November 27, 2023

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	17,500.00	17,500.00	[ICRA]A1+; reaffirmed
Total	**17,500.00**	**17,500.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in LIC Housing Finance Limited's (LICHFL) 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 and is the largest housing finance company in India with assets under management (AUM) of Rs. 2,77,987 crore as on September 30, 2023. Further, it remains focused on retail home loans to the salaried segment. As on September 30, 2023, 94.2% of the loan book was towards the retail loan segment and individual home loans accounted for 84.4% of the overall loan book. The rating also considers the company's diversified funding profile and good financial flexibility with access to various sources of funds at competitive rates. The rating factors in LICHFL's 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, 2023, and the operational, managerial and financial support received from LIC.

ICRA also notes the company's high gearing level and moderate profitability. Moreover, LICHFL's asset quality indicators, which deteriorated over the last couple of years, remained moderate with the gross stage 3 assets (GS3) at 4.3% as on September 30, 2023 (4.9% as on September 30, 2022; 5.1% as on September 30, 2021 and 2.8% as on September 30, 2020). 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 and is the largest housing finance company in India with an AUM of Rs. 2,77,987 crore as on September 30, 2023. 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, 2023. LIC is the largest insurance provider in India with an asset base of over Rs. 48 lakh crore as on September 30, 2023. 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 by 10% in FY2023 (vis-à-vis 8% in FY2022) to Rs. 2,75,047 crore as on March 31, 2023 (Rs. 2,77,987 crore as on September 30, 2023) from Rs. 2,51,120 crore as on March 31, 2022 (Rs. 2,62,336 crore as on September 30, 2022). As on September 30, 2023, 94.2% of the loan book was towards the retail loan segment and individual home loans accounted for 84.4% 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, 2023, 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 (57% of on-book borrowings as on September 30, 2023), 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. 2,891 crore in FY2023, translating into a return of 1.1% on average managed assets (AMA) and 11.2% on average net worth (Rs. 2,287 crore, 0.9% and 10.1%, respectively, in FY2022). The net interest margin increased to 3.0% in H1 FY2024 from 2.3% in FY2023. This was due to the increase in the prime lending rate by the company in light of the systemic rise in interest rates while the cost of funds has not increased proportionately, given the relatively higher share of floating rate assets vis-à-vis liabilities. Operating expenses remained largely stable at 0.3% of average assets in H1 FY2024 (0.3% in FY2023). While the credit cost declined to 0.5% of average assets in H1 FY2024 from 0.7% from FY2023, it remains elevated in light of asset quality pressure. Consequently, the profitability indicators, while improving, remained moderate with LICHFL reporting a net profit of Rs. 2,512 crore in H1 FY2024, translating into an annualised return of 1.8% on average assets and 17.9% 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.

Moderate asset quality indicators – LICHFL's asset quality indicators, which deteriorated over the last couple of years, remained moderate with the GS3 at 4.3% as on September 30, 2023 (4.4% as on March 31, 2023; 4.6% as on March 31, 2022). While the share of the wholesale book was low, slippages have been high with GS3 of ~45% as on March 31, 2023 (~32% as on March 31, 2022). Also, LICHFL has standard restructured loans outstanding amounting to Rs. 3,829 crore (1.4% of gross loan portfolio as on September 30, 2023), the performance of which 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 – LICHFL's regulatory capital adequacy was within the statutory limits with the Tier I and capital-to-risk weighted assets ratio (CRAR) remaining moderate at 16.6% and 18.2%, respectively, as on March 31, 2023, supported by the low risk weight on home loans, which form a sizeable share of the portfolio. However, the gearing remained high at 8.5 times as on September 30, 2023 (9.2 times as on March 31, 2023 as well as March 31, 2022). 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 scale up its operations further 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

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.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as 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 September 30, 2023, had a negative cumulative mismatch of Rs. 11,623 crore in the up to one year bucket, given the long-term nature of the assets vis-à-vis the liabilities and the high gearing level. The expected inflows, as per the ALM as on September 30, 2023, stand at Rs. 91,247 crore (including inflows from lines committed by other institutions) for the next one year against total outflows of Rs. 1,02,870 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. 5,773 crore and had Rs. 16,471 crore of sanctioned unutilised lines as on September 30, 2023, which supports its liquidity profile. Further comfort is provided by LICHFL's strong fund-raising ability with Rs. 1,06,993 crore raised through various instruments at competitive rates in FY2023 (Rs. 30,832 crore in Q1 FY2024). 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. LICHFL's liquidity coverage ratio of 186% for the quarter ended September 30, 2023 was well above the regulatory requirement of 60%.

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, 2023), which also provides regular operational and financial support. As on September 30, 2023, the company had a portfolio of Rs. 2,77,987 crore comprising individual home loans (84%), non-housing individual/corporate loans (loan against property (LAP); 13%) and developer loans (3%).

Key financial indicators (audited)

LIC Housing Finance Limited	FY2021	FY2022	FY2023	H1 FY2024*
Total income	19,848	19,953	22,674	13,505
Profit after tax	2,734	2,287	2,891	2,512
Net worth	20,521	24,672	27,101	29,140
Gross loan portfolio	2,32,003	2,51,120	2,75,047	2,77,987
Total assets	2,35,633	2,54,567	2,78,412	2,81,803
Total managed assets	2,39,533	2,60,407	2,85,642	2,88,315
Return on average managed assets	1.2%	0.9%	1.1%	1.8%
Return on average net worth	14.1%	10.1%	11.2%	17.9%
Gross gearing (times)	10.4	9.2	9.2	8.5
Gross stage 3 assets	4.1%	4.6%	4.4%	4.3%
Net stage 3 assets	2.6%	2.7%	2.5%	2.6%
Capital-to-risk weighted assets ratio	15.3%	18.1%	18.2%	NA

Total managed assets = Total assets + Impairment allowance; NA – Not available; Amount in Rs. crore

*Source: Company, ICRA Research; * Provisional numbers and ratios are return ratios are annualised basis Mar-23 figures; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Oct-31-2023* (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov-27-2023	Nov-28-2022	Nov-29-2021	Nov-30-2020
1	Commercial paper	Short term	17,500	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**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

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Commercial paper – Yet to be issued**	NA	NA	NA	17,500	[ICRA]A1+

Source: Company; NA – Not applicable

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

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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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