

November 28, 2022

LIC Housing Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	17,500	17,500	[ICRA]A1+; reaffirmed
Total	17,500	17,500	

*Instrument details are provided in Annexure I

Rationale

The rating factors in LIC Housing Finance Limited's (LICHFL) strong parentage with Life Insurance Corporation of India (LIC), the largest life insurance company in India, holding a 45.2% stake in the company as on September 30, 2022, and the operational, managerial and financial support received from LIC. The rating also takes into account LICHFL's strong franchise and its demonstrated ability to grow in the competitive mortgage finance market. LICHFL has an established track record in the housing finance business as one of the largest mortgage lenders in India with assets under management (AUM) of Rs. 2,62,336 crore as on September 30, 2022. Further, it remains focused on retail home loans to the salaried segment. As on September 30, 2022, 95.5% of the loan book was towards the retail loan segment and individual home loans accounted for 82.6% of the overall loan book. The rating also factors in the company's diversified funding profile and good financial flexibility with access to various sources of funds at competitive rates.

ICRA also notes the company's high gearing level and moderate profitability. Moreover, LICHFL's asset quality indicators have deteriorated over the last couple of years with the gross stage 3 assets (GS3) at 4.9% as on September 30, 2022 (5.1% as on September 30, 2021, 2.8% as on September 30, 2020 and 2.4% as on September 30, 2019). The company's ability to grow its loan book in the highly competitive housing finance segment for the prime salaried segment borrowers and improve the asset quality, especially in the non-home loan segment, would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Established franchise in domestic market and strong parentage – LICHFL has a demonstrated track record in the housing finance business as one of the largest mortgage lenders in India with an AUM of Rs. 2,62,336 crore as on September 30, 2022. ICRA has taken into consideration the company's strong franchise with an extensive geographical presence and its demonstrated ability to grow while protecting its margins in the extremely competitive mortgage finance market.

LIC, a state-owned insurance and investment company, had a 45.2% stake in LICHFL as on September 30, 2022. LIC is the largest insurance provider in India with an asset base of over Rs. 43 lakh crore as on September 30, 2022. It had last infused Rs. 2,336-crore equity capital into the company in H1 FY2022, increasing its stake to 45.2% as on September 30, 2021 from 40.3% as on March 31, 2021. It extends both operational and financial support to LICHFL, including management support and access to its large agency network, which supports sourcing, brand sharing and funding.

Focus on relatively lower risk individual home loans to salaried segment – LICHFL's loan book grew 8% in FY2022 (vis-à-vis 11% in FY2021) to Rs. 2,51,120 crore as on March 31, 2022 (Rs. 2,62,336 crore as on September 30, 2022) from Rs. 2,32,003 crore as on March 31, 2021 (Rs. 2,37,660 crore as on September 30, 2021). As on September 30, 2022, 95.5% of the loan book was towards the retail loan segment and individual home loans accounted for 82.6% of the overall loan book. The share of the salaried home loan segment is the highest for LICHFL among its peers, which is perceived to be less risky than the self-employed segment. The salaried segment accounted for 88% of the retail portfolio as on September 30, 2022, which is also the highest among its peers.

Diverse funding profile – LICHFL enjoys good financial flexibility with access to various funding sources at competitive rates of interest by virtue of its credit profile and parentage. The company has a diverse set of lenders on the wholesale front including public sector, private and foreign banks, insurance companies, mutual funds and pension funds and has access to public deposits on the retail front. It has demonstrated its ability to raise funds through commercial papers (CP), non-convertible debentures (NCDs), banks and National Housing Bank (NHB).

A major portion of the company's funding is from debt market borrowings (55% of on-book borrowings as on September 30, 2022), which enabled it to maintain a competitive cost of funds. LICHFL's ability to roll over its borrowings will remain a key rating monitorable. However, like other housing finance companies (HFCs), LICHFL carries an interest rate risk on its portfolio, given the relatively higher share of fixed rate liabilities vis-à-vis its primarily floating rate assets.

Credit challenges

Moderate profitability – LICHFL reported a net profit of Rs. 2,287 crore in FY2022, translating into a return of 0.9% on average assets and 10.1% on average net worth (Rs. 2,734 crore, 1.2% and 14.1%, respectively, in FY2021). The company's net interest margins declined to 2.1% in H1 FY2023 from 2.2% in FY2022. This was due to the increase in the cost of average interest-bearing funds and the reversal of interest income on the slippages in the portfolio along with upfront discounts or reduction in interest rates offered to a certain set of retail customers while converting their loans to a floating rate loan from a fixed rate loan. Operating expenses remained largely stable at 0.4% of average assets in H1 FY2023 (0.4% in FY2022). While the credit cost declined to 0.5% of average assets in H1 FY2023 from 0.8% from FY2022, it remains elevated as the asset quality deteriorated in H1 FY2023. Consequently, the profitability indicators were subdued with LICHFL reporting a net profit of Rs. 1,230 crore in H1 FY2023, translating into an annualised return of 1.0% on average assets and 10.7% on average net worth. ICRA expects the profitability to remain moderate, given the increasing pressure on margins owing to the stiff competition in the segment and the elevated credit costs in light of the asset quality pressure.

Deterioration in asset quality – LICHFL's overall asset quality has been deteriorating with the company reporting GS3 of 4.6% as on March 31, 2022 (4.1% as on March 31, 2021). While the share of the wholesale book was low, slippages have been high with GS3 of 30% as on March 31, 2022 (18% as on March 31, 2021). The asset quality in the retail segment also deteriorated with an increase in the GS3 to 3.2% as on March 31, 2022 from 2.8% as on March 31, 2021. With slippages from the restructured portfolio, the asset quality deteriorated further in H1 FY2023 and the company reported GS3 of 4.9% as on September 30, 2022. Also, LICHFL has standard restructured loans outstanding amounting to Rs. 3,467 crore (1.3% of gross loan portfolio as on September 30, 2022), which is under moratorium. Hence, the performance of the restructured portfolio remains a monitorable. The company's ability to arrest further slippages and improve its asset quality indicators will be a key monitorable.

High gearing levels – The company's regulatory capital adequacy was within the statutory limits with the Tier I and capital-to-risk weighted assets ratio (CRAR) remaining moderate at 16.2% and 18.1%, respectively, as on March 31, 2022, supported by the low risk weight on home loans, which form a sizeable share of LICHFL's portfolio. However, the gearing remained high at 9.1 times as on September 30, 2022 (9.2 times as on March 31, 2022; 10.4 times as on March 31, 2021). The company had raised Rs. 2,336-crore equity capital in H1 FY2022, which helped improve its capitalisation profile to some extent. In ICRA's opinion, LICHFL would continue to need additional capital to further scale up its operations while improving its capitalisation profile.

Exposed to competition in prime salaried segment – LICHFL faces competition from banks and leading HFCs, primarily while lending to the salaried borrower segment. The competition in the industry is expected to remain high over the medium term, specifically in the salaried borrower segment. In ICRA's view, LICHFL's ability to grow its book while maintaining its profitability, asset quality and solvency profile will remain a key rating factor.

Environmental and social risks

Environmental considerations – Given the service-oriented business of LICHFL, its direct exposure to environmental risks/material physical climate risks is not material. While lending institutions can be exposed to environmental risks indirectly

through their portfolio of assets, LICHFL's exposure to environmentally sensitive segments remains low. Hence, indirect transition risks arising from changes in regulations or policies concerning the underlying assets are not material.

Social considerations – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as any material lapses could be detrimental to their reputation and could invite regulatory censure. LICHFL has not faced such lapses over the years.

Liquidity position: Adequate

LICHFL's asset-liability management (ALM) profile (provisional), as on June 30, 2022, had a negative cumulative mismatch of Rs. 13,175 crore in the up to one year bucket, given the long-term nature of assets vis-à-vis liabilities and the high gearing level. The expected inflows, as per the ALM as on June 30, 2022, stand at Rs. 86,992 crore (including inflows from lines committed by other institutions) over the next one year against total outflows of Rs. 1,00,167 crore (including loan commitments pending disbursal) during this period. The company's ability to roll over its borrowings will remain a key rating monitorable.

The company held free on-book liquidity of Rs. 6,789 crore and had Rs. 12,236 crore of sanctioned unutilised lines as on September 30, 2022, which supports its liquidity profile. Further comfort is provided by LICHFL's strong fund-raising ability with Rs. 55,136 crore raised through various instruments at competitive rates in H1 FY2022. The company can also raise funds of up to 15% of its net worth and long-term loans from LIC and has the ability to raise funds through the securitisation route, given the high share of retail home loans to the salaried segment.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Any deterioration in the company's ability to raise fresh funds or a material change in support from the parent may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach - Implicit Support from Parent or Group
Parent/Group support	Parent/Investor: Life Insurance Corporation of India (LIC) ICRA factors in the strategic importance of LICHFL to LIC, which is demonstrated in the managerial, operational and funding support from the parent
Consolidation/Standalone	Standalone

About the company

LIC Housing Finance Limited (LICHFL), incorporated in 1989, is one of the largest housing finance companies (HFCs) in India. It is promoted by Life Insurance Corporation of India (45.2% stake as on September 30, 2022), which also provides regular operational and financial support to LICHFL. As on September 30, 2022, the company had a portfolio of Rs. 2,62,336 crore comprising individual home loans (82.6%), non-housing individual/corporate loans (loan against property (LAP); 12.9%) and developer loans (4.5%).

Key financial indicators (audited)

LIC Housing Finance Limited	FY2021	FY2022	H1 FY2023
As per	Ind-AS	Ind-AS	Ind-AS
Total income	19,848	19,953	10,383
Profit after tax	2,734	2,287	1,230
Net worth	20,521	24,672	25,438
Gross managed portfolio	2,32,003	2,51,120	2,62,336

LIC Housing Finance Limited	FY2021	FY2022	H1 FY2023
As per	Ind-AS	Ind-AS	Ind-AS
Total assets	2,35,633	2,54,567	2,65,133
Total managed assets	2,39,533	2,60,407	2,71,655
Return on average managed assets	1.2%	0.9%	1.0%
Return on average net worth	14.1%	10.1%	10.7%
Gearing (gross; times)	10.4	9.2	9.1
Gross stage 3 assets	4.1%	4.6%	4.9%
Net stage 3 assets	2.6%	2.7%	2.8%
CRAR	15.3%	18.1%	NA

Total managed assets = Total assets + Impairment allowance; Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Nov-28-2022	Nov-29-2021	Nov-30-2020	Oct-07-2019	
1	Commercial paper	Short term	17,500	6,160	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

*Amount outstanding as on November 25, 2022; Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](https://www.icra.in)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE115A14DX7	Commercial paper	Oct-19-2022	6.95%	Jan-11-2023	1,200	[ICRA]A1+
INE115A14DW9	Commercial paper	Oct-14-2022	7.75%	Oct-12-2023	1,010	[ICRA]A1+
INE115A14DV1	Commercial paper	Oct-04-2022	6.90%	Mar-13-2023	800	[ICRA]A1+
INE115A14DU3	Commercial paper	Sep-06-2022	6.90%	Aug-11-2023	1,025	[ICRA]A1+
INE115A14DT5	Commercial paper	Jul-07-2022	6.63%	Jun-20-2023	525	[ICRA]A1+
INE115A14DS7	Commercial paper	Jul-04-2022	6.39%	Feb-22-2023	600	[ICRA]A1+
INE115A14DO6	Commercial paper	Feb-14-2022	5.00%	Jan-25-2023	1,000	[ICRA]A1+
-	Commercial paper – Yet to be issued	-	-	-	11,340	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for limited consolidated analysis: Not applicable

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