November 30, 2020

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 40.31% stake in the company as on September 30, 2020 and the operational, managerial and financial support received by LICHFL 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 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. 2,13,349 crore as on September 30, 2020. Further, the company remains focused on retail home loans to the salaried segment. As on September 30, 2020, around 93% of the loan book was towards the retail loan segment and individual home loan accounted for 76.5% of the overall loan book. The rating also factors in the diversified funding profile and good financial flexibility with access to diverse sources of funds at competitive rates. ICRA also notes the high gearing levels and moderate profitability of the company. Also, LICHFL's asset quality indicators have deteriorated over the last two years with gross stage 3 assets at 2.79% as on September 30, 2020 (2.38% as on September 30, 2019; 1.27% as on September 30, 2018), largely owing to higher slippages in the construction finance segment. Given the tough operating environment, the company's ability to arrest further slippages and improve its asset quality indicators, especially in the non-home loan book, will be under focus.

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. 2,13,349 crore as on September 30, 2020. ICRA has taken into consideration the strong franchise of LICHFL with 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 40.31% stake in LICHFL as on September 30, 2020. LIC is the largest insurance provider in India with an asset base of over Rs. 32 lakh crore as on September 30, 2020. 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 FY2020 (vis-à-vis 16% in FY2019) to Rs. 2,10,578 crore as on March 31, 2020 (Rs. 2,13,349 crore as on September 30, 2020) from Rs. 1,94,646 crore as on March 31, 2019. As on September 30, 2020, around 93% of the loan book was towards the retail loan segment and individual home loan accounted for 76.5% of the overall loan book. The share of 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 87% of the retail portfolio as on September 30, 2020 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 papers (CP), non-convertible debentures (NCDs), banks and national housing bank (NHB). As on September 30, 2020, the share of NCDs in its borrowings remained high at 60% followed by 23% share of bank funding. The company also has funding support from LIC, which accounted for 9% of the overall borrowings as on March 31, 2020. 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 its primarily floating-rate assets.

Credit challenges

Moderate profitability – The company's net interest margins remained largely stable at 2.31% in FY2020 (2.35% in FY2019). The operating expenses remained stable at 0.30% of AMA in FY2020 (0.25% in FY2019), while the credit costs increased as its asset quality deteriorated. In spite of an increase, the credit costs remain low. The credit costs increased to 0.48% of AMA in FY2020 from 0.33% in FY2019. The company reported a net profit of Rs. 2,402 crore in FY2020 (Rs. 2,431 crore in FY2019), translating into a return of 1.15% of AMA and 13.94% of the average net worth in FY2020 against 1.31% and 15.94%, respectively, in FY2019. The company reported a net profit of Rs. 1,608 crore in H1 FY2021 (Rs. 1,377 crore in H1 FY2020), translating into an annualised return of 16.93% of the average net worth (16.47% in H1 FY2020).

Deterioration in asset quality indicators – LICHFL's overall asset quality has been deteriorating with the company reporting gross NPAs of 2.86% and net NPAs of 1.99% as on March 31, 2020 (1.54% and 1.08%, respectively as on March 31, 2019). While the share of the wholesale book was low, slippages have been high with gross NPAs of 17% as on March 31, 2020. The asset quality in the retail segment also deteriorated with an increase in gross NPAs to 1.8% as on March 31, 2020 from 1.1% as on March 31, 2019, in line with the industry trends. The gross stage-3 assets were reported at 2.79% as on September 30, 2020 (2.38% as on September 30, 2019; 1.27% as on September 30, 2018). Given the tough operating environment, the company's ability to arrest further slippages and improve its asset quality indicators, especially in the non-home loan book, will be key rating factors.

High gearing levels – The gearing levels remained high at 10.82 times as on March 31, 2020 (10.87 times as on March 31, 2019). Nevertheless, the company's regulatory capital adequacy was within the statutory limits with Tier I and CRAR remaining moderate at 12.19% and 13.89%, respectively, as on March 31, 2020, supported by the low-risk weight on home loans, which form a sizeable share of LICHFL's portfolio. However, the company would need to raise additional capital to meet the revised NHB norms and to improve the capitalisation levels while further scaling up its operations.

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

Liquidity position: Adequate

The company has negative cumulative mismatches in the short and medium-term buckets owing to the long-term nature of the assets vis-à-vis its liabilities and high gearing levels. The asset liability management (ALM) profile as on June 30, 2020 of LICHFL had a negative cumulative mismatch of ~Rs. 8,567 crore in up to one-year bucket. As on September 30, 2020, the company held ~Rs. 8,977 crore of unencumbered cash, bank balances and liquid investments and had ~Rs. 14,325 crore of sanctioned unutilised bank lines against scheduled debt obligations of Rs. 38,769 crore till March 31, 2021. The company has strong fund raising ability with ~Rs. 27,931 crore raised through various instruments at competitive rates in H1 FY2021. 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 triggers – Not applicable

Negative triggers – Any deterioration in the ability of the company 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	ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	Parent/Investor: Life Insurance Corporation of India ICRA factors in the strategic importance of LICHFL to LIC of India, 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 in India. The company is promoted by Life Insurance Corporation of India (a 40.31% stake as on September 30, 2020), which also provides regular operational and financial support to LICHFL. As on September 30, 2020, the company had a portfolio of Rs. 2,13,349 crore comprising home loans (76.5%), loan against property (LAP; 16.3%) and developer loans (7.2%).

Key financial indicators (audited)

	Ind-AS FY2019	Ind-AS FY2020
Profit after tax (PAT; Rs. crore)	2,431	2,402
Net worth (Rs. crore)	16,259	18,193
Assets under management (Rs. crore)	1,94,646	2,10,578
% PAT / Average managed assets	1.31%	1.15%
% PAT / Average net worth	15.94%	13.94%
% Gross NPA	1.54%	2.86%
% Net NPA	1.08%	1.99%
% Capital adequacy ratio	14.36%	13.89%
Gearing	10.87	10.82

Source: Company & ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating				Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated	Amount Outstanding	FY2021 Nov-30-2020	FY2020 Oct-07-2019	FY2019 Sep-14-2018	Jul-04-2018	May-03-2018	FY2018 Oct-04-2017
1	Commercial paper	Short Term	17,500	NA	[ICRA]A1+	[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 programme	NA	NA	7-365 days	17,500	[ICRA]A1+

Source: Company

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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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