November 26, 2024

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 established track record in the housing finance business. LICHFL is the largest housing finance company (HFC) in India with assets under management (AUM) of Rs. 2,94,588 crore as on September 30, 2024. Further, it remains focused on retail home loans to the salaried segment. As on September 30, 2024, 97.0% of the loan book was towards the retail loan segment with individual home loans accounting for 85.2% 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, 2024, 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, though improving, remained moderate with the gross stage 3 assets (GS3) at 3.1% as on September 30, 2024 (4.3% as on September 30, 2023, 4.9% as on September 30, 2022 and 5.1% as on September 30, 2021).

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 HFC in India with AUM of Rs. 2,94,588 crore as on September 30, 2024. ICRA has taken into consideration the company's strong franchise and extensive geographical presence. However, ICRA notes that LICHFL faces competition from banks and leading HFCs, primarily while lending to the salaried borrower segment.

LIC, a state-owned insurance and investment company, had a 45.2% stake in LICHFL as on September 30, 2024. LIC is the largest insurance provider in India with an asset base of over Rs. 56 lakh crore as on September 30, 2024. 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 aids sourcing, brand sharing and funding.

Focus on relatively lower risk individual home loans to salaried segment – LICHFL's loan book grew by 6% YoY to Rs. 2,94,588 crore as on September 30, 2024 (4% growth in FY2024 to Rs. 2,86,844 crore as on March 31, 2024, with focus remaining on retail loan segment). As on September 30, 2024, 97.0% of the loan book was towards the retail loan segment with individual home loans accounting for 85.2% of the overall loan book. The share of the salaried home loan segment is the highest for LICHFL among peers, which is expected to be less risky than the self-employed segment. The salaried segment accounted for 88% of the retail portfolio as on September 30, 2024, which is also the highest among 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 sector 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 paper (CP), non-convertible debentures (NCDs), banks and National Housing Bank (NHB), partially mitigating the risks emerging from asset-liability management (ALM) mismatches.

A major portion of the company's funding is from debt market borrowings (58% of on-book borrowings as on September 30, 2024), which enabled it to maintain a competitive cost of funds. However, like other 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 and asset quality – LICHFL reported a net profit of Rs. 4,765 crore in FY2024, translating into a return of 1.6% on average managed assets (AMA) and 16.3% on average net worth (Rs. 2,891 crore, 1.1% and 11.2%, respectively, in FY2023). The net interest margin compressed to 2.6% in H1 FY2025 from 2.9% in FY2024 on account of the systemic rise in interest rates and increasing competition. While operating expenses remained largely stable at 0.3% of AMA in H1 FY2025 (0.3% in FY2024), credit costs declined to 0.1% in H1 FY2025 from 0.6% in FY2024 on account of the improving asset quality indicators. Consequently, the profitability indicators, while improving, remained moderate with LICHFL reporting a net profit of Rs. 2,629 crore in H1 FY2025, translating into an annualised return of 1.7% on AMA and 16.2% 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.

LICHFL's asset quality indicators, though improving, remained moderate with the GS3 at 3.1% as on September 30, 2024 (3.3% as on March 31, 2024; 4.4% as on March 31, 2023). While the share of the wholesale book was low, the asset quality remains weak in the segment with GS3 of ~29% as on September 30, 2024 (~36% as on March 31, 2024; 45% as on March 31, 2023). Also, LICHFL has standard restructured loans of Rs. 2,978 crore (0.7% of gross loan portfolio as on September 30, 2024), the performance of which remains a 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 19.2% and 20.8%, respectively, as on March 31, 2024, supported by the low risk weight on home loans, which form a sizeable part of the portfolio. However, the gearing remained high at 7.8 times as on September 30, 2024 (8.2 times as on March 31, 2024 and 9.2 times as on March 31, 2023). The company had last raised Rs. 2,336-crore equity capital in H1 FY2022, which had helped improve its capitalisation profile to some extent.

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 ALM profile (provisional), as on September 30, 2024, had a negative cumulative mismatch of Rs. 14,691 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, 2024, stand at Rs. 1,02,741 crore (including inflows from lines committed by other institutions) for the next one year against total outflows of Rs. 1,17,432 crore (including loan commitments pending disbursal) during this period. The company's ability to roll over its borrowings will remain a key rating monitorable. It has demonstrated its ability to raise funds through CP, NCDs, banks and NHB, partially mitigating the risks emerging from ALM mismatches.

The company held free on-book liquidity of Rs. 6,779 crore and had Rs. 14,550 crore of sanctioned unutilised lines as on September 30, 2024, which also supports its liquidity profile. Further comfort is provided by LICHFL's strong fund-raising ability with Rs. 96,648 crore raised through various instruments at competitive rates in FY2024 (Rs. 50,549 crore in Q1 FY2025). The company can also raise funds 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 197% for the quarter ended September 30, 2024 was well above the regulatory requirement of 70%.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A material change in support from the parent could adversely impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating methodology for non-banking 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 housing finance companies (HFCs) in India. It is promoted by Life Insurance Corporation of India (45.2% stake as on September 30, 2024), which also provides operational and financial support. As on September 30, 2024, the company had a portfolio of Rs. 2,94,588 crore comprising individual home loans (85%), non-housing individual/corporate loans (loan against property (LAP); 12%) and developer loans (3%).

Key financial indicators (audited)

LIC Housing Finance Limited	FY2022	FY2023	FY2024	H1 FY2025*
Total income	19,953	22,674	27,235	13,716
Profit after tax	2,287	2,891	4,765	2,629
Total managed assets	2,60,407	2,85,642	2,97,475	3,04,656
Return on average managed assets	0.9%	1.1%	1.6%	1.7%
Gross gearing (times)	9.2	9.2	8.2	7.8
Gross stage 3 assets	4.6%	4.4%	3.3%	3.1%
Capital-to-risk weighted assets ratio	18.1%	18.2%	20.8%	NA

Source: Company, ICRA Research; Amount in Rs. crore; Total managed assets = Total assets + Impairment allowance; NA – Not available

** Limited review numbers and ratios are return ratios, which have been annualised basis Mar-24 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Nov 26, 2024	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short Term	17,500	[ICRA]A1+	27-Nov-23	[ICRA]A1+	28-Nov-22	[ICRA]A1+	29-Nov-21	[ICRA]A1+

ICRA Research

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

ANALYST CONTACTS

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

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 7150 1100
prateek.mittal@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Jatin Arora
+91 124 4545 846
jatin.arora@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