HFCs rally on higher debt investment cap

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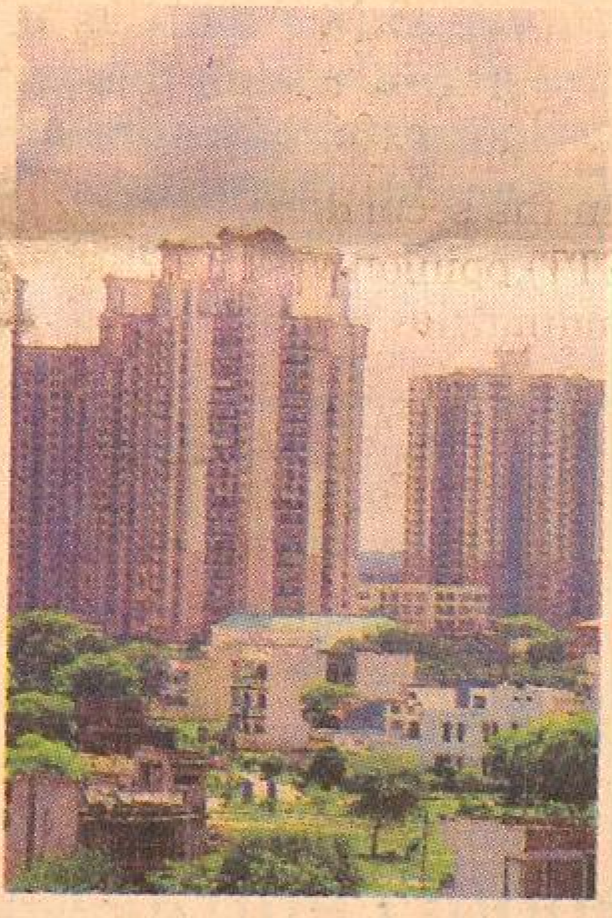
Mumbai, Oct 8: Shares of several housing finance companies (HFCs) rallied during intraday trade on Monday following market regulator Sebi's decision on Saturday to relax investment limits of debt-oriented mutual funds in debt securities of HFCs.

HDFC, LIC Housing Finance and DHFL rose 0.9%, 2.2% and 4.7%, respectively, in intra-day trade. However, while HDFC closed 0.07% higher, LIC Housing Finance and Dewan Housing Finance ended lower by 0.63% and 3.37%, respectively, as the broader benchmark indices slid in late trade.

The scrips of the companies had rallied mainly on expectation that the move will help ease the funding costs for these companies. "There will be no immediate impact, but the borrowing cost for these companies will come down by 15-20 bps over the next 3-6 months," said Mahendra Jajoo, head of fixed income at Pramerica Mutual Fund.

"If you look at the total amount of money in the mu-



tual funds, debt funds and in liquid funds, it will come to about ₹480,000 crore odd and out of ₹480,000 crore, if there is a separate 10% allocation for housing finance companies, it potentially means about ₹48,000 crore," said Keki Mistry, vice-chairman & CEO, HDFC, in an interview to a television channel. "What it means is that up to ₹48,000 crore, there is a separate window, which is open for mutual funds to invest in debentures, commercial paper, bonds of housing finance companies."

The mutual fund houses stand to benefit by Sebi's latest move as they will be able to invest in high quality companies that have a good balance sheet and are tightly regulated, said Jajoo. "This is a welcome move on the part of the regulator because it's a well regulated and well collateralised sector," said Dwijendra Srivastava, head of fixed income, Sundaram Asset Management, adding that most of the collateral held by the HFCs are tangible and in the form of houses; and the loan-to-value ratio is between 70% and 80%, mitigating the risk of recovery.

According to industry observers, most MFs used to invest 10-12% of their net assets in debt in HFCs before Sebi came up with the investment cap on September 13. Most MFs will fully utilise the additional limit given by the market regulator to invest in HFCs.

"The CPs offered by these HFCs give better yields than bank CDs, which are also on the longer end of the curve (greater than 364 days). The bond issued by these companies offer better yield than the PSU bonds and PFI bonds and are of comparable credit quality," said Srivastava.