Affordable home loan segment is our sweet spot

Vishwanath Nair

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SUMMARY: *Indiabulls Housing Finance will focus on lending to very low risk customers to grow by 20-25% every year, according to Gagan Banga*

Indiabulls Housing Finance will focus on lending to very low risk customers to grow by 20-25% every year, according to Gagan Banga, MD and CEO of the company. In an interview to Vishwanath Nair, he talks about the company' loan book, trends in the home loan market and risks to the business. Edited excerpts:

As a housing finance company which are your focus areas for lending?

We believe that our operating sweet spot is in the affordable home loan segment. The income level of a large part of our borrowers is between R75,000-1,25,000 per month. In larger cities, the ticket size would be slightly higher between R30-50 lakh, while in smaller towns it would be between R15-20 lakh. Our average ticket size is between R23-25 lakh. Over the course of last eight years, we have built a good skill set in lending to the self employed segment. About 30% of our home loan borrowers are self-employed, the rest being salaried customers.

What are the recent trends in the housing loan market that you have seen?

Housing finance companies continue to have a large and growing share of the overall mortgage pie. The mortgage industry is growing at a slightly better pace than the overall banking credit. Within that, housing finance companies are growing at a slightly better pace than banks. The share of housing finance companies in the mortgage pie has risen to 45% from 35% over the last six years. The other major trend is that the market for affordable housing, where houses are priced up to R50 lakh, is growing, given the overall urbanisation and also with entry level salaries rising. The second segment in the market, which would be home loans between R50 lakh to R2 crore, is maintaining itself and not seeing any strong growth. The last segment of loans above R2 crore is rather slow. Fortunately, all housing finance companies are focused in the affordable home loan category.

Is it a conscious decision to stay away from the high-end housing?

Since 2007, the objective has been to bring down the asset risk to the least risky asset class, which we achieved by mid 2009. Every year, we have tried to bring our ticket size down and over the last two years have achieved the desired average. We believe from a long-term stakeholder value, this is an asset class that should perform the best, which should continue to grow and should provide a reasonable return on asset of 2.5-3%. As long as this asset class is giving us that kind of return, there is no need for running around and doing many things. Further, we believe that the next ten years will be that of self-employed individuals. They will be becoming more acceptable borrowers and lenders will also be more accepting toward them. So we believe our expertise in this segment will be very helpful.

What is your outlook on growth next year?

We have been guiding the market since the beginning of the year that across all financial parameters, including the growth and profits, we will grow in the range of 20-25%.

There have been some job cuts happening due to the difficult macroeconomic situation.

How big a risk is it for you?

If you look at job losses, it happens at entry level or in case of somebody who is at the very top. Both these segments fortunately are not segments that we cater to.