

Newspiece

Asset quality stress seems to rise for the HFCs



Abhirup Ghosh
abhirup@vinodkothari.com

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News-piece

Recently ICRA came out with its performance review of the Housing Finance Companies for the first three quarters of FY 2013-14¹. The report also reviewed the performance of the HFCs so far and says that the HFC and NBFC sector has a reported a growth of 21% at the end of the first three quarters of FY 2013-14 as compared to 17% growth in the banking sector during the same period. The volumes of housing credit stood at Rs. 8,582 Billion as on 31st December 2013 i.e. it grew by 18% as compared to a volume of Rs 7,548 Billion as on 31st March, 2013.

Though it says that the HFCs were able to hold their Gross Non Performing Assets to 0.84% but the stress over the asset quality might rise as some of the HFCs are focusing more on riskier products like loan against properties and towards the self-employed segment. In one of the article named ***“Sitting comfy on the lap of LAP”***², Vinod Kothari said – *“Most of the housing finance companies also, who are mandatorily required to do housing finance to the extent of 75% of their book size, try to use the remaining 25% for yield enhancement by getting into LAP”*. With the focus of the HFCs directed towards the riskier segments along with the operating inefficiencies prevailing in the industry might take the Gross NPAs to 0.9% - 1.1% at the year end.

Though stress over the assets seems minimal as compared to that of the banks, but keeping in mind the authenticity of this mode of finance, the HFCs should take proper measures to keep a check on the asset quality, which can be done by ensuring proper credit appraisal mechanism is in place. In an effort to the increase the portfolio/ book size HFCs should not expose themselves to more risks. In the stress times as these where banks and NBFCs are already witnessing higher NPAs and staggered growth in business, it may not be a very positive sign to see HFCs joining the list.

For our write ups on HFCs, [click here](#).

¹ <http://www.icra.in/Files/Articles/SH-2014-Q1-2-ICRA-Housing%20Finance.pdf>

² http://india-financing.com/images/Articles/sitting_comfy_in_the_lap_of_LAP.pdf