

India Playbook 2024 – Final Budget 2025 to focus on affordable housing

By Vinay Jaising, ET CONTRIBUTORS • Last Updated: Jul 16, 2024, 11:43:00 AM IST

Synopsis

One big change in the final budget could be an increase in rural expenditure including higher spends on affordable housing. RBI's extraordinary dividend of Rs 2.1 lakh crore and impressive tax collections give the government the power to increase expenditure and still stick to its prudent policy of lowering the fiscal deficit.



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The overall theme of the Interim **Union Budget** 2025 was being prudent and focusing on long term growth. The fiscal deficit for F2025 had been estimated at 5.1% as against 5.8% in F2024. There were no populist measures either, in fact the overall subsidy has been reduced by ~8%. The overall **Capex** spent by the government has increased an impressive 6.8x in the last 11 years. The **RBI** dividend of Rs 2.1 trillion or 0.4% of the **GDP** announced in May has added an extra cushion of Rs 1.3 trillion to the fiscal spends.

(Source: India Budget, JM Financial Research)



We believe this incremental gain in revenues would be partly spent in increasing **rural expenditure**, something which was missing post COVID era. In F2021 the govt. had increased rural spend by 38% to Rs 3.9 trillion. But since then the expenditure has been declining and is still lower than F2019 levels. After Mahatma Gandhi National Rural Employment Guarantee Program (NREGS), the second big component of expenditure is the **PMAY**, each of these have seen an annual outlay ranging from Rs.500-900 bn.

(Source: India Budget, JM Financial Research)

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The housing shortage in India as per a report of RBI appointed committee was estimated to be 100mn units in 2022 with a large part of this shortage being in the Low Income Group (LIG) and Middle-Income Group (MIG) categories. PMAY was announced in 2014 with the aim to provide housing at an affordable price to these categories. The scheme has two components:

- **PMAY Urban (PMAY-U)** was launched on June 2015. This scheme focuses on addressing the urban housing shortage among the Economically Weaker Section (EWS) /LIG and MIG customer segment based on their income levels by enabling construction of a pucca house to the eligible households. There are various components within this scheme viz In Situ Slum Redevelopment, Credit Linked Subsidy Scheme (**CLSS**) which is upfront interest subsidy ranging from 3-6.5%, **Affordable Housing** in Partnership and Beneficiary led individual House Construction (Refer Annexure). As of June 2024, PMAY-U scheme has seen sanctions of a total of 1.18 crore houses, of which 83.67 lakh houses have been completed.
- **PMAY Gramin (PMAY-G)** was launched in 2016, aiming to provide housing for the poorest segments of society. Benefits given under the scheme are as below:

Under the PMAY-G, the Government had set a target to build 2.95 crore houses. As of June 2024, 2.94 crore houses have been sanctioned and 2.62 crore houses have been completed.

(Source: PIB GOI, India Budget, JM Financial Research)

In the interim budget for FY25, the government had substantially increased the PMAY outlay by ~50% to Rs.806.71bn from Rs.541.03bn FY24 BE to build 2 crore additional houses over the next 5 years. Interestingly, in the first cabinet meeting held post the elections, the government has extended the scheme for additional 1 crore houses, which per our estimates can enhance the outlay to around Rs.1 trillion in FY25BE, doubling from FY24BE. We believe this additional outlay can be in the form of CLSS, a form of interest rate subsidy, which was discontinued since FY22.

(Source: India Budget, JM Financial Research)

Affordable HFCs to be limelight?

Housing Finance companies' share in systemic credit in India is ~5% (excluding erstwhile HDFC Ltd.). The re-introduction of the CLSS scheme can likely benefit the overall HFC space in that the pure play affordable housing players specifically given that they operate in the Rs 1-1.5 mn ticket size. Crisil pegs the housing finance opportunity at Rs 47 tn by FY26E, of which affordable housing is expected to be around Rs 18 tn.

Affordable Housing Finance (AHFCs) players cater to a niche segment in geographies and customer segment which lack exposure to banking credit. They, therefore, operate at higher NIMs of 7-8% vis a vis banks and larger HFCs at 3-4%. These margins have enabled AHFCs to deliver RoAs of 3-4%. We prefer AHFC players like **Home First Finance**, Aptus Value Housing Finance and affordable housing focused NBFCs like Chola Investment and Finance Company (CIFIC) within this space as they are poised to deliver loan book growth upwards of 25%. Key parameters of these cos are shown below:

Home First Finance is a tech focused affordable housing finance player with an AUM of Rs.90bn having presence across 321 touchpoints across Tier 1 to Tier 5 markets in 13 states in India. It focuses mainly on the salaried segment with EWS and LIG customers accounting for 63% of its AUM.

Aavas Financiers is an affordable housing finance player with an AUM of Rs 173 bn having presence across 490+ districts in 13 states through 367 branches. It focuses mainly on the self-employed segment in the home loans and small ticket LAP.

Aptus Value Housing is a Southern focused affordable housing finance player with an AUM of Rs 87 bn having presence in tier 2/3/4 cities focusing on the self-employed customers mainly in the LIG category. CIFIC is a diversified NBFC with focus on vehicle loans, affordable housing, LAP and consumer/SME loans. Chola Home Finance, a subsidiary of CIFIC, with an AUM of Rs.134bn is focused on affordable housing and has pan India presence.

Particulars	Can Fin Homes	Home First Finance	Aavas Financiers	Aptus Value Housing	India Shelter Finance
AUM - Rs. Mn	3,49,990	90,137	1,73,126	87,220	60,840
yoy growth %	11%	34%	22%	29%	40%
AUM Break up:					
Home Loans	89%	86%	69%	60%	58%
LAP	5%	13%	31%	16%	42%
Others	6%	1%		4%	
Small Business Loans				20%	
Total	100%	100%	100%	100%	100%
Customer segment mix					
Salaried	72%	68%	40%	28%	28%
Self employed	28%	32%	60%	72%	72%
Average Ticket Size - Rs.mn	2.5	1.14	0.91	1.0	1.0

(Source: PIB GOI, RBI, CRISIL, India Budget, JM Financial Research)

(Disclaimer: Recommendations, suggestions, views, and opinions given by experts are their own. These do not represent the views of the Economic Times)