

NBFCs set up units to serve low-cost housing

These firms offer rates that are slightly higher than that of commercial banks, but have easier documentation process

Dinesh Unnikrishnan & Shally Seth Mohile

Buyers of relatively inexpensive homes, so far largely neglected by commercial banks, now have reason to cheer as non-banking financiers are focusing on this underserved segment.

At least three non-banking finance companies (NBFCs)—Mahindra and Mahindra Financial Services Ltd, Muthoot Fincorp Ltd and Dewan Housing Finance Corp. Ltd—have either set up units to extend small-ticket loans to home buyers or are scaling up their existing business, targeting low-income customers across the country.

These firms, which offer loans of Rs.2-6 lakh to borrowers with monthly income of Rs.6,000-12,000, aim to cash in on the emerging middle class in rural and semi-urban areas, who generally find it difficult to borrow from commercial banks.

Mahindra Finance, which has set up a rural housing finance subsidiary called Mahindra Rural Housing Finance Ltd, is targeting a loan book of Rs.5,000 crore in the next three years from the current Rs.300 crore.

The firm aims to generate business by tapping the rural clientele, offering loans up to Rs.3 lakh, Mahindra Finance managing director Ramesh G. Iyer said.

“We believe that it will be a billion dollar business in the next three years, with a balance sheet of Rs.4,000-5,000 crore,” Iyer said, adding that the company expects to add 40,000-45,000 customers on an average in the housing subsidiary per year.

The National Housing Bank holds a 12.5% stake in the subsidiary.

The rates offered for the segment are slightly higher than that of commercial banks. These firms offer interest rates of 10.5-16% to home buyers compared with 10-12% offered by commercial banks.

However, these firms also offer easier know-your-customer (KYC) norms such as relaxation in documentation requirements to facilitate easy access to low-income borrowers.

Though commercial banks such as State Bank of India, the country's largest lender, and housing finance companies such as Housing Development Finance Corp. Ltd are the major source of funds for home buyers in India, low-income borrowers find it difficult to access loans from these lenders due to tighter KYC norms.

The entry of dedicated firms in the segment, therefore, is good news for low-income borrowers and is expected to promote affordable housing in the country, analysts said.

These companies, which are new entrants to the low-cost segment, are unlikely to pose any major challenges to commercial banks, which are not active in the segment, they said. They, however, have to develop local knowledge to understand the clientele and the complex ownership of land, the analysts said.

“If these firms do not have the local expertise and ways to establish the owner of the land, it can lead to repayment issues,” said Abhishek Kothari, an analyst with Mumbai-based brokerage Way2Wealth Brokers Pvt. Ltd. “This is one reason why commercial banks are not looking at this class of customers.”

Kerala-based gold loan financier Muthoot Fincorp has set up a unit called Muthoot Housing Finance Ltd to cater to small home borrowers. The company expects to start business in the next two months with an average loan ticket size of Rs.5 lakh.

Muthoot plans to set up at least 25 branches in the first phase of its plans to invest at least Rs.100 crore in the next two years, and plans to have a loan book of Rs.120 crore by end of 2012, said Maneesh Srivastava, chief executive officer of Muthoot Housing Finance.

“We are targeting those customers who generally find it difficult to secure loans from commercial banks. For self-employed borrowers, we are not insisting on documentation,” Srivastava said. “The risk assessment in such cases will be done by a thorough evaluation of the earnings capability of the borrower by a dedicated team.”

Dewan Housing, which launched its low-cost housing subsidiary Adhar Housing Finance Pvt. Ltd with International Finance Corp. in February this year, also has ambitious plans to gain market share in the space. The company is offering loans of up to Rs.6 lakh.

“This segment is emerging. We cater to both salaried and self-employed segments,” said Harshil Mehta, chief executive officer of Adhar. “In the case of self-employed, given that it is a challenge to ascertain their income, we have credit managers equipped with necessary tools to evaluate their earnings capacity and assess the cash flow.”

dinesh.n@livemint.com