

Realty boom: On a growth trajectory

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THE home loan sector in the country is poised to grow at about 25 per cent in FY' 09 compared to about 20 per cent in the current fiscal. A growing population, increasing urbanization and shift from joint families to nuclear families is spearheading the demand for housing.

Increase in the number of youth with higher disposable incomes has also led to an improvement in affordability. The lower mortgage penetration indicated by a lower mortgage to GDP ratio of 6 per cent in India as compared to 71 per cent in USA has offered a huge potential to housing finance companies in the country.

"In the last 10 years, the age of home loan borrowers has been declining from the mid-40s to the early 30s. No longer do people wait till retirement to build a home but prefer to invest in property while still young," sources in LIC Housing Finance (LICHF) told.

In the first 9 months of the current fiscal, LICHF disbursed loans to the tune of Rs 4,500 crore compared to Rs 5,100 crore in FY' 07. It expects to close the current fiscal at a growth rate of over 30 per cent and continue the momentum in the next fiscal.

According to a government report, while the share of public sector housing finance companies and private sector finance companies dipped during FY' 02 to FY' 06, commercial banks cornered this market.

Scheduled commercial banks increased their share from 35.90 per cent to 68.14 per cent during this period striking a blow to the traditional housing finance companies. The phenomenal growth was attributable to their large network and access to low cost deposits, enabling them to offer home loans at competitive rates.

However, with RBI guidelines to banks to slow down their home finance activities last year, leading banks adopted a passive strategy for the home loan segment. With fading attractiveness and increasing defaults on home loans due to high interest rates, the banks are now calibrating their loan portfolio to focus on corporate and SME loans. This has benefited companies like LICHF and other private housing finance companies.

Government estimates point to a need for over 73 million dwelling units during the 11th Plan Period. The existing gap would be over 20 million units, 7 million more than what was required a decade ago. This would continue to keep the home loan market buoyant. Also, the housing finance sector has becoming increasingly market-driven by real estate prices and interest rates.

After real estate prices started stabilizing due to the removal of the imbalance between supply and demand and interest rates became more stable recently after monetary tightening measures, housing finance got a fillip.

HDFC Housing Finance, a major player in the home loan sector, is expected to continue growing in disbursements of mortgage finance at CAGR of 25 per cent between FY' 07 and FY' 09. This would bring its loan size to Rs 890 billion. During the 9-month period of the current fiscal, the company's outstanding loan portfolio grew 20 per cent YoY to Rs 660 billion.

With interest rates on home loans having slipped from last year's high of about 11.5 per cent to 10.5 per cent, defaults in repayments too have slowed down. LICHF accounted for a non-performing assets of 2.6 per cent in the beginning of 2007 as compared to 3.6 per cent last year. This year it is likely to be lower at 1.5 per cent. This augurs well for the housing finance sector.