Press Release

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Tighter capital norms to structurally strengthen HFCs

Access to debt the larger-near term challenge than capital cushion for most HFCs

CRISIL's analysis of 25 housing finance companies (HFCs), which account for over 90% of the industry's assets under management (AUM), shows that all of them are currently complying with the 400 basis points' (bps) higher Tier 1 capital adequacy ratio (CAR) requirement announced by the National Housing Bank (NHB) recently.

The NHB's revised guidelines make three key amendments: the minimum Tier 1 capital adequacy to be maintained by HFCs has been increased from 6% to 10% while the overall CAR requirement has been increased from 12% to 15% in a graded manner; the maximum leverage that HFCs can take up has been reduced to 12 times from 16 times over a period of three years; and, the ceiling on the deposits that HFCs can mobilise has been lowered to three times of net owned funds from five times *(refer to Annexure 1).*

"The new framework will structurally strengthen the HFC sector and increase investor confidence at a time of liquidity stress among non-banks," said Krishnan Sitaraman, Senior Director, CRISIL Ratings. "Stronger balance sheets and increased capital levels will make HFCs better placed to absorb asset-side risks in future."

With mortgage growth expectations also muted, the new norms are not expected to constrain too many players. Additionally, as on March 31, 2019, many HFCs had a cushion of at least 250 basis points over the 10% Tier 1 CAR requirement *(refer to Annexure 2)*. The smaller lot, especially those backed by private equity, enjoy significant cushion over the revised regulatory requirements as of now.

As for leverage [1], most of the HFCs analysed were well within the stipulated 12 times required to be adhered to by March 2022, while the industry average is below 7 times. To be sure, some have levered beyond 12 times in the past couple of years but those have been few and far between. In any case, such gearing is no longer an option in the road ahead.

On public deposits, too, most HFCs are well below the stipulated requirement.

"HFCs have grown at a CAGR of ~20% over the past 3 years, despite the slowdown in growth in second half of fiscal 2019. Even if this growth were to be maintained over the next couple of years, existing net worth and internal accruals should be adequate for the vast majority of players" said Subha Sri Narayanan, Director, CRISIL Ratings. "Nevertheless, we believe growth will be lower over the next few quarters on account of funding access challenges."

The NHB's amendments come at a time when the sector has been facing challenges in access to debt funding. Over the past few months, this has remained tough for many non-banks, which has forced them to curtail disbursements to conserve liquidity. That, in turn, has curbed their growth prospects.

Annexure

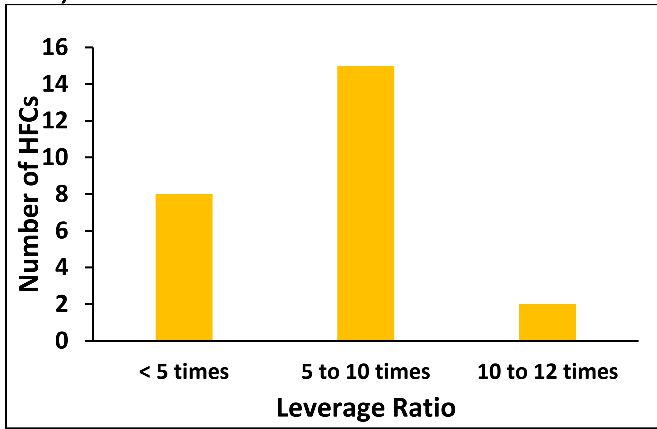
Annexure 1 - Revised CAR and borrowings guidelines

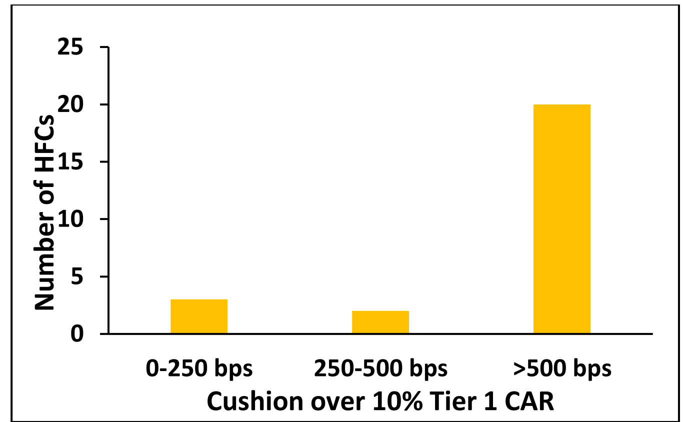
Timeline	Tier 1 ratio	Minimum CAR	Total borrowings as a ratio of NOF	Public deposits as a ratio of NOF
Current	6%	12%	16 times	5 times
March 31, 2020	10%*	13%	14 times	3 times
March 31, 2021	10%	14%	13 times	
March 31, 2022	10%	15%	12 times	

**effective immediately*

[1] *Calculated as total borrowings / net worth*

Annexure 2 - Distribution of HFCs as per leverage ratio and cushion over 10% Tier 1 CAR (as on March 31, 2019)





Note: Above charts are based on 25 HFCs which account for more than 90% of the industry

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