October 07, 2019

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 factor in LIC Housing Finance Limited's (LICHFL) strong franchise and its demonstrated ability to grow in the competitive mortgage finance market, its focus on retail home loans to the salaried segment, its diverse funding profile, and stable profitability indicators (RoMA and ROE[1] of 1.31% and 15.94%, respectively, in FY2019) [2]. The ratings also factor in LICHFL's strong parentage in the form of Life Insurance Corporation of India (LIC), the largest life insurance company in India, which had a 40.31% stake in the company as on June 30, 2019 and the operational managerial and financial support received by LICHFL from LIC. LICHFL's asset quality indicators have deteriorated over the past 18 months with gross stage 3 assets at 1.98% and net stage 3 assets at 1.09% as on June 30, 2019 owing to higher slippages in the construction finance segment. ICRA also takes note of the mismatches in the company's asset liability management (ALM) profile in the short- and medium-term buckets, though the same is within the limits prescribed by the National Housing Bank (NHB). Moreover, the risk is partly mitigated by the company's policy of maintaining adequate unutilised bank lines as a liquidity buffer.

Key rating drivers and their description

Credit strengths

Established franchise in the 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 assets under management (AUM) of Rs. 1,97,768 crore as on June 30, 2019. ICRA takes into consideration the strong franchise of LICHFL with extensive geographic 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 40.31% stake in LICHFL as on March 31, 2019. LIC is the largest insurance provider in India with an asset base of over Rs. 31 lakh crore as on March 31, 2019. 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.

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[1] *RoMA – Return on Managed Assets; ROE – Return on Equity*

[2] *Financial ratios as calculated by the company*

Focus on relatively lower risk individual home loans to salaried segment – LICHFL's loan book grew 15% in FY2019 (vis-à-vis 15% in FY2018) to Rs. 1,94,646 crore as on March 31, 2019 (Rs. 197,768 crore as on June 30, 2019) from Rs. 1,67, 674 crore as on March 31, 2018. As on June 30, 2019, around 93% of the loan book was towards the retail loan segment and individual home loan accounted for 76% of the overall loan book. The share of salaried home loan segment is highest for LICHFL among its peers, which is perceived to be less risky than the self-employed segment. The salaried segment accounted for 86% of the retail portfolio as on June 30, 2019 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. 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. The company has demonstrated its ability to raise funding through commercial paper (CP), non-convertible debentures (NCDs), banks and NHB though the company's overall cost of funds increased marginally during FY2019 with weighted average cost of funds of 8.49% as on March 31, 2019 (8.46% as on June 30, 2019) as compared to 8.31% as on March 31, 2018 owing to tightening of liquidity in the market. As on June 30, 2019, the share of NCDs in its borrowings remained high at 73% followed by 14% share of bank funding. The company also has funding support from LIC which accounted for 9% of the overall borrowings as on March 31, 2019. However, like other HFCs, the company carries an interest rate risk on its portfolio given the relatively higher share of its fixed-rate liabilities vis-à-vis primarily floating-rate assets.

Good profitability indicators[3] – LICHFL's NIMs improved to 2.35% during FY2019 from 2.23% during FY2018 on account of improvement in yields as the company's hiked its prime lending rate by 70 bps during FY2019 which was partially offset by a 11 bps increase in company's cost of funds during the fiscal. Operating expenses and credit costs remained stable during the fiscal at 0.25% and 0.33%, respectively, during FY2019 as compared to 0.27% and 0.31%, respectively, during FY2018. As a result, LICHFL reporting marginally higher RoMA and ROE of 1.31% and 15.94%, respectively, during FY2019 as against 1.24% and 15.82%, respectively, during FY2018.

Credit challenges

Deterioration in asset quality indicators – LICHFL's overall asset quality has been adversely impacted during FY2019 and Q1FY2020. Gross stage 3 and net stage 3 assets deteriorated to 1.98% and 1.09% as on June 30, 2019 (1.53% and 1.07%, respectively, as on March 31, 2019) compared to 0.78% and 0.43%, respectively, as on March 31, 2018 in line with the industry with gross stage 3 assets increasing from 1.0% as on March 31, 2018 to 1.8% as on June 30, 2019. While the share of wholesale book was low, slippages have been high with stage 3 assets of 11.86% as on June 30, 2019 and 7.90% as on March 31, 2018, asset quality in the retail segment also deteriorated with increase in gross NPAs to 1.25% as on June 30, 2019 from 0.42% as on March 31, 2018, in line with the industry trends.

Increasing share of riskier non-home loan book - The share of the non-home loan book has steadily increased over the years to 24% as on June 30, 2019 from 12% as on March 31, 2016, although the share remains lower than HFC average of 38% as on June 30, 2019 and the mix has largely remained stable over the last few quarters. Even within the non-home loan category share of retail LAP is 17% and the remaining 7% is the wholesale book. Share of wholesale is lower than peers, however wholesale book is concentrated with share of top 10 group exposures at 35.2% of the overall wholesale

[3] *Financial ratios as per ICRA calculations*

book and 29.5% as a percentage of net worth as on March 31, 2019. Moreover, the asset quality in the wholesale portfolio remains weak with gross NPA of 11.86% as on June 30, 2019. ICRA also notes that part of this book is currently under moratorium and hence repayment track record is yet to be established.

Short- and medium-term cumulative mismatches, however adequate liquidity given unutilised sanctions, securtisable book and expectation of support from LIC – Given the relatively longer tenure of assets vis-à-vis liabilities, there are cumulative mismatches in LICHFLs liquidity profile, though the gaps are within the regulatory limits prescribed by the NHB. However, ICRA takes comfort from management's policy of maintaining adequate unutilised funding lines and cash balances and LICHFL's ability to raise funds through non-convertible debentures (NCDs) and the commercial paper market at short notice. The company has additional liquidity cushions as it has a seasoned securitisable book given high share of retail home loans to salaried segment and ICRA's expectation of funding support to be forthcoming from LIC in case of need. ICRA also takes comfort from the franchise of the company and its demonstrated ability to raise public deposits which support the overall funding profile.

Moderate economic capitalisation indicators - Notwithstanding LICHFL's ability to raise equity, its gearing levels were relatively high at 10.87 times as on March 31, 2019. The company's regulatory capital adequacy was within statutory limits with Tier I and CRAR remaining moderate at 12.30% and 14.36%, respectively, as on March 31, 2019, supported by the low-risk weight on home loans, which form a sizeable share of LICHFL's portfolio, however company would need to raise additional capital to meet the revised NHB norms and to improve the economic capitalisation levels given the increasing share of non-home loan book in its portfolio.

Liquidity position: Adequate

The company has negative cumulative mismatches in the short and medium-term buckets owing to long term nature of assets vis-à-vis its liabilities and high gearing levels. The company had Rs. 28,384 crore debt maturing till December 31, 2019. However, the company had unutilised funding lines from banks to the tune of Rs. 9,435 crore and cash and liquid balances of Rs. 1,149 crore as on June 30, 2019. The company also had a book overdraft of Rs. 2,500 crore as on June 30, 2019 on account of cheques issued but not drawn. The company has strong fund raising ability with Rs. 10,610 crore raised through CP and Rs. 8,754 crore raised though NCD route at competitive rates in FY2020 till date. The company can also raise additional funding of up to 15% of its net worth and long term borrowings from LIC and has the ability to raise funding through securitisation route given high share of retail home loans to the salaried segment.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Given short- and medium-term cumulative mismatches in the ALM of the company, any deterioration in the ability of the company to raise fresh funding or inadequate support from the parent will remain as key rating sensitivities.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

About the company

LICHFL was promoted by LIC in 1989 with the aim of entering the mortgage finance business. LIC holds a 40.31% stake in the company and also provides regular operational and financial support to the mortgage lender. LICHFL is the second-largest HFC in India, at present. As on June 30, 2019, LICHFL had a portfolio outstanding of Rs. 1,97,768 crore comprising retail (93.1%) and developer (6.9%) loans.

During FY2019, LICHFL reported total income of Rs. 17,362 crore and had an asset base of Rs. 2,00,583 crore compared to total income of Rs. 14,841 crore and had an asset base of Rs. 1,71,090 crore in FY2018. The company's profit after tax stood at Rs. 2,431 crore during FY2019 compared to Rs. 2,003 crore during FY2018. LICHFL's net worth as on March 31, 2019 was Rs. 16,259 crore. Its gross and net NPAs stood at 1.98% and 1.09%, respectively, as on June 30, 2019.

Key financial indicators (audited)

	FY2018	FY2019
Total income	14,841	17,362
Profit after tax	2,003	2,431
Net Worth	14,241	16,259
Total managed portfolio	1,66,162	1,92,993
Total assets	1,71,090	2,00,583
RoMA%	1.24%	1.31%
ROE%	15.82%	15.94%
Gearing (times)	10.63	10.87
% Gross Stage 3	0.81%	1.58%
% Net Stage 3	0.27%	0.80%
Net Stage 3/Net worth (%)	3.15%	9.54%
CAR (%)	15.49%	14.36%

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018	FY2017
					07-Oct-2019	14-Sep-2018	4-Jul-2018	3-May-2018	4-Oct-2017	-
1	Commercial Paper	Short Term	17,500	8710	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	17,500	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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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.

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