

FIRST LIGHT

RESEARCH

BOB Economics Research | Housing loans

Study on housing loan market in India

Consumer Durables

Crisil webinar takeaways – Secular growth to continue

SUMMARY

India Economics: Housing loans

The real estate sector plays an important role in the economy, especially true for a developing economy like India with a huge population, implying an ever increasing demand for housing. Demand for housing comes hand-in-hand with the demand for housing credit. In this respect, we study the housing loan segment in India and analyze the trends thereof. More specifically, we observe that while SCBs remain the key player in the housing loan segment with over 60% share, other players such as HFCs have also been playing a key part in meeting the credit requirement of the sector. Despite charging higher interest rates, HFCs have been able to maintain a share of above 30% in the housing loan market, by providing quicker and simpler loan turnaround process.

[Click here for the full report.](#)

Consumer Durables

- Consumer durables sector to post sustained volume growth of 5-14% over five years, per Crisil. ACs to grow fastest at ~14%, TVs slowest at ~5%
- Premiumisation and energy efficiency gaining traction in the wake of Covid with consumers upgrading most of their appliances
- Competition to intensify as India offers a large market with low penetration; consolidation anticipated in small appliances. Maintain positive stance

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Daily macro indicators

Indicator	22-Aug	23-Aug	Chg (%)
US 10Y yield (%)	3.01	3.05	3bps
India 10Y yield (%)	7.27	7.28	1bps
USD/INR	79.87	79.86	0.0
Brent Crude (US\$/bbl)	96.5	100.2	3.9
Dow	33,064	32,910	(0.5)
Hang Seng	19,657	19,503	(0.8)
Sensex	58,774	59,031	0.4
India FII (US\$ mn)	19-Aug	22-Aug	Chg (\$ mn)
FII-D	0.7	9.8	9.2
FII-E	192.1	(43.4)	(235.5)

Source: Bank of Baroda Economics Research

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HOUSING LOANS

24 August 2022

Study on housing loan market in India

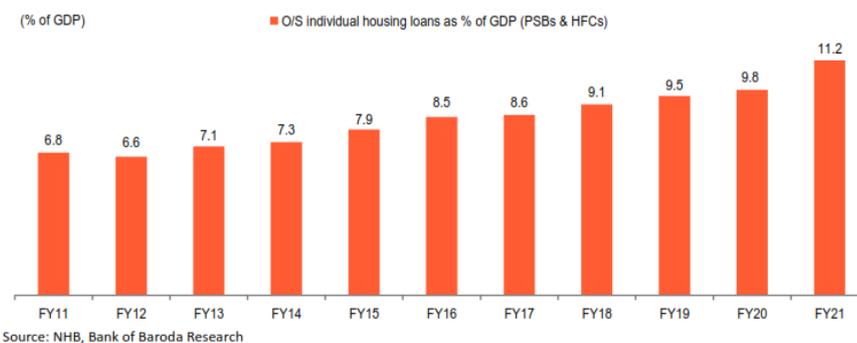
The real estate sector plays an important role in the economy, especially true for a developing economy like India with a huge population, implying an ever increasing demand for housing. Demand for housing comes hand-in-hand with the demand for housing credit. In this respect, we study the housing loan segment in India and analyze the trends thereof. More specifically, we observe that while SCBs remain the key player in the housing loan segment with over 60% share, other players such as HFCs have also been playing a key part in meeting the credit requirement of the sector. Despite charging higher interest rates, HFCs have been able to maintain a share of above 30% in the housing loan market, by providing quicker and simpler loan turnaround process.

Aditi Gupta
Economist

Housing loans in India:

The growing importance of home loans can be gauged from the fact that the ratio of outstanding individual home loans by Scheduled Commercial Banks (SCBs) and Housing Finance Companies (HFCs) in India's GDP has grown substantially in the last ten years (Figure 1). From about 6.8% of GDP in FY11, this ratio has risen to 9.5% in FY21. Even in FY20, despite the adverse Covid-19 shock in FY20 which badly affected the housing sector, ratio of housing loans rose to 9.8%. In the succeeding year, the sector noted a remarkable recovery from the pandemic and the ratio of housing loans in GDP rose to 11.2%.

Figure 1: Housing loans as % of India's GDP



Trends in housing loans by SCBs:

From Rs. 3.45 lakh crores in FY11, the housing loan portfolio of SCBs has increased to Rs. 15 lakh crore in FY21, registering an impressive CAGR of 14.3%. PSBs are the dominant market player in the housing loan segment accounting for 61.2% of the total housing loan portfolio of SCBs in FY21. However, it must be noted that the share of PSBs has seen a sequential dip in share from ~70% in FY11. On the other hand, Private Banks (PVBs), have gained market share from PSBs. From 21.3% in FY11, market share of private banks has increased to 35.2% in FY21. It is also interesting to note that while housing loans by PSBs grew at 12.8% CAGR in the period, PVBs registered a higher CAGR growth rate of 19.6%.



CONSUMER DURABLES

24 August 2022

Crisil webinar takeaways – Secular growth to continue

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We attended a Crisil webinar on trends in consumer durables – key takeaways:

Growth momentum to continue: Crisil expects secular volume growth to continue for the consumer durables sector (next 5Y CAGR: 9-10%), with large appliances (10-12%) outpacing small appliances (7-8%). AC volumes are likely to grow the fastest (12-14%), while the TV segment could be the slowest (5-6%). In smaller appliances, the fans segment is in a transition phase due to the upcoming ratings change.

Premiumisation, energy efficiency gaining traction post Covid: In the last six months, products such as washing machines and ACs have seen rising premiumisation, and this megatrend is expected to continue. Also, consumer preference is shifting towards smart/IoT-based appliances and energy-efficient products. Indian companies rank high in energy efficiency given that current products are 80-100% more efficient as compared to 2014. On the distribution front, more consumers are visiting stores post Covid – consequently, online sales could get capped at current levels even as the omnichannel model remains in play.

M&A likely in small appliances: India is one of the few countries with low penetration levels in consumer durables and hence the sector remains attractive, implying the entry of more players. Also, brands have not invested much to build scale over the past few years and this could lead to consolidation, with large appliance players looking to buy out smaller businesses, akin to the Crompton-Butterfly deal. The kitchen appliances segment is the most attractive considering its high growth rate at 2-2.5x of GDP and the fact that 50% of the market is unorganised, offering scope for formalisation.

Strong PLI benefits: Import content for ACs is currently at 70-75% of total raw material cost. The government's production-linked incentive (PLI) scheme is expected to bring down import dependency to 20-25% in five years. Notably, 80% of compressors are likely to be manufactured locally by 2026.

Our view – prefer sector leaders: We continue to prefer leaders in respective categories – HAVL, CROMPTON and POLYCAB. We do not anticipate much action in the AC space over the next two quarters and maintain a neutral stance on AC players.

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,250	2,300	HOLD
BLSTR IN	1,068	1,100	HOLD
CROMPTON IN	388	500	BUY
DIXON IN	4,050	4,500	BUY
HAVL IN	1,292	1,500	BUY
ORIENTEL IN	265	310	HOLD
POLYCAB IN	2,400	3,000	BUY
VGRD IN	232	250	HOLD
VOLT IN	994	1,100	HOLD

Price & Target in Rupees | Price as of 23 Aug 2022



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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