November 29, 2021

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 Programme	17,500	17,500	[ICRA]A1+; reaffirmed
Total	**17,500**	**17,500**	

**Instrument details are provided in Annexure-1*

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, 2021, 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. 2,37,660 crore as on September 30, 2021. Further, it remains focused on retail home loans to the salaried segment. As on September 30, 2021, 93.6% of the loan book was towards the retail loan segment and individual home loans accounted for 79.3% 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 three years with the gross stage 3 assets at 5.1% as on September 30, 2021 (2.8% as on September 30, 2020, 2.4% as on September 30, 2019, 1.3% as on September 30, 2018). 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. 2,37,660 crore as on September 30, 2021. 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, 2021. LIC is the largest insurance provider in India with an asset base of over Rs. 38.6 lakh crore as on June 30, 2021. LIC infused Rs. 2,336-crore equity capital into the company in H1 FY2022, increasing its stake to 45.2% 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 11% in FY2021 (vis-à-vis 9% in FY2020) to Rs. 2,32,003 crore as on March 31, 2021 (Rs. 2,37,660 crore as on September 30, 2021) from Rs. 2,10,578 crore as on March 31, 2020. As on September 30, 2021, 93.6% of the loan book was towards the retail loan segment and individual home loans accounted for 79.3% 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 89% of the retail portfolio as on September 30, 2021, which is also the highest among its peers.

Diverse funding profile – LICHFL enjoys good financial flexibility with access to diverse 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 (60% of on-book borrowings as on September 30, 2021), which enabled it to maintain a competitive cost of funds. LICHFL's ability to roll over its borrowings will remain a key rating monitorable. ICRA expects LICHFL to continue to tap the debt markets in the near term, given the lower cost of funds. 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. 2,734 crore in FY2021, translating into a return of 1.2% on average assets and 14.1% on average net worth (Rs. 2,402 crore, 1.2% and 13.9%, respectively, in FY2020). The company's net interest margins declined to 2.1% in H1 FY2022 from 2.3% in FY2021 with a decline in yields and the reversal of interest income on the restructured portfolio. Operating expenses increased to 0.5% of average assets in H1 FY2022 from 0.3% in FY2021 owing to a wage revision undertaken by the company. With the deterioration in the asset quality, the credit costs increased to 1.2% of average assets in H1 FY2022 from 0.6% in FY2021. Consequently, the profitability indicators were subdued with LICHFL reporting a net profit of Rs. 401 crore in H1 FY2022, translating into an annualised return of 0.3% on average assets and 3.7% on average net worth. ICRA expects the profitability to remain under pressure, given the increasing pressure on margins owing to stiff competition in the segment and 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 gross non-performing assets (GNPAs) of 4.0% as on March 31, 2021 (2.9% as on March 31, 2020). While the share of the wholesale book was low, slippages have been high with GNPAs of 18% as on March 31, 2021 (17% as on March 31, 2020). The asset quality in the retail segment also deteriorated with an increase in the GNPAs to 2.8% as on March 31, 2021 from 1.8% as on March 31, 2020.

With the second wave of the Covid-19 pandemic, the asset quality deteriorated further in H1 FY2022 and the company reported gross stage 3 assets of 5.1% as on September 30, 2021 (4.1% as on March 31, 2021). Also, LICHFL has restructured loans amounting to Rs. 7,399 crore (3.1% of gross loan portfolio as on September 30, 2021) and the performance of the restructured portfolio remains a monitorable. Given the tough operating environment, 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 CRAR remaining moderate at 15.3% and 13.9%, respectively, as on March 31, 2021. Also, it raised Rs. 2,336-crore equity capital in H1 FY2022, which has helped improve its capitalisation profile to some extent. However, the gearing remains high at 9.0 times as on September 30, 2021 (10.4 times as on March 31, 2021 and 10.8 times as on March 31, 2020). 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.

Liquidity position: Adequate

LICHFL's asset-liability management (ALM) profile (provisional), as on September 30, 2021, had a negative cumulative mismatch of Rs. 12,514 crore in the up to one year bucket, given the long-term nature of assets vis-à-vis liabilities and the high gearing levels. The expected inflows, as per the ALM as on September 30, 2021, stand at Rs. 97,696 crore over the next one year against total outflows of Rs. 85,182 crore 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. 2,159 crore and had Rs. 14,525 crore of sanctioned unutilised lines as on September 30, 2021, which supports its liquidity profile. Further comfort is provided by LICHFL's strong fund-raising ability with ~Rs. 28,165 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 Housing Finance Companies
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 HFCs in India. The company is promoted by Life Insurance Corporation of India (45.24% stake as on September 30, 2021), which also provides regular operational and financial support to LICHFL. As on September 30, 2021, the company had a portfolio of Rs. 2,37,660 crore comprising home loans (79.3%), loan against property (LAP; 14.3%) and developer loans (6.5%).

Key financial indicators (audited)

LIC Housing Finance Limited	FY2020	FY2021	H1 FY2022
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Profit after tax (Rs. crore)	2,402	2,734	401
Net worth (Rs. crore)	18,193	20,521	23,254
Gross managed portfolio (Rs. crore)	2,10,578	2,32,003	2,37,660
Total assets (Rs. crore)	2,16,806	2,34,720	2,39,198
Return on average total assets (%)	1.2%	1.2%	0.3%
Return on average net worth (%)	13.9%	14.1%	3.7%
Gross gearing (times)	10.8	10.4	9.0
Gross stage 3 (%)	3.0%	4.1%	5.1%
Net stage 3 (%)	1.8%	2.6%	3.0%
Solvency (Net stage 3/Net worth)	20.4%	28.8%	29.8%
CRAR (%)	13.9%	15.3%	NA

Source: *Company, ICRA Research; NA – Not available; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
					Nov-29-2021	Nov-30-2020	Oct-07-2019	Sep-14-2018	Jul-04-2018	May-03-2018
1	Commercial paper	Short term	17,500	NA	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

** Amount outstanding as on November 28, 2021;* ***Source:*** *Company*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper Programme	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: www.icra.in

Annexure-1: Instrument details

ISIN/Lender Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE115A14DK4	Commercial paper programme	Nov-12-2021	4.4%	Nov-11-2022	500	[ICRA]A1+
INE115A14DJ6	Commercial paper programme	Nov-08-2021	4.0%	Mar-08-2022	750	[ICRA]A1+
INE115A14DH0	Commercial paper programme	Sep-01-2021	3.9%	May-20-2022	500	[ICRA]A1+
INE115A14DI8	Commercial paper programme	Aug-13-2021	4.1%	Aug-12-2022	975	[ICRA]A1+
INE115A14DH0	Commercial paper programme	Jul-29-2021	4.0%	May-20-2022	675	[ICRA]A1+
INE115A14DG2	Commercial paper programme	Jul-27-2021	3.7%	Jan-24-2022	500	[ICRA]A1+
INE115A14DF4	Commercial paper programme	Jul-26-2021	3.8%	Feb-07-2022	750	[ICRA]A1+
INE115A14DE7	Commercial paper programme	Jul-19-2021	4.1%	Jul-07-2022	1,000	[ICRA]A1+
INE115A14DC1	Commercial paper programme	Jul-14-2021	4.1%	Jun-28-2022	750	[ICRA]A1+
INE115A14DD9	Commercial paper programme	Jul-02-2021	3.8%	Dec-12-2021	1,000	[ICRA]A1+
INE115A14DC1	Commercial paper programme	Jun-29-2021	4.1%	Jun-28-2022	350	[ICRA]A1+
INE115A14DB3	Commercial paper programme	Mar-22-2021	4.3%	Feb-18-2022	750	[ICRA]A1+
INE115A14DA5	Commercial paper programme	Feb-18-2021	4.3%	Feb-14-2022	485	[ICRA]A1+
INE115A14CV3	Commercial paper programme	Dec-28-2020	3.9%	Nov-30-2021	1,250	[ICRA]A1+
INE115A14CU5	Commercial paper programme	Dec-24-2020	3.9%	Dec-14-2021	1,000	[ICRA]A1+
Not applicable	Commercial paper programme - Yet to be issued	-	-	7-365days	6,265	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for limited consolidated analysis – Not Applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545307
sachin.sachdeva@icraindia.com

Prateek Mittal
+91 33 7150 1132
prateek.mittal@icraindia.com

Jitesh Setia
+91 22 6114 3463
jitesh.setia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches