2%
HFCs	32%	29%	30%	31%	33%

Others	5%	9%	9%	9%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

*Source: CRIF Highmark, CRISIL MI&A; *Others include foreign banks & other small lenders*

Lender wise share in Affordable Housing finance market in semi-urban areas

Semi Urban Share	FY19	FY20	FY21	FY22	FY23
Public Banks	51%	50%	48%	46%	44%
Private Banks	11%	12%	12%	13%	13%
NBFCs	0%	0%	1%	1%	2%
HFCs	32%	28%	29%	31%	34%
Others	6%	10%	10%	9%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

*Source: CRIF Highmark, CRISIL MI&A; *Others include foreign banks & other small lenders*

Lender wise share in Affordable Housing finance market in Urban areas

Urban Share	FY19	FY20	FY21	FY22	FY23
Public Banks	45%	45%	43%	41%	40%
Private Banks	13%	14%	14%	15%	15%
NBFCs	1%	1%	1%	1%	2%
HFCs	37%	33%	34%	35%	38%
Others	4%	7%	7%	7%	5%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

*Source: CRIF Highmark, CRISIL MI&A; *Others include foreign banks & other small lenders*

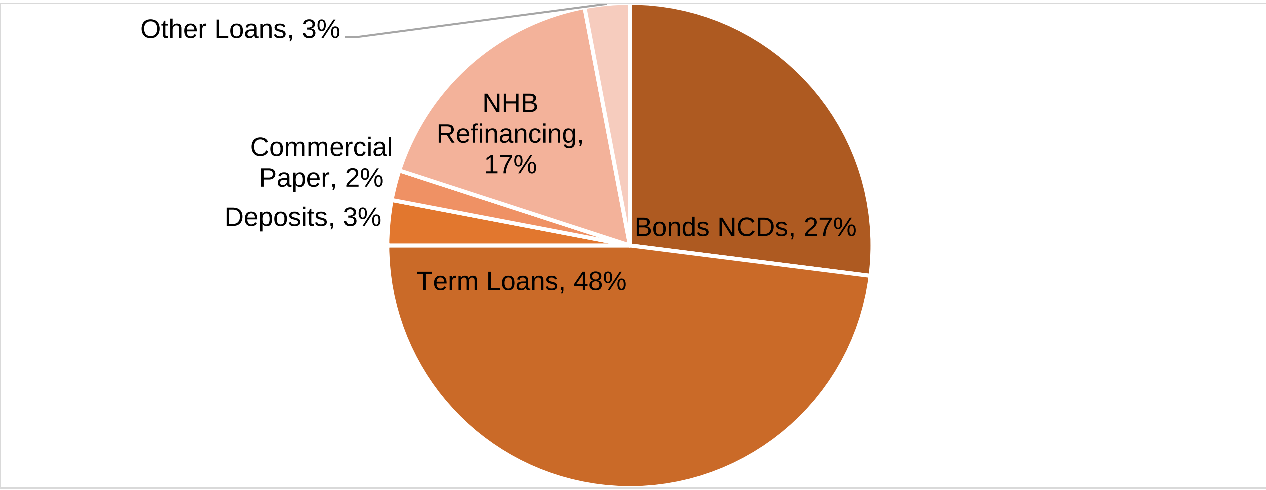
Term loans dominate the borrowing mix for affordable players in fiscal 2023

Term loan is the largest source of borrowing for affordable HFCs, while for large HFCs, it is non-convertible debentures (NCDs). Following the IL&FS crisis, Stress in affordable HFCs worsened, owing to aggressive expansion during fiscals 2013-2018, share of NCD & bonds had decreased from 25% in fiscal 2018 to 19% in fiscal 2020 owing to the concern on liquidity post IL&FS.

However, post onset of pandemic in fiscal 2021 and in turn repo rates being historical low, Affordable HFCs raised funds from the bonds market at lower rates leading to increase in share of NCD by 300 bps in fiscal 2021 and further 400 bps to 27% in fiscal 2023. CRISIL MI&A estimates the share of term loans in borrowing to have increased by ~200 bps to 48% in fiscal 2023 and is projected to stabilise at 49% in fiscal 2024, with the improving economic activities and demand for housing credit.

The share of National Housing Bank (NHB) borrowings remains at a healthy 17% as of fiscal 2023. This enables the affordable HFCs to avail of the benefit of lower cost of funds (based on HFCs' credit ratings) from NHB. CRISIL MI&A Research expects the support from NHB to continue in fiscal 2024.

Borrowing mix for players in affordable housing segment for fiscal 2023



Note: Source: Company Reports, CRISIL MI&A

Profitability metrics of players in Affordable housing finance market

The housing segment showed signs of a recovery in the second half of fiscal 2021, supported by various initiatives by the Central and state governments to revive economic activities. NIM increased from 5.2% in fiscal 2019 to 6.0% in fiscal 2023, similar pattern was observed in cost of borrowings which reduced from 8.9% to 7.7% in same period, with improved net interest margins and lower cost of borrowing the return on assets improved to 4.0% during fiscal 2023. RoE also improved from 12.3% to 13.1% between fiscal 2019 and 2023.

Profitability Metrics for Affordable Housing Players

Parameter	2019-20	2020-21	2021-22	2022-23
NIMs	5.2%	5.6%	5.7%	6.0%
Yield on Advances	14.4%	12.9%	13.4%	13.6%
Cost of borrowings	8.9%	8.9%	7.3%	7.7%
Opex	3.5%	3.2%	3.3%	3.6%
Credit Cost	0.4%	1.0%	0.4%	0.3%
RoE	12.3%	11.1%	12.4%	13.1%
RoA	4.0%	3.4%	3.9%	4.0%

Note: Small HFCs include data for Aadhar Housing Finance Limited, AAVAS Financiers Limited, Aptus Value Housing Finance India Limited, Home First Finance Company India, India Shelter Finance Corporation, Vastu Housing Finance Corporation Limited; Source: Company reports, CRISIL M&A Estimates

Recent Changes in the Housing Finance Segment

Co lending model

Co-lending arrangement between Bank and NBFC / HFCs is to extend credit by joint contribution of funds at the facility level by both the lenders and sharing of risks and rewards. The revised Co-lending Model (CLM) put in place by RBI vide notification RBI/2020-21/63 dated 05 November 2020, with intension to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs / HFCs.

Under co-lending model banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books. Additionally, banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

Recent co-lending agreements for HFCs

1. Axis Bank and Shriram Housing Finance: In February 2023, Axis Bank and Shriram Housing Finance announced a co-lending agreement to provide affordable housing loans to borrowers in rural and semi-urban areas.
2. India Shelter has entered into an agreement with Axis Bank and Central Bank of India for lending to MSMEs
3. Yes bank enters into co-lending agreement with Aadhar Housing Finance (2023)
4. India bulls Housing Finance Limited agreement with Yes Bank (July 2021)
5. IIFL Home Finance agreement with Punjab National Bank (September 2021) for offering home loans.
6. State Bank of India agreement with five housing finance companies i.e., PNB Housing Finance, IIFL Home Finance, Shriram Housing Finance, Edelweiss Housing Finance and Capri Global Housing Finance

The co-lending model has not seen a vast spread testing period and hence certain business nuances continue to exist like impact on asset quality of bank books and profitability for lenders in addition to the challenges stated earlier.

Shift in housing landscape post-merger of HDFC Bank and HDFC

The expected merger of HDFC Bank and HDFC in first half of fiscal 2024 is set to change the dynamics of the retail housing finance market. In fact, growth of HFCs between fiscals 2019 and 2021 was supported by high growth of HDFC due to its wide geographic reach and market penetration. At end-fiscal 2023 of the Rs 31.1 trillion housing finance market, the share of banks was ~60-63%, with the balance with HFCs/NBFCs.

Post-merger of the HDFC twins, the mortgage book of HDFC Bank will increase to an estimated 33% of the total book post-merger. Hence, following the merger of the two entities, the market share of banks vis-à-vis NBFC/HFC is expected to shift to 80:20 from 66:34, with banks having majority market share. Some of the key players after HDFC are LIC Housing Finance, Indiabulls Housing Finance, PNB Housing Finance and CanFin Homes.

Further, in terms of HFCs/NBFCs, other large players with favourable funding profile, strong parentage and capability to invest and expand into newer geographies are likely to gain market share from smaller players. Further, this would also open up finding limits for Banks to lend to smaller HFCs to lend to the end customer.

Analysis of Housing Finance Companies based on Book Size

CRISIL MI&A has analysed the variation in performance of HFCs based on assets under management as well as focus segment in terms of ticket size. Accordingly, the HFCs have been classified as large HFCs, medium HFCs, and small HFCs based on the book size of the company.

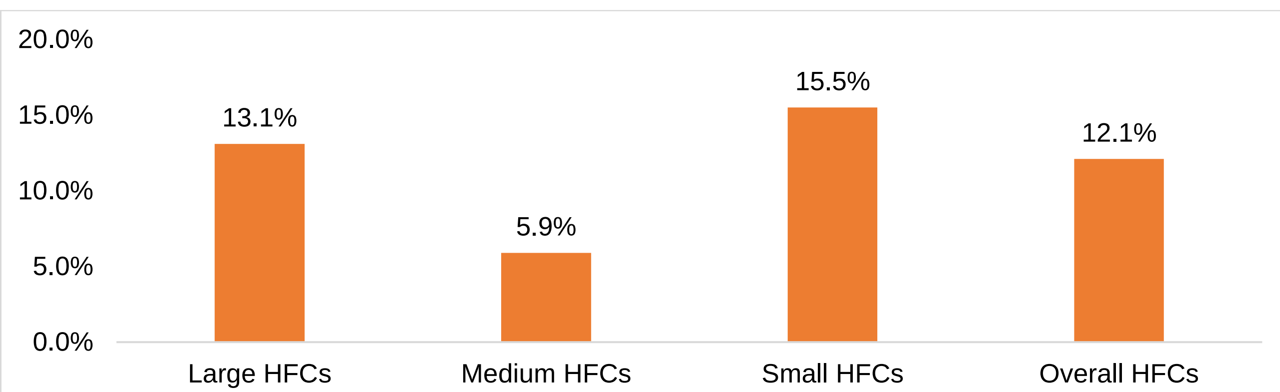
Small HFCs focused on low ticket segment have grown the fastest amongst player groups

During the fiscals 2019-23, Small HFCs have witnessed the fastest growth among all HFCs, having grown at CAGR of 15.5% as compared to overall HFCs (CAGR 12.1%), during the same time. This was followed by Large HFCs (CAGR of 13.1%) and Medium HFCs (CAGR of 5.9%).

Outstanding in Rs. Tn	FY2019	FY2020	FY2021	FY2022	FY2023	CAGR (FY19-23)	CAGR (FY21-23)
Large HFCs	4.98	4.85	5.49	6.51	8.15	13.1%	21.9%
Medium HFCs	1.24	1.22	1.26	1.37	1.56	5.9%	11.3%
Small HFCs	0.57	0.64	0.68	0.80	1.02	15.5%	22.4%
Overall HFCs	**6.79**	**6.71**	**7.43**	**8.67**	**10.73**	**12.1%**	**20.2%**

Source: CRIF Highmark, CRISIL MI&A

CAGR Growth (FY19-23) across Large, Medium and Small HFCs vis-à-vis Overall HFC Industry



Note: Large HFCs – AUM>=300Bn, Medium HFCs – 300 Bn >AUM>=100Bn, Small HFCs – AUM<100Bn

Source: CRIF Highmark, CRISIL MI&A

Large HFCs maintain a dominant share in the industry, while small HFCs witnessed continuous growth in market share

Large HFCs continue to have a dominant share in the Housing Finance Market within the HFC pie, while the smaller HFCs have witnessed a continuous growth in their market share. The medium Sized HFCs have slowly witnessed a decline in their market share, which has been captured by both small & large sized HFCs. Between fiscals 2019 and 2023, the share of small HFCs increased from ~8.5% to ~9.5%. During the same time, the medium sized HFCs witnessed a decline of market share from ~18.2% to 14.5%, whereas large HFCs continued to increase their dominance with its share rising from ~73.3% at end of fiscal 2019 to 75.9% at end of fiscal 2023.

Credit Outstanding & Market Share of HFC player groups during fiscal 2019 to 2023

Total HL Outstanding	HFC Player Group Wise Credit Outstanding (Rrs.tn.)					HFC Player Group Wise Credit Outstanding Market Share (%)				
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2019	FY2020	FY2021	FY2022	FY2023
Large HFCs	4.98	4.85	5.49	6.51	8.15	73.3%	72.3%	73.8%	75.0%	75.9%
Medium HFCs	1.24	1.22	1.26	1.37	1.56	18.2%	18.2%	17.0%	15.8%	14.5%
Small HFCs	0.57	0.64	0.68	0.80	1.02	8.5%	9.5%	9.2%	9.2%	9.6%
Overall HFCs	6.79	6.71	7.43	8.67	10.73	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CRIF Highmark, CRISIL MI&A

Disbursements & Market Share of HFC player groups during fiscal 2019 to 2023

Overall HL Disbursement	HFC Player Group Wise Disbursements (Rrs.tn.)					HFC Player Group Wise Disbursements Market Share (%)				
	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
Large HFCs	1.42	1.24	1.51	2.04	2.33	70.0%	73.5%	80.4%	77.9%	73.4%
Medium HFCs	0.38	0.27	0.22	0.34	0.49	19.0%	16.0%	11.5%	12.9%	15.4%
Small HFCs	0.22	0.18	0.15	0.24	0.35	10.9%	10.5%	8.1%	9.2%	11.2%
Overall HFCs	2.02	1.68	1.88	2.61	3.17	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CRIF Highmark, CRISIL MI&A

A similar trend was witnessed in disbursements, where large HFCs and small HFCs have increased their share in overall disbursement of HFCs, while medium HFCs continued to lose its market share.

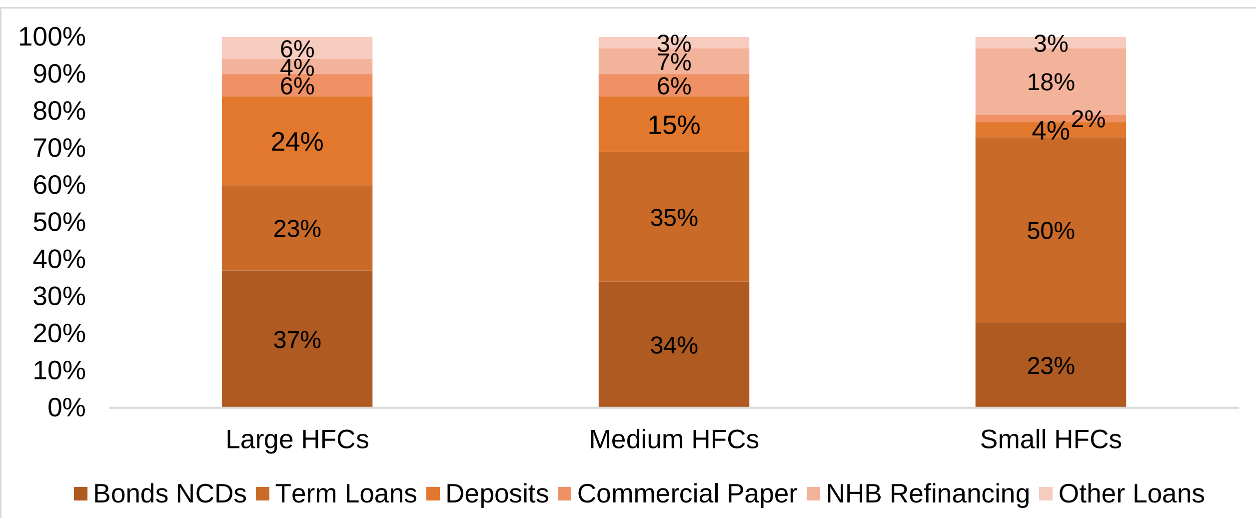
Dependence on Bank borrowings higher for small HFCs

HFCs have a well-diversified and stable resource base, comprising fixed deposits, bank borrowings, debentures, bonds and foreign currency borrowings. This lends flexibility to their borrowings, allowing them to manage costs.

Large HFCs have better access to the debt market, given their size and parentage, making it easier for them to mobilize resources. Share of bank borrowings in the total resources mix stood at 23% at end of fiscal 2023. On the other hand, mid-sized HFCs incur higher borrowing costs, given their limited ability to tap the bond market. These HFCs have greater reliance on bank borrowings and refinancing from the National Housing Bank (NHB), which runs various schemes under which it refinances banks and HFCs

Small-size HFCs traditionally rely on commercial banks and the National Housing Bank (NHB) for their borrowings. The share of bank borrowings in the overall borrowing mix of small HFCs stood at ~50% at end of fiscal 2023. Over the past few years, the government's focus on affordable housing and rural housing has raised the budgetary support for NHB. CRISIL MI&A believe that this will continue, boosting the prospects of HFCs focused on affordable housing.

Borrowing mix of HFCs based on their asset size

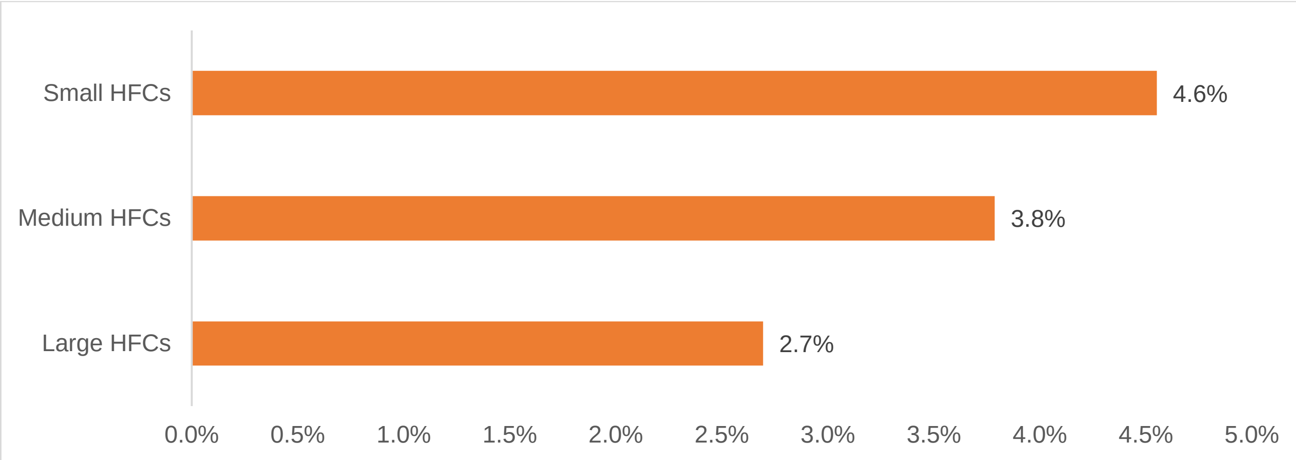


Source: Company Reports, CRISIL MI&A Estimates

Significant variation in asset quality of HFCs players witnessed during the fiscal, with rising GNPAs across all HFC groups

In the overall housing finance segment, the HFC industry witnessed a rise in GNPAs from 1.4% at end of fiscal 2019 to 3.0% at end of fiscal 2023. Within the HFCs, the asset quality for large HFCs is better at 2.7% at end of fiscal 2023, compared to medium and small HFCs, which reported a GNPA of 3.8% and 4.6%, respectively at end of fiscal 2023.

GNPA ratio of HFC groups in the overall Housing Finance Segment at end of fiscal 2023



Note: Portfolio greater than 90, excluding write-offs used for calculation of GNPA; Source: CRIF Highmark, CRISIL MI&A

Higher returns make small HFCs attractive amongst the HFCs

Housing loans are a safer asset class compared with other asset classes such as vehicle loans, construction equipment loans and personal loans, as borrowing is usually for a self-occupied residential property of the borrower, where the propensity of default is relatively lower.

Among the peer group set (large, medium, small HFCs), small HFCs segment have highest profitability (RoA). The higher RoA of small HFCs – 3.8-4.0% in fiscal 2023 – can be attributed to the relatively higher net interest margins (NIMs) they enjoy despite their higher cost of funds. The higher NIMs is due to the higher interest rates they charge the customers.

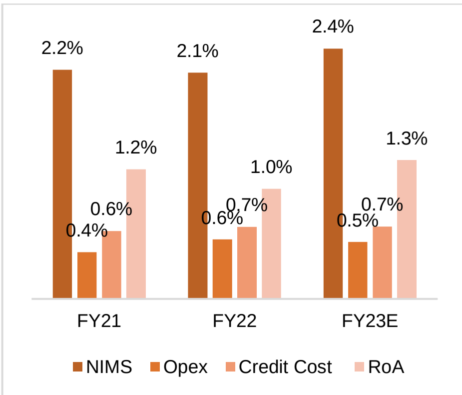
In fiscal 2021, profitability dropped for large and small HFCs on account of higher credit costs due to the pandemic. In contrast to that, for medium HFCs, the profitability improved marginally in this fiscal.

In fiscal 2022, profitability increased for medium, and. small HFCs. However, large HFCs saw a marginal decline as NIMs remained constant, but credit cost saw an increase during the fiscal.

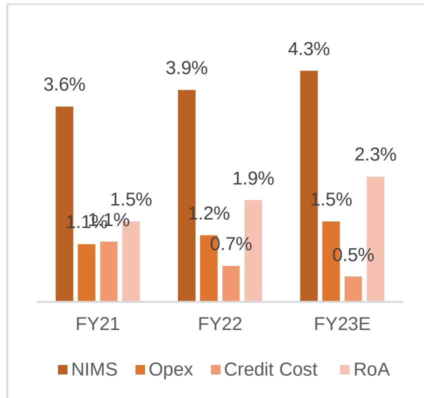
In fiscal 2023, the profitability has improved across large, medium, and small HFCs. With the Central bank hiking the repo rate by 250 bps during fiscal 2023, taking the repo rates to 6.5%. CRISIL MI&A estimates the yield on advances for smaller HFCs would have increased by 60-70 bps vis-a-vis the increase in weighted average cost of funds by 30-40 bps, translating into improvement in net interest margins and return on assets to 6.0% and 4.0% respectively, in fiscal 2023. The lower transmission of interest rates is on account of lag in interest rate reset for housing loans.

Over the longer term, CRISIL MI&A expects the industry's profitability to gradually improve. Additionally, for small players in housing finance focused on affordable housing segment, operating expenses, too, would moderate, as business volumes increase and the level of standardisation and digitalisation in credit assessment increases. Below chart indicates the profitability metrics for large, medium, and small HFCs:

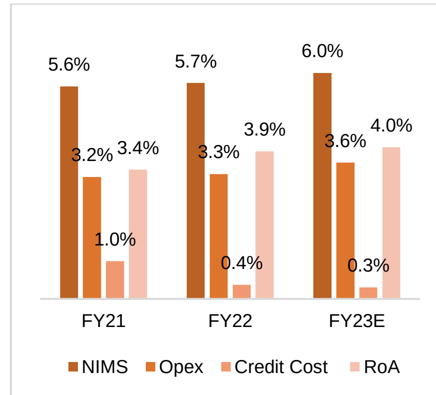
Large HFCs



Medium HFCs



Small HFCs



Note – E: Estimated basis available financial disclosures for Fiscal 2023, Numbers are computed basis Standalone numbers

1) *Large HFCs include data for Indiabulls Housing Finance Ltd, LIC Housing Finance Ltd, PNB Housing Finance Ltd, Piramal Capital and Housing Finance Ltd and Bajaj Housing Finance Ltd; Data for HDFC Limited is excluded from the analysis owing to its merger with HDFC Bank*

2) *Medium HFCs include data for Can Fin Homes Ltd, ICICI Home Finance Ltd, GIC Housing Finance Ltd, REPCO Home Finance Ltd, TATA Capital Housing Finance Ltd and India Infoline Housing Finance Ltd*

3) *Small HFCs include data for Aadhar Housing Finance Limited, AAVAS Financiers Limited, Aptus Value Housing Finance India Limited, Home First Finance Company India, India Shelter Finance Corporation, Vastu Housing Finance Corporation Limited*

4) *NIM has been calculated as Net Interest Margin/ Average Assets, Opex has been calculated as Operating expenses/ Average Assets, Credit cost has been calculated as Provisions/ Average Assets and RoA has been calculated as PAT/ Average Assets*

Source – Company Reports, Rating Rationale, CRISIL MI&A

Regulatory Initiatives

Risk weight rationalization of Housing Loan for real estate sector by RBI

Until October 2020, risk weightage was assigned on the basis of ticket size and loan to value (LTV) ratio. However, for all new housing loans sanctioned up to March 31, 2022, risk weights will be assigned only on the basis of LTV. While these risk weights will be applicable to all ticket sizes. Housing loans above Rs 7.5 million will benefit the most as risk weights for these loans will reduce from 50% to 35%.

Existing risk weight allocation

Outstanding loan	LTV ratio	Risk weight
<Rs 3.0 million	<80%	35%
	80-90%	50%
Rs 3.0-7. 5 million	<80%	35%
>Rs 7. 5 million	<75%	50%

Source: RBI, CRISIL MI&A

Revised risk weight allocation

LTV ratio	Risk weight
<80%	35%
80-90%	50%

Source: RBI, CRISIL MI&A

Regulatory Authority on HFCs shifted from NHB to the RBI

The Union Budget 2019-20 announced the transfer of regulatory power on housing finance companies (HFCs) from National Housing Bank (NHB) to the Reserve Bank of India (RBI). This has resulted in streamlined regulations and implementation as well as better risk management framework for HFCs. The RBI Act will be amended to give the central bank powers to regulate HFCs. This move is expected to ensure there is greater parity in regulations for NBFCs and HFCs.

PSL eligibility increased in Housing

The RBI has increased (under the notification released in June 2018) eligibility for priority sector lending (PSL) in housing loans with a view to converge PSL guidelines with Pradhan Mantri Awas Yojana (PMAY).

The eligibility has been increased from Rs 2.8 million to Rs 3.5 million for metropolitan centers and from Rs 2 million to Rs 2.5 million for other centers. The cost of dwelling unit has been capped at Rs 4.5 million in metropolitan centers and at Rs 3 million in other centers. The on-lending limits given to NBFC/HFCs from Banks was also raised from Rs. 1 million to Rs. 2 million.

NHB's Refinance to aid borrowing cost for HFCs catering to Affordable housing

While access to the debt markets allows large HFCs to mobilize resources at competitive rates, niche HFCs have benefited from the NHB's refinance schemes. The NHB runs various schemes under which it refinances banks and HFCs. This funding is available to affordable housing players at a very low rate but its comes with an with interest rate capping. It leads to improvement in borrowing cost but at the same time reduces the yield too, while keeping the spread at similar levels.

Real Estate (Regulation and Development) Act

Framework of RERA

Transparency	Liability	Security	Discipline	Compliance	Justice
• Compulsory registration of all ongoing and upcoming real estate projects; existing under-construction projects which have not received completion certificates is covered under the Act. Developers to disclose project-related details including project plan, layout, and government approvals to the customers. The details include sanctioned FSI, number of buildings and wings, number of floors in each building, etc • Buyers to pay only for the carpet area • Consent of two-third allottees to be taken for any major addition or alteration	• Any structural defect, or any other obligations of the promoter as per the agreement for sale, brought to notice of promoter within five years from possession to be rectified free of cost • No false statements or exaggerated commitments to be given in advertisements • Buyers have to comply with payment schedule mentioned in model sale agreement (which mandates them to pay up to 30% of total consideration on execution of agreement, an additional up to 15% of total consideration on completion of plinth work; and remaining payment as per clauses mentioned in the model sale agreements)	• 70% of the money received from buyers for a particular project to be transferred to an escrow account • Withdrawals to be in accordance with project completion and need to be certified by engineer, architect, and a practicing chartered accountant	• Developers have to register their projects with the RERA before advertising or marketing • Brokers/ agents to be registered with RERA • Project details to be updated quarterly on RERA website • Project accounts to be audited annually by a CA	• In case of delay, developers have to pay interest to home buyers at State Bank of India's highest marginal cost of lending rate plus 2% • Developer may terminate the agreement in case of three payment defaults by buyers (by giving 15 days' notice) • Monetary fines/ penalties for not registering the projects and continuous default/ non-compliance with any provision of the Act/ non-compliance with the order of Appellate Tribunal (does not mention imprisonment penalties to developers)	• The complaint at the initial stage will be handled by the authority, with further appeal resting with the RERA Appellate Tribunal. A second appeal is also allowed to be filed before a High Court

Source: CRISIL MI&A

The year 2017 stands out for policy initiatives in the real estate sector. One such initiative was the implementation of the Real Estate (Regulation and Development) Act (RERA), which had a direct impact on the supply-demand dynamics in the sector. The RERA is expected to improve transparency, timely delivery, and organised operations over time.

The Act does not permit developers to launch new projects before registering them with the real estate authority. This is a major shift from the practices followed earlier by developers, wherein they managed to sell part of the project through soft/pre-launch activities. The RERA puts an end to fund diversion across projects as it mandates 70% of the funds collected from customers for a specific project should be maintained in a separate escrow account and used only for the same project. Besides, developers have to disclose project-related information, such as project plan, layout, government approvals, carpet area of units, construction status and delivery schedule. However, more than three years after it came into force the implementation of the RERA – which was aimed at bringing some discipline into the real estate sector and protecting consumers against unscrupulous builders – remains tardy.

Only a few states such as Maharashtra have seen significant project registrations. The RERA regulation passed by several states diverges from the Centre's model RERA in key aspects such as definition of ongoing project. With consumers facing the brunt of delays in projects, a strong and effective RERA law, and stringent implementation are critical to boost the consumer confidence.

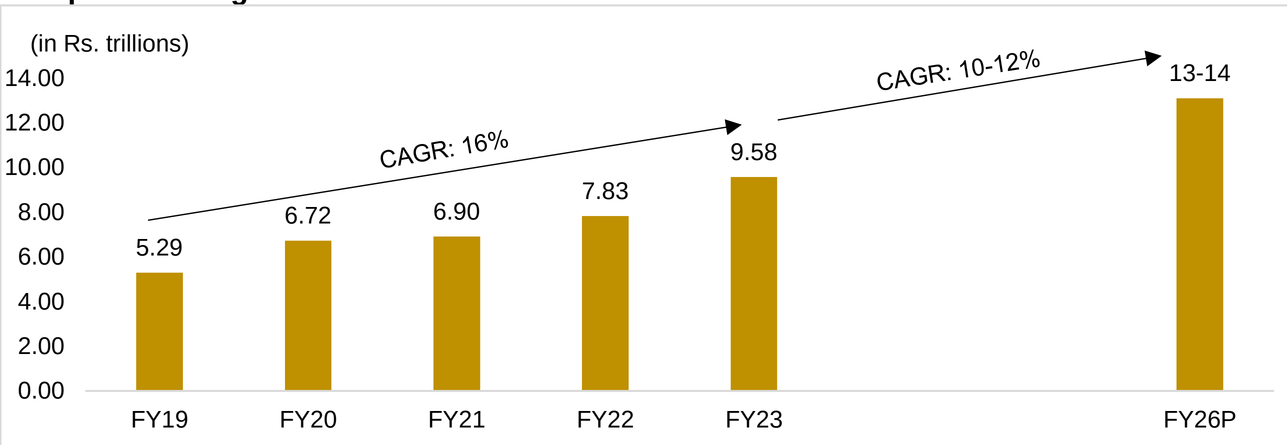
Loan Against Property (LAP)

Loan Against Property (LAP) is availed by mortgaging a property (residential or commercial) with the lender. LAP is a secured loan, as it provides collateral to the financier in the form of the property. Its interest rate is lower than personal or business loans. It could be used for either business or personal purposes. It can be availed by both salaried and self-employed individuals. For all these reasons, LAP has become popular among borrowers in recent years. The financiers offering housing loans, also provide LAP loans primarily due to synergies between the two products, higher yields offered by LAP, while continuing to cater to similar customer profile, collateral requirement and ticket size.

Key factors that contributed to high LAP growth are:

- **Quick turnaround time, lower interest rate, lesser documentation:** LAP loans are disbursed in about half the time taken for a secured MSME loan. It is also offered at a lower interest rate than unsecured MSME loans, personal and business loans. LAPs require lesser documentation than other secured SME products, leading to fewer hassles for customers.
- **Greater transparency in the system:** Demonetization, GST, and the government's strong push for digitization have led to higher transparency in the system. This will keep pushing up loan amount eligibility of borrowers. Formalization will also help many new borrowers come under the ambit of formal lending channels.
- **Rising penetration of formal channels:** Increase in penetration and availability of formal lending channels outside the top 10 cities will eat into the market share of moneylenders.
- **Higher comfort for lenders:** Lenders are comfortable disbursing LAP loans, as they offer favorable risk-return characteristics, compared with MSMEs and unsecured loans. They also offer higher recovery in case of default (supported by the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002) and better asset quality, which is partly offset by lower yields.

LAP portfolio to grow at 10-12% CAGR between fiscal 2023 and fiscal 2026



Note: P: Projected
Source: CRIF Highmark, CRISIL MI&A

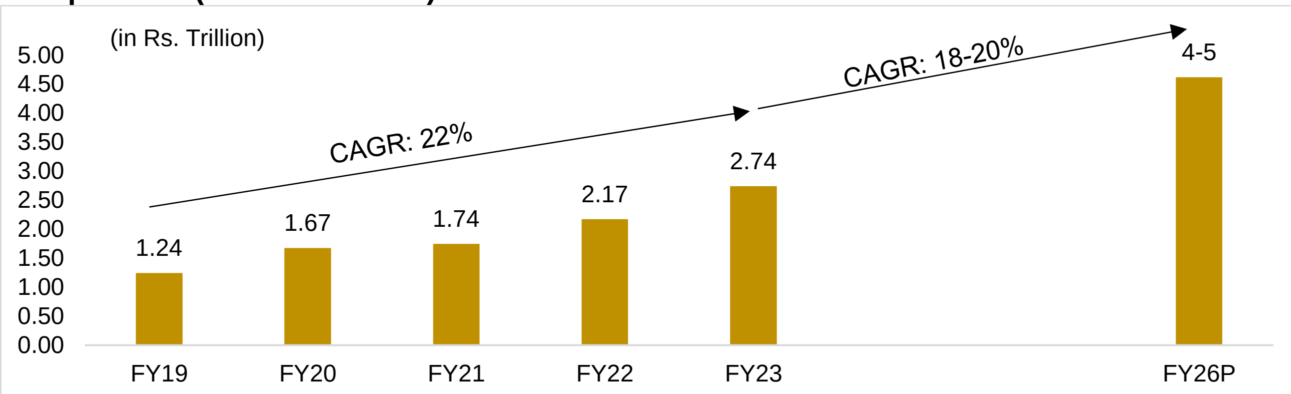
The overall Loan against property segment has grown at a CAGR of 16% from fiscal 2019 to fiscal 2023. The market size has expanded from Rs 5.29 trillion as of fiscal 2019 to Rs. 9.58 trillion as of fiscal 2023. The growth in this segment is attributed to increasing financial penetration and an increase in number of players in the targeted market. Overall LAP portfolio witnessed a growth of 2.8% year-on-year in fiscal 2021, owing to slowdown in the economic activity and pandemic induced lockdown imposed by the government. In fiscal 2022, overall LAP segment witnessed a year-on-year growth of 13.4% on account of boost in credit demand from MSMEs.

At the end of Fiscal 2023, the overall LAP portfolio grew by 22.3% year-on-year on account of improved economic conditions and normalization of business activities. Going forward, CRISIL MI&A expects overall LAP portfolio to grow at 10-12% CAGR between fiscal 2023 and fiscal 2026 aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support.

LAP Portfolio (< Rs. 2.5 million) to grow by 18-20% over fiscals 2023-2026

LAP portfolio (< Rs. 2.5 million) has grown at a relatively higher CAGR of 22% between fiscal 2019 and 2023 as compared to overall LAP portfolio which grew by 16% during the same time interval, driven by rising penetration of formal channels and higher comfort for the lenders to lend. The year-on-year growth for LAP portfolio (< Rs. 2.5 million) slowed to 4.3% in fiscal 2021 owing to the outbreak of the COVID-19 pandemic that affected economic activity and subsequently borrower's cash flow, which affected collections and reduced asset quality. The year-on-year growth rate rebounded to 24.4% in fiscal 2022 due to income levels of salaried customers remaining intact and interest rates hovering around historical lows. In Fiscal 2023, year-on-year growth rate increased to 26.3% on account of strong credit demand. The share of LAP portfolio (< Rs. 2.5 million) in overall LAP market has increased from 23% in fiscal 2019 to around 29% in fiscal 2023.

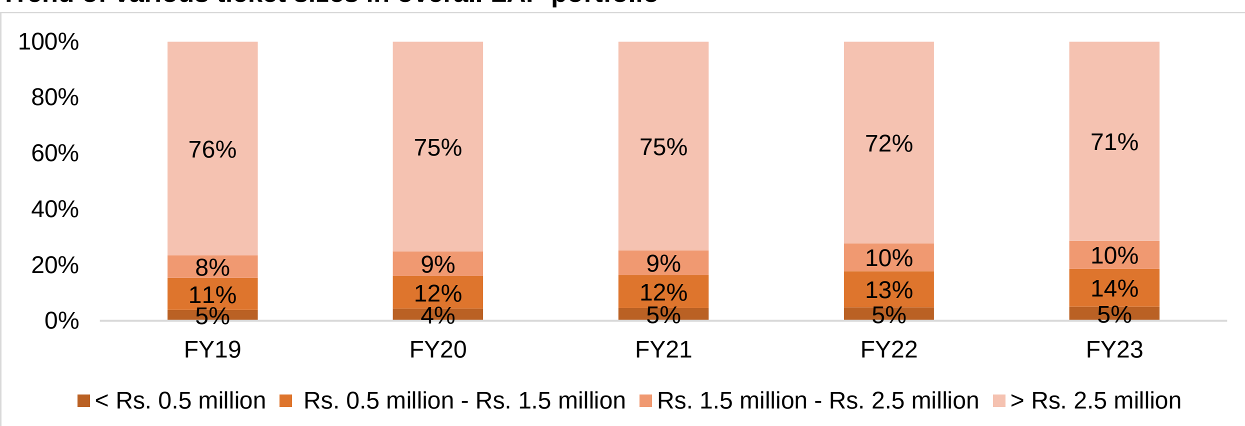
LAP portfolio (< Rs. 2.5 million) witnessed a CAGR of 22% between fiscals 2019 and 2023



Note: P: Projected
Source: CRIF Highmark, CRISIL MI&A

With increase in data availability and enhanced use of technology and experience gained across several cycles while lending to the same customer segment, lenders have increased focus on the underserved MSME segment. This has led to a continued increase in share of relatively smaller ticket size secured MSME loans in the overall lending pie.

Trend of various ticket sizes in overall LAP portfolio



Source: CRIF Highmark, CRISIL MI&A

Going forward in fiscal 2024, LAP market will see continued growth aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and government's continued support to enhance MSME lending. The government has unveiled a number of initiatives aimed at addressing some of the structural issues plaguing small business lending segment. These include granting licenses to account aggregators, the Pradhan Mantri Mudra Yojana (PMMY), unveiling Trades Receivables Discounting System ("TReDS") platforms and the implementation of GST. Within the player groups, HFCs are expected to register strong growth in the segment due to their higher market share, deeper penetration in tier- II and tier – III cities and adequate liquidity support. CRISIL MI&A projects LAP portfolio (<Rs. 2.5

million) to grow at 18-20% CAGR between fiscal 2023 and fiscal 2026 as compared to 10-12% growth in the overall LAP portfolio during the same time interval.

Self-employed customers' accounts for a large part of LAP portfolio's (< Rs 2.5 million) borrower base

According to CRISIL MI&A, self-employed people account for almost 80-85% of LAP disbursements; of these, approximately 70-75% are self-employed non-professionals (SENP) and the rest self-employed professionals (SEP). The salaried class accounts for the remaining approximately 15%, primarily obtaining LAP to meet personal expenses related to marriage, education, healthcare, and repayment of previous loans. For borrowers, who have taken several personal and business loans earlier at higher interest rates, LAPs offer an attractive option, helping them foreclose old loans and take a single loan (LAP) at comparatively lower interest rates. Majority of the HFCs in this segment operate around a low average LTV of 50-55% as of Fiscal 2023.

Key factors driving competitiveness of HFCs in the LAP portfolio (< Rs. 2.5 million)

Housing finance companies had the highest market share among players in the loan against property portfolio (< Rs. 2.5 million) segment during fiscal 2023, and have been able to maintain this major share in the total market owing to various metrics in which HFCs have proven to be better than other players:

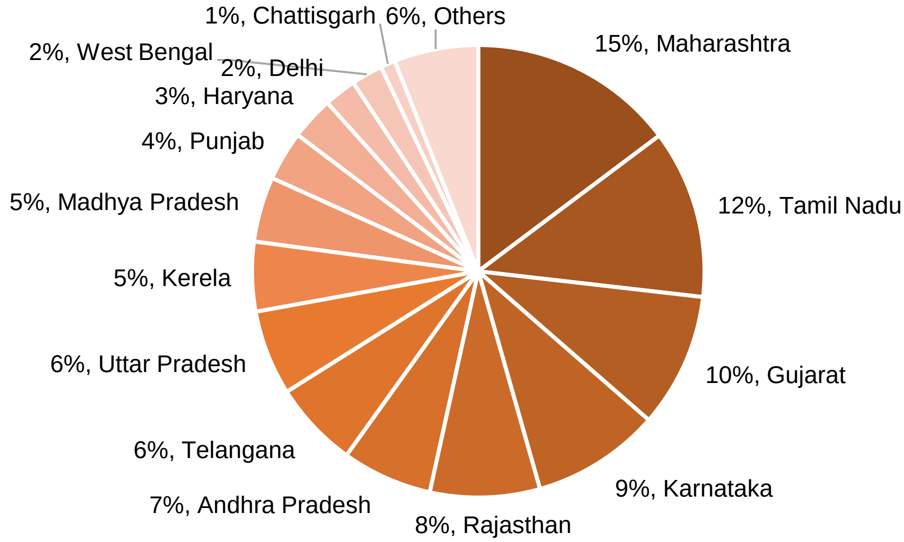
- Faster processing time, lower turnaround times in loans as compared to peers
- HFCs offer flexible repayment terms on LAPs as compared to other players
- HFCs have higher on-ground knowledge and a better understanding of the real estate market as compared to other peers, giving them a competitive edge among peers
- HFCs also have a higher expertise in underwriting the informal segment along with borrowers with no or limited credit information along with a focused underwriting process
- Completely digitized processes along with 24*7 disbursements to borrowers

The above-mentioned factors along with others have played a vital role in helping HFCs maintain a dominant share in the LAP Segment.

State-wise analysis of loans in LAP portfolio (< Rs. 2.5 million)

The top 15 states accounted for 95% of the market size in this segment as of March 2023. Maharashtra tops the list with the highest share of 15%, followed by Tamil Nadu (12%), Gujarat (10%), Karnataka (9%) and Rajasthan (8%).

Maharashtra has the highest share in overall LAP portfolio (< Rs. 2.5 million)



Source: CRIF Highmark, CRISIL MI&A

State-wise credit outstanding of LAP portfolio (<2.5 million) between fiscals 2019-2023:

Among the top 15 states, Madhya Pradesh witnessed the fastest growth between the fiscals 2019-23, with a CAGR of 29.4% during fiscal 2019 to fiscal 2023 followed by West Bengal with a CAGR of 28.6%.

State wise analysis of LAP portfolio (< Rs. 2.5 million):

(in Rs Millions)	FY2019	FY2020	FY2021	FY2022	FY2023	CAGR FY19-23
Maharashtra	192	249	281	328	409	21%
Tamil Nadu	179	223	235	275	334	17%
Gujarat	126	167	184	215	266	21%
Karnataka	120	150	169	199	254	21%
Rajasthan	87	125	127	166	217	26%
Andhra Pradesh	78	103	108	137	179	23%
Telangana	63	86	97	131	171	28%
Uttar Pradesh	71	107	94	127	168	24%
Kerela	64	89	95	123	138	21%
Madhya Pradesh	46	69	71	96	129	29%
Punjab	48	68	60	79	98	20%
Haryana	42	59	53	69	85	19%
Delhi	29	39	43	52	64	21%
West Bengal	23	36	38	48	62	29%
Chhattisgarh	14	19	17	23	29	20%
Other States	60	86	73	102	138	23%
Overall LAP <Rs. 2.5 million	**1,241**	**1,673**	**1,745**	**2,171**	**2,742**	**22%**

Source: CRIF Highmark, CRISIL MI&A

State-wise disbursements of LAP portfolio (< 2.5 million) between fiscals 2019-2023

During fiscal 2023, Tamil Nadu witnessed the highest disbursement among all states followed by Maharashtra, Karnataka, Rajasthan and Gujarat. The top 15 states accounted for 94% of the total disbursements during fiscal 2023, with top 5 states contributing to 52% share. Between fiscals 2019 to 2023, Bihar witnessed the fastest growth in disbursements with a CAGR of 32% followed by Madhya Pradesh and Telangana with 24% and 20% CAGR growth respectively during the period.

Tamil Nadu leads with highest disbursements for LAP Loans (<2.5 million) during fiscal 2023

(In Rs. Millions)	FY2019	FY2020	FY2021	FY2022	FY2023	CAGR FY19-23
Tamil Nadu	71.1	68.1	58.1	79.7	112.2	12.1%
Maharashtra	78.4	76.9	72.8	94.7	108.6	8.5%
Karnataka	48.4	50.3	44.4	57.0	78.8	12.9%
Rajasthan	39.5	40.6	40.2	55.1	76.7	18.1%
Gujarat	51.3	52.2	51.7	64.1	73.9	9.5%
Andhra Pradesh	35.8	36.1	30.3	44.5	65.0	16.1%
Telangana	29.1	33.5	28.9	47.7	61.0	20.3%
Uttar Pradesh	30.5	29.4	28.2	40.5	57.4	17.2%
Madhya Pradesh	21.2	21.2	22.9	33.1	50.8	24.4%
Punjab	19.5	20.6	17.5	23.9	31.8	13.0%
Kerela	33.4	34.9	24.1	28.1	29.5	-3.1%
Haryana	17.2	16.5	15.6	21.0	28.7	13.7%
West Bengal	12.1	12.4	11.4	16.5	21.4	15.2%
Delhi	12.3	12.0	15.0	15.2	16.3	7.3%
Bihar	3.6	3.8	3.4	6.3	10.9	32.0%
Other States	24.8	25.8	25.6	35.6	48.7	18.3%
Overall Disbursement <Rs. 2.5 million	**528.3**	**534.3**	**490.1**	**662.9**	**871.6**	**13.3%**

Source: CRIF Highmark, CRISIL MI&A

State wise analysis for top 5 districts in terms of portfolio and loan accounts for LAP portfolio (< Rs. 2.5 million)

States	No. of districts	LAP O/S (< Rs 2.5 million) CAGR (FY19-FY23)	Top 5 districts based on LAP o/s (< Rs. 2.5 million)	Concentration of credit outstanding in top 5 districts for LAP o/s (< Rs. 2.5 million)	Concentration of accounts in top 5 districts for LAP loan accounts (< Rs. 2.5 million)
Maharashtra	35	21%	Pune, Thane, Mumbai, Mumbai Suburban, Nashik	64%	63%
Tamil Nadu	32	17%	Kancheepuram, Coimbatore, Thiruvallur, Chennai, Madurai	41%	41%
Gujarat	33	21%	Ahmadabad, Surat, Rajkot, Vadodara, Gandhinagar	65%	63%
Karnataka	30	21%	Bangalore, Mysore, Belgaum, Tumkur, Davanagere	64%	62%
Rajasthan	33	26%	Jaipur, Jodhpur, Ajmer, Bhilwara, Udaipur	48%	50%
Andhra Pradesh	13	23%	Visakhapatnam, East Godavari, Krishna, Guntur, West Godavari	62%	63%

Telangana	10	28%	Hyderabad, Rangareddy, Warangal, Karimnagar, Nalgonda	78%	78%
Uttar Pradesh	75	24%	Ghaziabad, Lucknow, Agra, Meerut, Gautam Buddha Nagar	41%	45%
Kerala	14	21%	Ernakulam, Malappuram, Thiruvananthapuram, Thrissur, Kottayam	60%	61%
Madhya Pradesh	51	29%	Indore, Bhopal, Ujjain, Gwalior, Jabalpur	51%	53%
Punjab	22	20%	Ludhiana, Jalandhar, Amritsar, Patiala, Sahibzada Ajit Singh Nagar	66%	67%
Haryana	21	19%	Gurgaon, Faridabad, Panipat, Karnal, Yamunanagar	51%	52%
Delhi	9	21%	West, North West, South, East, South West	85%	83%
West Bengal	19	29%	Kolkata, North Twenty Four Parganas, Barddhaman, South Twenty Four Parganas, Hugli	61%	66%
Chattisgarh	27	20%	Raipur, Durg, Bilaspur, Janjgir - Champa, Rajnandgaon	74%	74%
Uttarakhand	13	18%	Dehradun, Hardwar, Udham Singh Nagar, Nainital, Garhwal	94%	92%
Bihar	38	28%	Patna, Muzaffarpur, Gaya, Vaishali, Purba Champaran	52%	55%
Odisha	30	26%	Khordha, Cuttack, Ganjam, Baleshwar, Puri	54%	56%
Assam	27	25%	Kamrup Metropolitan, Kamrup, Sonitpur, Nalbari, Cachar	55%	63%
Jharkhand	24	29%	Ranchi, Purbi Singhbhum, Dhanbad, Hazaribagh, Bokaro	71%	72%
Himachal Pradesh	12	30%	Solan, Kangra, Shimla, Una, Mandi	77%	76%
Pondicherry	4	12%	Puducherry, Karaikal, Yanam, Mahe,	100%	100%
Chandigarh	1	14%	Chandigarh	100%	100%
Goa	2	13%	North Goa, South Goa	100%	100%
Jammu & Kashmir	22	17%	Jammu, Srinagar, Kathua, Reasi, Badgam	81%	83%
Tripura	4	57%	West Tripura, South Tripura, North Tripura, Dhalai	100%	100%

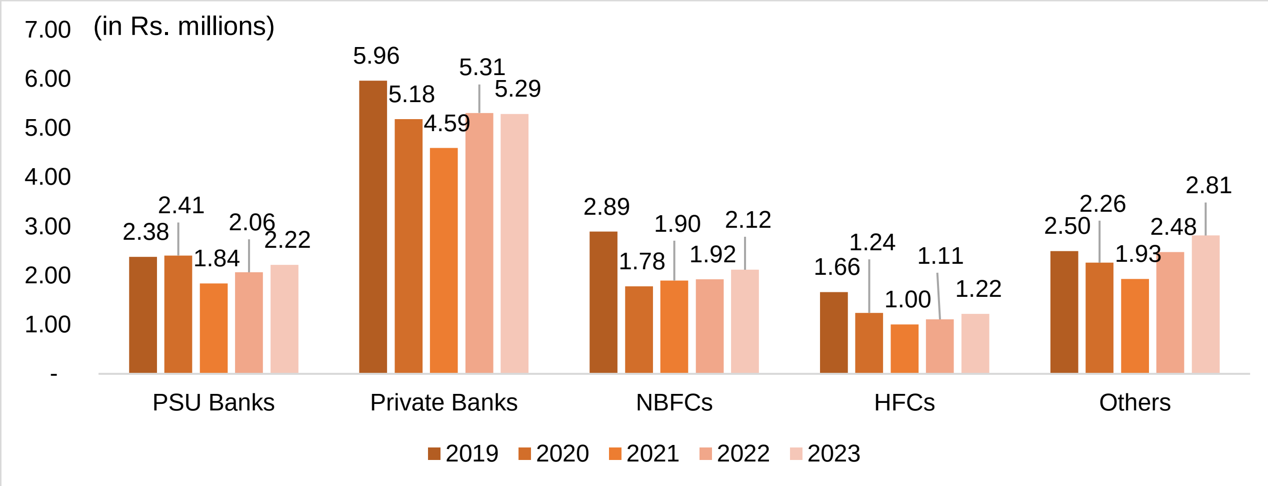
Manipur	9	40%	Imphal West, Imphal East, Churachandpur, Senapati (Excluding 3 Sub-Divisions), Thoubal	93%	92%
Mizoram	8	101%	Aizawl, Champhai, Lunglei, Serchhip, Mamit	93%	93%
Dadra & Nagar Haveli	1	14%	Dadra & Nagar Haveli	100%	100%
Meghalaya	8	35%	East Khasi Hills, West Jaintia Hills, West Khasi Hills, West Garo Hills, Ribhoi	99%	98%
Sikkim	4	31%	East District, South District, West District, North District	100%	100%
Daman & Diu	2	8%	Daman , Diu	100%	100%
Nagaland	10	36%	Dimapur, Kohima, Mokokchung, Wokha, Zunheboto	99%	95%
Andaman and Nicobar	3	19%	South Andaman, North & Middle Andaman, Nicobars	100%	100%
Arunachal Pradesh	15	22%	Kurung Kumey, Lower Subansiri, East Siang, Papum Pare, Changlang	78%	77%
Lakshadweep	1	16%	Lakshadweep	100%	100%

Note: Number of districts as reported by the bureau; Source: CRIF Highmark, CRISIL MI&A

Average ticket size lowest for HFCs in overall LAP portfolio as well as LAP portfolio (< Rs 2.5 million)

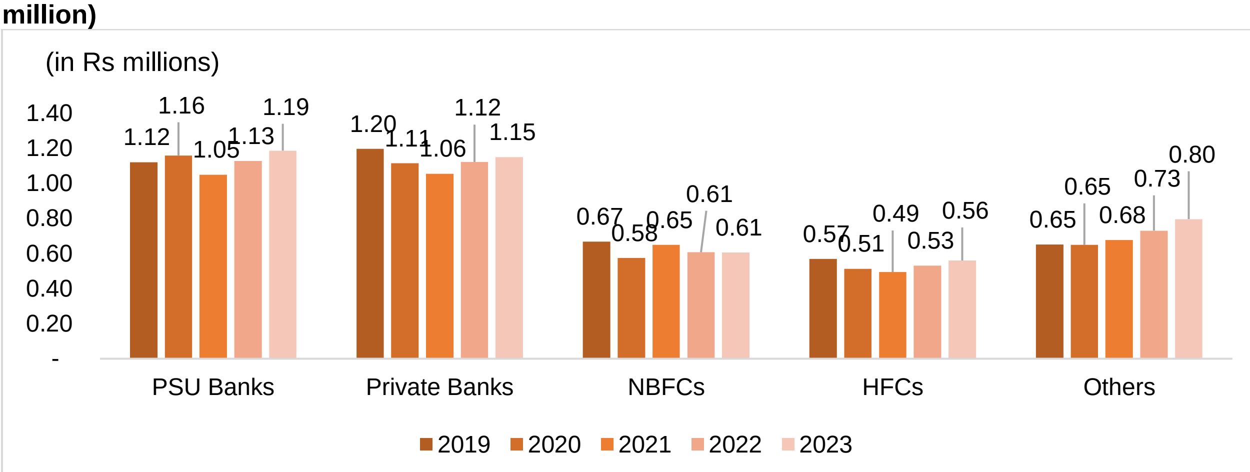
HFCs have the lowest ticket size among players as compared to private banks which have the highest average ticket size. Players in the category apart from NBFCs witnessed a significant decline in their average ticket size during the fiscal 2021, due to the pandemic induced lockdown and economic slowdown in the nation. This decline was then followed by a recovery in the following fiscals.

HFCs have lower average ticket size as compared to other lenders in the overall LAP portfolio



Note: Others include foreign banks and other players
Source: CRIF Highmark, CRISIL MI&A

HFCs have lower average ticket size as compared to other lenders in the LAP portfolio (< Rs 2.5 million)



Note: Others include foreign banks and other players
Source: CRIF Highmark, CRISIL MI&A

Asset Quality for overall LAP portfolio

In the past, intense competition in the LAP segment led to aggressive lending by non-banks. They sourced major proportion of the book through balance transfer, whereby additional top-up loans were given leading to higher loan-to-value (LTV) ratios and thus higher risks in the LAP book. Asset quality in the overall LAP segment deteriorated in fiscal 2021 on account of Covid-19 pandemic in which income of the borrowers was impacted severely, the impact of which can be witnessed in Fiscal 2022. However, asset quality has improved in Fiscal 2023 on back of better collection efficiencies and improvement in the income of the borrower profile. Asset Quality of overall LAP portfolio decreased from 5.03% in Fiscal 2022 to 3.94% in Fiscal 2023.

Players in the segment have turned cautious while lending against property and are expected to remain cautious owing to difficulty and cost involved in selling these physical assets. In the long run, better availability of borrower data with GST implementation will help lenders assess borrower's profile (in terms of business sales and cash flow) and hence control NPAs.

LAP portfolio with ticket size between Rs. 1.5 & Rs. 2.0 million had the lowest GNPA levels as of fiscal 2023

	FY19	FY20	FY21	FY22	FY23
LAP with ticket size below Rs. 0.5 million	6.42%	7.59%	8.49%	7.75%	5.53%
LAP with ticket size between Rs. 0.5 million and Rs. 1 million	3.65%	4.45%	4.91%	5.35%	3.99%
LAP with ticket size between Rs. 1 million and Rs. 1.5 million	2.79%	3.69%	4.07%	4.36%	3.39%
LAP with ticket size between Rs. 1.5 million and Rs. 2 million	2.63%	3.49%	3.93%	4.26%	3.28%
LAP with ticket size between Rs. 2.0 million and Rs. 2.5 million	2.83%	3.95%	4.52%	4.92%	3.61%
LAP with ticket size greater than Rs. 2.5 million	3.01%	4.04%	5.13%	4.93%	3.93%
Overall LAP portfolio	**3.17%**	**4.18%**	**5.14%**	**5.03%**	**3.94%**

Note: GNPA considered as portfolio greater than 90 days excluding write-offs. Source: CRIF Highmark, CRISIL MI&A

As of fiscal 2023, LAP loans with ticket size between Rs. 1.5 and Rs. 2.0 million had the lowest GNPA of 3.28% followed by LAP loans with ticket size between Rs.1.0 and Rs. 1.5 million at 3.39%. While loans in all ticket sizes witnessed a rise in defaults during fiscal 2020 and 2021, due to the covid-19 pandemic and slowdown in economic activity, asset quality has improved post fiscal 2021.

State-wise asset quality analysis

Among the top 10 states in terms of overall LAP portfolio growth from fiscal 2019-2023, Telangana had the highest CAGR at 27%, followed by Andhra Pradesh (20%), Rajasthan (19%), Uttar Pradesh (18%) and Gujarat (17%). In terms of asset quality, among the top 10 states for LAP portfolio (< Rs. 2.5 million), Telangana (1.29%), Delhi (1.84%), Gujarat (2.36%) and Rajasthan (2.45%) had the best asset quality as of Fiscal 2023.

State wise analysis of overall LAP portfolio and LAP (< Rs. 2.5 million)

States	Overall LAP O/S FY23 (Rs billion)	Overall LAP O/S CAGR (FY19-FY23)	Overall LAP GNPA FY23	LAP O/S < Rs. 2. 5 million (Rs billion)	LAP o/s < Rs. 2. 5 million CAGR (FY19-FY23)	LAP < Rs. 2. 5 million GNPA FY23
Maharashtra	1,945	14%	5%	409	21%	4%
Karnataka	989	17%	5%	254	21%	7%
Tamil Nadu	963	13%	4%	334	17%	4%
Gujarat	884	17%	3%	266	21%	2%
Delhi	699	9%	3%	64	21%	2%
Telangana	603	27%	1%	171	28%	1%

States	Overall LAP O/S FY23 (Rs billion)	Overall LAP O/S CAGR (FY19-FY23)	Overall LAP GNPA FY23	LAP O/S < Rs. 2. 5 million (Rs billion)	LAP o/s < Rs. 2. 5 million CAGR (FY19-FY23)	LAP < Rs. 2. 5 million GNPA FY23
Rajasthan	547	19%	3%	217	26%	2%
Uttar Pradesh	483	18%	4%	168	24%	3%
Haryana	389	16%	2%	85	19%	3%
Andhra Pradesh	360	20%	3%	179	23%	3%
Kerala	319	16%	10%	138	21%	14%
Madhya Pradesh	310	21%	4%	129	29%	3%
Punjab	278	15%	3%	98	20%	1%
West Bengal	268	15%	5%	62	29%	6%
Chhattisgarh	108	14%	5%	29	20%	4%
Uttarakhand	78	16%	3%	27	18%	3%
Odisha	72	27%	4%	25	26%	3%
Bihar	70	33%	3%	26	28%	3%
Assam	42	25%	2%	15	25%	4%
Chandigarh	42	8%	2%	5	14%	2%
Jharkhand	32	32%	3%	11	29%	4%
Goa	22	16%	3%	5	13%	4%
Himachal Pradesh	20	23%	8%	8	30%	9%
Pondicherry	15	14%	5%	5	12%	5%
Jammu & Kashmir	11	18%	4%	4	17%	6%
Tripura	5	69%	2%	2	57%	3%
Sikkim	4	27%	0%	1	31%	1%
Meghalaya	3	37%	3%	1	35%	2%
Mizoram	3	99%	3%	1	101%	5%
Manipur	3	50%	4%	1	40%	6%
Dadra & Nagar Haveli	2	12%	2%	1	14%	2%
Daman & Diu	2	13%	4%	0	8%	6%
Nagaland	2	20%	4%	0	36%	5%
Arunachal Pradesh	1	40%	4%	0	22%	9%
Andaman and Nicobar	1	22%	10%	0	19%	3%
Lakshadweep	0	11%	13%	0	16%	14%
Total	**9,575**	**16%**	**4%**	**2,742**	**22%**	**4%**

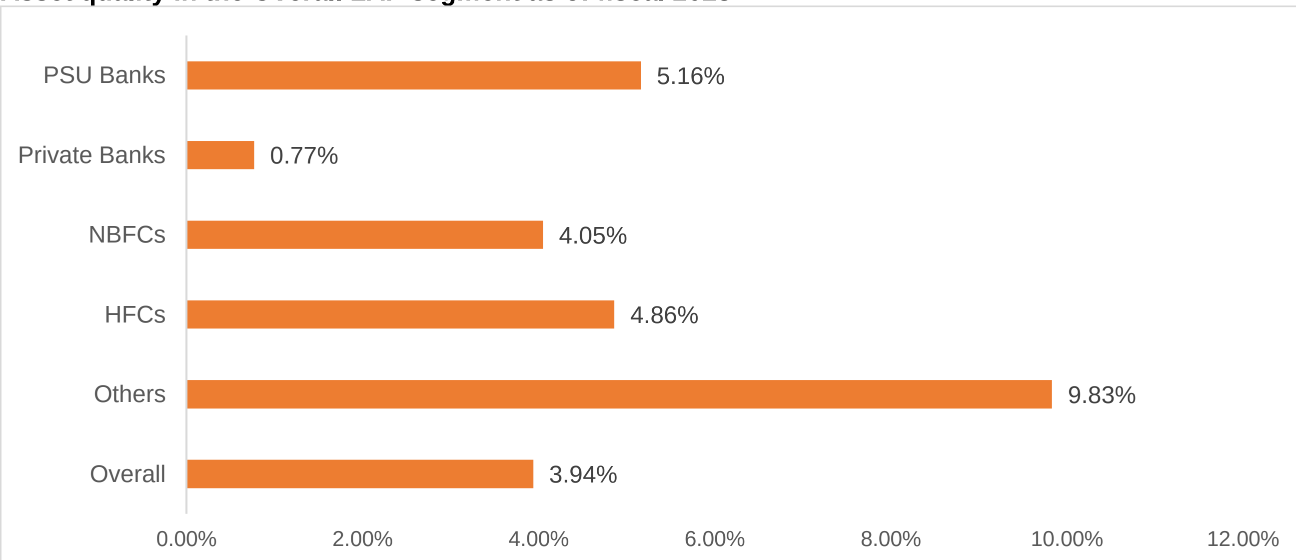
Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Number of districts as reported by the bureau
Source: CRIF Highmark, CRISIL MI&A

Asset Quality among players in the overall LAP segment as of fiscal 2023

Private banks have been lending selectively during the pandemic and have kept their asset quality under control in this segment with GNPA levels of 0.77% as against overall LAP GNPA of 3.94% as of March 2023. PSBs have not been able to maintain their asset quality in the overall LAP portfolio. Asset quality for

HFCs in the LAP portfolio (< Rs 2.5 million) decreased from 1.98% in Fiscal 2022 to 1.68% in Fiscal 2023. Despite lending to the risky segment, HFCs, due to their expertise in the product have been effective in maintaining their asset quality and going forward, private banks and SFBs are expected to replicate this behavior and on account of the lower cost of funds, can aggressively target selected profiles at better rates and thus maintain asset quality on the books.

Asset quality in the Overall LAP segment as of fiscal 2023

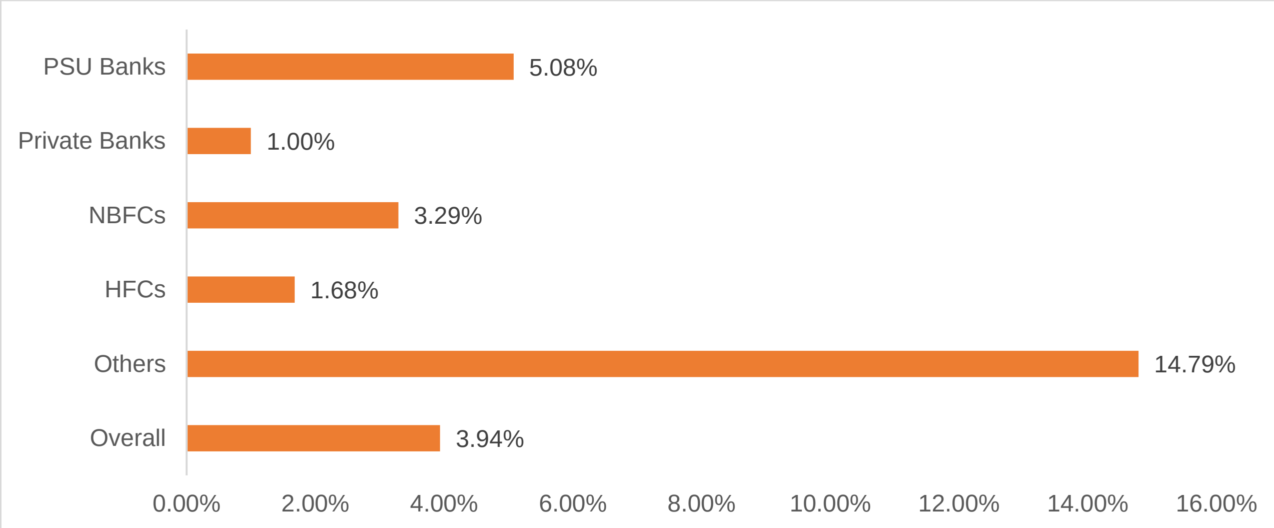


Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Others include foreign banks and other players
Source: CRIF Highmark, CRISIL MI&A

HFCs have the best asset quality among other lender types in the LAP portfolio (< Rs. 2.5 million) segment during the fiscals 2019 to 2023

HFCs have witnessed a significant improvement in asset quality in the LAP portfolio (< Rs. 2.5 million) during fiscal 2023, and now is in line with Private Banks having the best asset quality among the players in the segment. Private Banks have been able to keep their asset quality under control in this segment owing to lending selectively during the pandemic. While HFCs despite lending to the risky segment, HFCs, due to their expertise in the product have been effective in maintaining their asset quality, going forward this is expected to continue with improvement in economic activity, better collection efficiency alongside faster credit growth.

Asset quality in the LAP <Rs. 2.5 million segment as of fiscal 2023



Note: GNPA considered as portfolio greater than 90 days excluding write-offs, Others include foreign banks and other players
Source: CRIF Highmark, CRISIL MI&A

NBFC/HFCs Profitability in LAP improved in Fiscal 2023

NBFCs in LAP segment operate with yield in the range of 15-18%, on an average. With average cost of funds being in the range of 10-11%, net interest margins (NIMs) for this segment are in the range of 5-7%. CRISIL MI&A estimates the profitability in this segment to have increased in Fiscal 2023 owing to improving credit costs and increase in interest yields. Going forward, in Fiscal 2024, borrowing costs are expected to stabilize and overall profitability of MSMEs loans is still expected to be sustained, on account of higher interest income.

Peer Benchmarking

In this section, CRISIL MI&A has compared financial and operating parameters for housing loan players based on the latest available data for Fiscal 2022 & Fiscal 2023. For analysis, India Shelter Home Loans is compared with listed and unlisted entities such as Aadhar Housing, Aavas Financiers Limited, Aptus Value Housing, Home First Finance Company, Shubham Housing Finance, Poonawalla Housing Finance & Vastu Housing Finance. The peers are chosen with AUM greater than Rs.30,000 million and average ticket size less than Rs. 1.5 million operating in the affordable housing segment.

India Shelter Home loans registered 2nd highest AUM & Disbursement growth between fiscals 2019 and 2023 amongst compared peers

Amongst the compared peers, India Shelter Home .Loans had the second highest CAGR between fiscals 2019 and 2023 in terms of asset under management (38.7%), only behind Vastu Housing Finance (46.2%). With a strong focus on the affordable housing market and a keen focus on the retail loans segment, India Shelter recorded the second highest CAGR of 37.1% in disbursement during the same period, after Vastu Housing Finance (47.6%). Between fiscal 2021 and fiscal 2023, India Shelter Home Loans witnessed a 2-year AUM CAGR growth of 40.8%.

Asset Under Management & Disbursement of Peer Set (Fiscal 2023)

Peers	AUM (Rs million) FY23	AUM growth (YoY)	AUM growth (CAGR FY19-23)	AUM growth (CAGR FY21-23)	Disbursements (Rs million) FY23	Disbursements growth (CAGR FY19-23)	Disbursements growth (CAGR FY21-23)
Aadhar Housing Finance	172,230	16.5%	14.5%	13.7%	59,030	16.6%	29.0%
Aavas Financiers Limited	141,667	24.8%	24.3%	22.4%	50,245	17.1%	37.5%
Aptus Value Housing Finance	67,380	30.1%	31.6%	28.7%	23,940	19.3%	35.8%
Home First Finance Company	71,980	33.8%	31.0%	31.8%	30,129	17.6%	65.7%
India Shelter Home Loans	**43,594**	**41.8%**	**38.7%**	**40.8%**	**19,644**	**37.1%**	**48.2%**
Poonawalla Housing Finance	62,890	24.3%	26.8%	25.7%	25,850	24.2%	43.7%

Shubham Housing Finance	31,471	38.7%	25.4%	27.4%	NA	NA	NA
Vastu Housing Finance	60,970	66.8%	46.2%	54.4%	36,160	47.6%	95.0%

Note:

1. *NA: Not available*
2. *Data is on Consolidated basis*
3. *Table is arranged in alphabetical order*
4. *Numbers are rounded off*

Source: Company reports, Rating Rationale, CRISIL MI&A

.**Asset Under Management & Disbursement of Peer Set (Fiscal 2022)**

Peers	AUM (Rs million) FY22	AUM growth (YoY)	AUM growth (CAGR FY19-22)	Disbursements (Rs million) FY22	Disbursements growth (CAGR FY19-22)
Aadhar Housing Finance	147,780	10.9%	13.8%	39,920	7.7%
Aavas Financiers Limited	113,502	20.1%	24.1%	36,022	10.5%
Aptus Value Housing Finance	51,800	27.3%	32.1%	16,410	11.6%
Home First Finance Company	53,803	29.9%	30.1%	20,310	8.9%
India Shelter Home Loans	**30,733**	**39.8%**	**37.7%**	**12,953**	**32.6%**
Poonawalla Housing Finance	50,600	27.2%	27.7%	19,700	22.0%
Shubham Housing Finance	22,696	17.1%	21.3%	9,758	NA
Vastu Housing Finance	36,560	42.9%	39.9%	17,630	32.3%

Note:

1. *NA: Not available*
2. *Data is on consolidated basis*
3. *Table is arranged in alphabetical order*
4. *Numbers are rounded off*

Source: Company reports, Rating rationale, CRISIL MI&A

India Shelter Home Loans registered 2nd highest total income to advance ratio & 2nd highest yield on advances as of fiscal 2023

India Shelter reported 2nd highest total Income to advance ratio at 16.8% compared to its peers after Aptus Value Housing Finance (17.1%) as of fiscal 2023. During the same period, it also reported 2nd highest yield on advances of 14.9% after Aptus Value Housing Finance (17.7%) as compared to peers. India Shelter home loans also reported 3rd highest net income to average of total assets at 10.6% after Aptus Value Housing Finance (13.3%) and Vastu Housing Finance (11.3%).

Operational Metrics of Peer Set (Fiscal 2023)

Peers	Total Income to Advance	Net Income to Average Total Assets	Average yield on advances	Cost of borrowings	Spread on advances	Credit Cost
Aadhar Housing Finance	14.8%	8.1%	13.0%	7.0%	6.0%	0.3%
Aavas Financiers Limited	14.0%	8.4%	12.6%	6.6%	6.0%	0.1%
Aptus Value Housing Finance	17.1%	13.3%	17.7%	8.5%	9.2%	0.5%
Home First Finance Company	13.3%	8.3%	13.3%	7.3%	5.9%	0.4%
India Shelter Home Loans	**16.8%**	**10.6%**	**14.9%**	**8.3%**	**6.6%**	**0.4%**
Poonawalla Housing Finance	13.2%	8.5%	12.9%	7.1%	5.8%	0.7%
Shubham Housing Finance	NA	NA	NA	NA	NA	NA
Vastu Housing Finance	14.8%	11.3%	14.4%	6.8%	7.6%	0.4%

Note

1. Total income to advance has been calculated as Total income/loans and advances

2. Average yield on advance has been calculated as interest income from loan and advances/average total advances

3.Cost of borrowing has been calculated as interest expense (excluding interest on lease liabilities)/average borrowings

4. Employee expenses have been calculated as total employee cost/ average total assets

5.Credit costs have been calculated as impairment on financial instruments/ average total assets

6.Financial Ratios for all the peers are calculated based on consolidated number

7.NA- Not available

Source: Company reports, Rating rationale, CRISIL MI&A

India Shelter Home Loans registered Highest total Income to advance ratio and second highest yield on advances as of fiscal 2022

India Shelter reported highest total Income to advance ratio at 17.5% compared to its peers in fiscal 2022. It also reported third highest yield on advance of 15.3% in fiscal 2022, after Aptus Value Housing Finance (17.2%) and Shubham Housing Finance (15.4%).

Operational Metrics of Peer Set (Fiscal 2022)

Peers	Total Income to Advance	Net Income to Average Total Assets	Average yield on advances	Cost of borrowings	Spread on advances	Credit Cost
Aadhar Housing Finance	14.5%	6.9%	13.0%	7.2%	5.8%	0.3%
Aavas Financiers Limited	14.4%	8.3%	12.8%	6.6%	6.2%	0.2%
Aptus Value Housing Finance	16.5%	12.4%	17.2%	8.0%	9.3%	0.7%
Home First Finance Company	13.8%	7.9%	12.5%	6.6%	5.9%	0.5%
India Shelter Home Loans	**17.5%**	**11.0%**	**15.3%**	**8.3%**	**7.0%**	**0.4%**
Poonawalla Housing Finance	11.3%	7.0%	12.7%	7.2%	5.5%	0.2%
Shubham Housing Finance	15.5%	7.8%	15.4%	9.3%	6.1%	1.1%
Vastu Housing Finance	16.8%	11.1%	14.5%	8.6%	5.9%	0.6%

Note

1. Total income to advance has been calculated as Total income/loans and advances
2. Average yield on advance has been calculated as interest income from loan and advances/average total advances
3.Cost of borrowing has been calculated as interest expense (excluding interest on lease liabilities)/average borrowings
4. Employee expenses have been calculated as total employee cost/ average total assets
5.Credit costs have been calculated as impairment on financial instruments/ average total assets
6.Financial Ratios for all the peers are calculated based on consolidated number
7.NA- Not available

Source: Company reports, Rating rationale, CRISIL MI&A

Term loans form the major source of funding for the select peers

Term loans make up a significant portion of the total borrowing mix for all of the peers compared. India

Shelter gets the maximum share of its funding source as term loan at 91% as of Fiscal 2023. Bonds/NCDs hold the second-largest share as a source of funding amongst the players

Borrowing Mix of peers for fiscal 2023

Peers	No. of lenders	NCD	Term Loans	Deposit	Commercial Papers	Others
Aadhar Housing Finance	NA	21%	79%	0%	0%	0%
Aavas Financiers Limited	31	15%	84%	0%	0%	1%
Aptus Value Housing Finance	NA	10%	86%	0%	0%	4%
Home First Finance Company	26	7%	93%	0%	0%	0%
India Shelter Home Loans	**38**	**6%**	**91%**	**0%**	**0%**	**3%**
Poonawalla Housing Finance	18	8%	90%	0%	0%	2%
Shubham Housing Finance*	NA	5%	93%	0%	2%	0%
Vastu Housing Finance	NA	8%	92%	0%	0%	0%

*Note: * Data as of FY22, Others include cash credit, securitisation, bank overdraft, working capital loans etc, Term loans include loan from Banks, other financiers and NHB, Source: Company reports, CRISIL MI&A*

India Shelter reported 3rd highest Net Interest Margin (NIM) at end of Fiscal 2023

India Shelter Home Loans reported 3rd highest net interest margin at 7.8% in fiscal 2023 after Aptus Value Housing Finance (12.2%) and Vastu Housing Finance (8.5%). It also reported 5th highest PPOP % at 35.6% after Aptus Value Housing Finance (60.9%), Vastu Housing Finance (49.4%), Home First Finance Company (39.8%) and Aadhar Housing Finance (37.7%).

NIM%, Opex% and PPOP% (Fiscal 2023)

Peers	NIM%	Opex %	PPOP %
Aadhar Housing Finance	6.3%	3.1%	37.7%
Aavas Financiers Limited	6.6%	3.8%	34.8%
Aptus Value Housing Finance	12.2%	2.6%	60.9%
Home First Finance Company	7.1%	3.0%	39.8%
India Shelter Home Loans	**7.8%**	**4.8%**	**35.6%**
Poonawalla Housing Finance	6.9%	4.8%	26.7%
Shubham Housing Finance	NA	NA	NA
Vastu Housing Finance	8.5%	4.1%	49.4%

Note:

1. NIM has been calculated as (Interest Income-Interest expense – Interest expense on lease liabilities)/Average total assets
2. Opex has been calculated as Opex /Average total assets

3.PPOP% Has been calculated as (Total Income-Interest Expense (excluding interest on lease liabilities) – Opex(includes lease liabilities))/Total Income

4.Net income to avg of total assets has been calculated as (Total income- Interest expense (excluding interest on lease liabilities))/Average of total assets

5.Financial Ratios for all the peers are calculated based on consolidated number

6. NA- Not available

Source: Company reports, Rating rationale, CRISIL MI&A

NIM%, Opex% and PPOP% (Fiscal 2022)

Peers	NIM%	Opex %	PPOP %
Aadhar Housing Finance	5.6%	2.5%	35.6%
Aavas Financiers Limited	6.6%	3.6%	36.4%
Aptus Value Housing Finance	11.4%	2.3%	61.2%
Home First Finance Company	6.2%	2.7%	42.2%
India Shelter Home Loans	**8.0%**	**4.7%**	**38.9%**
Poonawalla Housing Finance	6.4%	3.9%	24.6%
Shubham Housing Finance	6.8%	5.5%	16.3%
Vastu Housing Finance	8.1%	3.8%	48.7%

Note:
1. NIM has been calculated as (Interest Income-Interest expense – Interest expense on lease liabilities)/Average total assets
2. Opex has been calculated as Opex /Average total assets

3.PPOP% Has been calculated as (Total Income-Interest Expense (excluding interest on lease liabilities) – Opex(includes lease liabilities))/Total Income

4.Net income to avg of total assets has been calculated as (Total income- Interest expense (excluding interest on lease liabilities))/Average of total assets

5.Financial Ratios for all the peers are calculated based on consolidated number

6. NA- Not available

Source: Company reports, Rating rationale, CRISIL MI&A

India Shelter Home Loans has the 3rd highest return on assets (RoA) at end of fiscal 2023

Among the peers analysed, India Shelter Home Loans has the third highest RoA of 4.1% at end of Fiscal 2023 after Aptus Value Housing (7.8%) and Vastu Housing Finance (5.4%). In Fiscal 2022, India Shelter reported third highest RoA at 4.5% after Aptus Value Housing Finance (7.3%), Vastu Housing Finance (5.3%). It reported RoE of 12.8% at end of fiscal 2022.

Profitability Metrics of Peer Set (Fiscal 2023)

Peers	Return on Assets	Total Borrowings to Equity ratio	Return on Equity	Leverage
Aadhar Housing Finance	3.5%	3.3	15.9%	4.5
Aavas Financiers Limited	3.5%	3.0	14.1%	4.0

Aptus Value Housing Finance	7.8%	1.1	16.1%	2.1
Home First Finance Company	3.9%	2.6	13.5%	3.5
India Shelter Home Loans	**4.1%**	**2.4**	**13.4%**	**3.2**
Poonawalla Housing Finance	2.2%	3.8	10.1%	4.5
Shubham Housing Finance	3.1%	NA	NA	NA
Vastu Housing Finance	5.4%	1.4	12.6%	2.3

Note: NA: Data Not Available; Source: Company reports, CRISIL MI&A

Profitability Metrics of Peer Set (Fiscal 2022)

Peers	Return on Assets	Total Borrowings to Equity ratio	Return on Equity	Leverage
Aadhar Housing Finance	3.2%	3.4	15.2%	4.8
Aavas Financiers Limited	3.6%	2.8	13.6%	3.8
Aptus Value Housing Finance	7.3%	0.9	15.1%	2.1
Home First Finance Company	3.9%	2.2	12.6%	3.3
India Shelter Home Loans	**4.5%**	**1.9**	**12.8%**	**2.8**
Poonawalla Housing Finance	2.1%	3.0	9.8%	4.8
Shubham Housing Finance	1.0%	3.3	4.6%	4.6
Vastu Housing Finance	5.3%	0.7	11.7%	2.2

Source: Company reports, CRISIL MI&A

India Shelter had the 3rd highest capital adequacy ratio (CRAR) amongst the peer set as of fiscal 2023

India Shelter had a capital adequacy ratio (CRAR) of 55.9% at end of Fiscal 2022, which declined to 52.7% in Fiscal 2023. Despite the decline, India Shelter had the 3rd highest CRAR among its peers during FY23. The CRAR of India Shelter is way above the RBI guideline for minimum 15% CRAR ratio for Housing Finance Players in India. Aptus Value has the highest CRAR of 77.4% at end of Fiscal 2023.

Capital Adequacy ratio of Peer Set (Fiscal 2023)

Peers	FY22	FY23
Aadhar Housing Finance	45.4%	42.7%
Aavas Financiers Limited	51.9%	47.0%
Aptus Value Housing Finance	85.6%	77.4%
Home First Finance Company	58.6%	49.4%
India Shelter Home Loans	**55.9%**	**52.7%**
Poonawalla Housing Finance	42.7%	34.8%

Shubham Housing Finance	36.9%	NA
Vastu Housing Finance	99.8%	67.6%

Note: NA: Data Not Available; Source: Company Reports, Rating Rationale, CRISIL MI&A

India Shelter registered highest reduction in GNPA and has fourth lowest pool of restructured assets in fiscal 2023

India Shelter Home loans had a gross non-performing asset (GNPA) of 2.12% at end of Fiscal 2022 which declined significantly to 1.13% at the end of Fiscal 2023, causing India Shelter Home Loans to register a highest reduction in GNPA by 0.99% in fiscal 2023. India Shelter's net non-performing asset (NNPA) also witnessed a decline from 1.60% in Fiscal 2022 to 0.85% in Fiscal 2023. Amongst the peers, Poonawalla Housing Finance has reported the lowest Net NPA at 0.40%.

Asset quality of Peer Set (FY23)

Peers	Gross Non-Performing Asset^^			Net Non-Performing Asset##			Restructured assets#	
	FY22	FY23	Change in GNPA	FY22	FY23	Change in NNPA	FY22	FY23
Aadhar Housing Finance	1.50%	1.16%	-0.34%	1.08%	0.77%	-0.31%	3.61%	2.26%
Aavas Financiers Limited	0.99%	0.92%	-0.07%	0.77%	0.68%	-0.09%	1.12%*	0.79%*
Aptus Value Housing Finance	1.21%	1.15%	-0.06%	0.91%	0.87%	-0.04%	1.09%	0.55%
Home First Finance Company	2.33%	1.61%	-0.72%	1.77%	1.07%	-0.70%	0.43%	0.18%
India Shelter Home Loans	**2.12%**	**1.13%**	**-0.99%**	**1.60%**	**0.85%**	**-0.75%`**	**0.97%**	**0.58%**
Poonawalla Housing Finance*	1.65%	0.81%	-0.84%	1.20%	0.40%	-0.80%	NA	NA
Shubham Housing Finance	3.59%	NA	NA	2.50%	NA	NA	2.08%	0.50%$
Vastu Housing Finance	1.24%	0.87%	-0.37%	0.89%	0.60%	-0.29%	1.80%$	0.80%$

Note:: Restructured assets classified as standard assets from standalone basis,#: Restructured assets is calculated as Exposure to accounts classified as standard assets as per financial statements over advances, $ as per rating rationale, **: For Poonawalla housing finance GNPA, NNPA numbers as per company disclosure, ^^ Gross non-performing assets calculated as stage 3 assets(gross)/Gross carrying assets, ##: Net non-performing assets calculated as stage 3 assets (Net)/Net carrying assets, NA: Data Not Available*
Source: Company Reports, Rating Rationale, CRISIL MI&A

India Shelter reported 4th lowest credit cost in fiscal 2023

India Shelter reported fourth lowest credit cost at 0.37% in fiscal 2023 whereas Poonawalla Housing Finance reported highest credit cost at 0.70%. India Shelter reported 2 yr. lagged GNPA at 2.11% in fiscal 2023 which reduced from 3.87% in fiscal 2022. Poonawalla Housing Finance reported lowest 2 yr. lagged GNPA at 1.32% in fiscal 2023 while Home First Finance Company reported highest 2 yr. lagged GNPA at 2.93% in fiscal 2023.

Credit Cost and Lagged GNPA for fiscal 2022 and 2023

Peers	Credit Cost		2 yr. Lagged GNPA	
	FY22	FY23	FY22	FY23
Aadhar Housing Finance	0.35%	0.32%	2.05%	1.53%
Aavas Financiers Limited	0.23%	0.10%	1.46%	1.42%
Aptus Value Housing Finance	0.68%	0.53%	1.98%	1.93%
Home First Finance Company	0.52%	0.36%	3.37%	2.93%
India Shelter Home Loans	**0.42%**	**0.37%**	**3.87%**	**2.11%**
Poonawalla Housing Finance	0.24%	0.70%	1.72%	1.32%
Shubham Housing Finance	1.06%	NA	5.04%	NA
Vastu Housing Finance	0.61%	0.38%	2.28%	1.98%

Note: NA: Data not yet available; Source: Company Reports, Credit Rating Rationale, CRISIL MI&A

India Shelter added fifty-three new branches in Fiscal 2023

India Shelter had 130 branches at end of Fiscal 2022, which grew to 183 branches at end of Fiscal 2023, simultaneously, the number of employees increased from 2,200 in the fiscal year 2022 to 2,709 in the fiscal year 2023.

Branch & Employees of Peers	Branches		Employees	
Peers	**FY22**	**FY23**	**FY22**	**FY23**
Aadhar Housing Finance	341	479	2,769	3,663
Aavas Financiers Limited	314	346	5,222	6,034
Aptus Value Housing Finance	208	231	2,271	2,405
Home First Finance Company	80	111	851	993
India Shelter Home Loans	**130**	**183**	**2,200**	**2,709**
Poonawala Housing Finance	128	182	1,749	2,637
Shubham Housing Finance	140	143	2,026	NA
Vastu Housing Finance	126	179	1,850	3,659

Source: Company Reports, CRISIL MI&A

India Shelter has the 3rd largest presence amongst the identified peer set

India Shelter has a diversified geographical presence in India, with presence in 15 states. Only Aadhar Housing (20 states) and Poonawalla Housing (19 states) have a wider reach as compared to India Shelter. This would help the entity maintain a low concentration risk within their portfolio as they diversify and deepen penetration into newer geographies and remove geographical dependency and vulnerabilities that comes with them.

Geographical concentration of portfolio (Fiscal 2023)

Peers		Portfolio Concentration in	

	State / UTs	Top State	Top 2 States	Top 3 States	Top 5 States	Top State
Aadhar Housing Finance	20	15%	NA	41%	NA	NA
Poonawalla Housing Finance	19	NA	NA	NA	NA	NA
India Shelter Home Loans	**15**	**31%**	**49%**	**63%**	**77%**	**Rajasthan**
Vastu Housing Finance	14	16%	NA	NA	NA	NA
Home First Finance Company	13	33%	47%	61%	74%	Gujarat
AAVAS Financiers Limited	13	38%	NA	69%	NA	Rajasthan
Shubham Housing Finance	12	36%	NA	64%	NA	Maharashtra
Aptus Value Housing Finance	5	43%	78%	92%	100%	Tamil Nadu

Note: NA: Data not available; Source: Company Reports, Rating Rationale, CRISIL MI&A

70% of customer base of India Shelter is Self-employed

Based on occupation type, 70% of the AUM for India Shelter Housing Finance comes from Self-employed individuals (including rentals and others) followed by 30% from salary-based individuals. Amongst the peers, Vastu Housing Finance has the highest share of self-employed individual customers at 81% and Poonawalla Housing Finance having the lowest share of self-employed individuals (25%) at end of Fiscal 2023.

Customer mix as of Fiscal 2023	Occupation Category	
Peers	**Self Employed**	**Salaried**
Aadhar Housing Finance	41%	59%
Aavas Financiers Limited	60%	40%
Aptus Value Housing Finance	71%	29%
Home First Finance Company	30%	70%
India Shelter Home Loans	70%	30%
Poonawalla Housing Finance	75%	25%
Shubham Housing Finance	48%	NA
Vastu Housing Finance	81%	NA

Note: NA: Data not available;, Source: Company Reports, Rating Rationale, CRISIL MI&A

Average ticket size of India Shelter Home loans is in line with peer set operating in the same segment

Aadhar Housing Finance	Aavas Financiers Limited	Aptus Value Housing Finance	Home First Finance Company	**India Shelter Home Loans**	Poonawalla Housing Finance	Shubham Housing Finance	Vastu Housing Finance
~0.92 million	~0.89 million	~1.00 million	~1.10 million	**~1.00 million**	~1.00 million	~1.00 million	~1.30 million

Source: Company Reports, Rating Rationale, CRISIL MI&A

Digital Applications of select players

Peers	Application
Aadhar Housing Finance	Aadhar Housing Finance, AHFL Connect, Aadhar Go Collect, Aadhar On The Go
Aavas Financiers Limited	Aavas Loan, Aavas Nirman, Aavas Scanner, Aavas Mitra, Aavas Technical, Aavas Omnifin, Risk Management
Aptus Value Housing Finance	Aptus E-Seva, Aptus Bandhu Partner App
Home First Finance Company	HomeFirst Connect, HomeFirst Customer Portal, RM Pro, Intern Pro
India Shelter Home Loans	IndiaShelter iServe, IndiaShelter Connector App, IndiaShelter iCredit, IndiaShelter iTech, IndiaShelter iCollect, IndiaShelter iSales
Poonawalla Housing Finance	NA
Shubham Housing Finance	ShubhFTR, Shubham Learning Academy
Vastu Housing Finance	Vastu Connect

Note: NA: Not Available, Source: Google Play Store, CRISIL MI&A

Credit Ratings of players for fiscal 2023

Peers	Short Term Rating	Long Term Rating
Aadhar Housing Finance	CRISIL A1+, ICRA A1+	CARE AA, ICRA AA,
Aavas Financiers Limited	CARE A1+, ICRA A1+	ICRA AA, CARE AA
Aptus Value Housing Finance	-	CARE AA-, ICRA AA-
Home First Finance Company	-	CARE AA-, IND AA-, ICRA AA-
India Shelter Home Loans	**-**	**ICRA A+/ICRA AAA (CE), CARE A+**
Poonawalla Housing Finance	CRISIL A1+	CRISIL AA+
Shubham Housing Finance	ICRA A1	CRISIL A, ICRA A
Vastu Housing Finance	ICRA A1+	CRISIL A+, ICRA AA-, CARE AA-

Source: Company Reports, Rating Rationale, CRISIL MI&A

Aavas has the highest ALM surplus within 12 months at end of Fiscal 2023

Amongst the peer set analysed, Aavas Financiers Limited has reported highest ALM surplus (Rs 17,192 million) within 12 months bucket followed by Aadhar Housing (Rs 6,147 million). India Shelter reported ALM surplus of 3,380 million for within 12 months bucket and 9,026 million for after 12 months bucket.

(Rs in million)	Assets		Liabilities		Net		Assets to Liability ratio	
Peers	**Within 12 months**	**After 12 months**	**Within 12 months**	**After 12 months**	**Within 12 months**	**After 12 months**	**Within 12 months**	**After 12 months**
Aadhar Housing Finance	36,365	129,813	30,219	98,983	6,147	30,830	120%	131%
Aavas Financiers Limited	34,029	100,067	16,837	84,562	17,192	15,505	202%	118%
Aptus Value Housing Finance	11,893	59,870	10,383	27,986	1,510	31,883	115%	214%
Home First Finance Company	14,406	52,964	11,637	37,560	2,769	15,405	124%	141%
India Shelter Home Loans	**11,271**	**31,684**	**7,892**	**22,659**	**3,380**	**9,026**	**143%**	**140%**
Poonawalla Housing Finance	12,518	47,190	12,932	34,690	-414	12,500	97%	136%
Shubham Housing Finance*	2,920	22,487	7,215	12,695	-4,294	9,793	40%	177%
Vastu Housing Finance	14,814	50,080	15,708	25,107	-894	24,973	94%	199%

*Note: * Data as of FY22; Source: Company Reports, Rating Rationale, CRISIL MI&A*

Leadership team of the peers

Aadhar Housing Finance Management team is the most experienced of its peers, with average experience of ~22.1 years, followed by Aptus Value Housing Finance (22.0). For India Shelter Home Loans, the management team has an average of ~19.8 years of experience.

Board of directors of set peers

Peers	No. of board directors	No. of Independent directors	No. of Nominee directors	Members in Management team	Avg experience of management team (in years)
Aadhar Housing Finance	8	3	3	8	22.1
Aavas Financiers Limited	9	3	5	12	21.8
Aptus Value Housing Finance	10	5	2	9	22.0
Home First Finance Company	8	4	3	8	21.8
India Shelter Home Loans	**10**	**5**	**4**	**9**	**19.8**
Poonawalla Housing Finance	3	2	0	10	20.1

Shubham Housing Finance	11	4	5	19	19.5
Vastu Housing Finance	9	5	3	12	17.1

Source: Company Website, CRISIL MI&A

List of Formulae

Parameters	Formula
Return on Assets (RoA)	Profit after tax / Average of total assets on book
Return on Equity (RoE)	Profit after tax / Average net worth
Net Interest Margin (NIM)	(Interest income – interest expense (excluding interest on lease liabilities))/Average of total assets on book
Average Yield on advances	Interest earned on loans and advances / Average of total advances on book
Cost of borrowing	Interest expenses (excluding interest on lease liabilities)/ (Average of deposits and borrowings)
Spread on Advances	Average yield on Advances – Cost of Borrowings
Opex	Operating Expenditure (Employee Expenses + Depreciation and amortization expense + Other expenses+ Interest expense on Lease liabilities) / Average of total assets on book
Credit Cost	Provisions / Average total assets on book
Employee Expense	Employee expense/ Average of total assets on book
Net Income to Average Total Assets	Net Income / Average of total assets
Leverage	Average of total assets/ Average Networth
Gross NPA	Gross non-performing assets calculated as stage 3 assets(gross)/ Gross carrying assets
Net NPA	Net non-performing assets calculated as stage 3 assets (Net) / Net carrying assets
Restructured assets	Exposure to accounts classified as standard assets (Disclosures under RBI Resolution Framework) / Advances

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