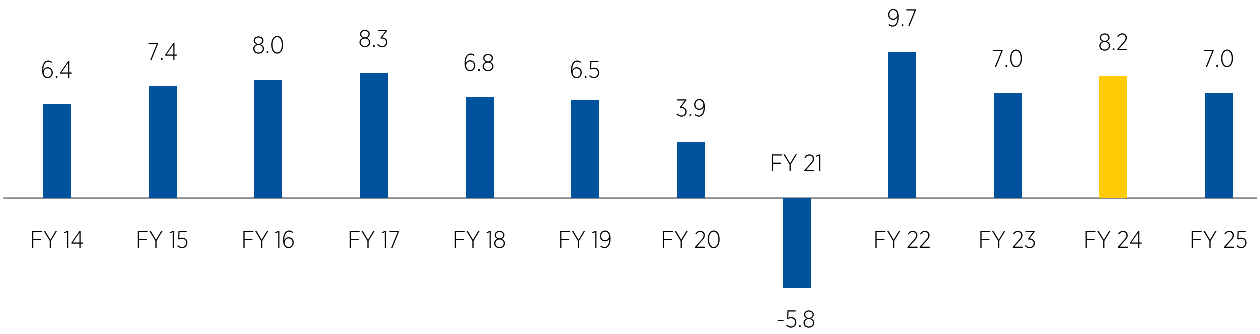
MANAGEMENT DISCUSSION & ANALYSIS

MACROECONOMIC OUTLOOK

In 2023, the Indian economy achieved remarkable growth, surpassing many developed economies globally. While many developed nations experienced economic slowdowns, persistent energy shortages, high inflation, and aging populations, India emerged as one of the world's fastest-growing economies. India's Gross Domestic Product (GDP) has grown to USD 3.75 trillion in 2023, up from approximately USD 2 trillion in 2014, propelling the nation from the world's 10th largest economy to the 5th largest. In FY 2023-24, the Indian economy is estimated to have grown by 7.6%, as compared to the 7.0% growth recorded in FY 2022-23, according to the second advance estimates from the National Statistical Office (NSO).

Indian GDP Growth (%)



Source: NSO estimates dated 29th February, 2024

RBI (Reserve Bank of India) MPC (Monetary Policy Committee) report dated 5th April, 2024

India's economy has witnessed robust growth, driven by strong domestic demand and robust expansion across various sectors. Gross Value Addition (GVA) growth is expected to reach 6.9% in FY 2023-24, an increase from 6.7% in FY 2022-23, reflecting broad-based improvements across the economy. The strong performances in the construction and manufacturing sectors have driven overall economic momentum in India. The construction sector recorded a double-digit growth rate of 10.7%, while the manufacturing sector's performance was also a key contributor to the GDP growth in FY 2023-24, with an expected growth rate of 8.5%, compared to a 2.2% contraction in the previous year. However, the agriculture sector faced some challenges, with an estimated growth of 0.7% in FY 2023-24, down from 4.7% in FY 2022-23, due to a moderate kharif harvest and a slow start to the Rabi sowing season. The services sector is estimated to expand by 7.5% in FY 2023-24, a moderation from the 9.4% growth achieved in FY 2022-23. The country's merchandise exports faced some challenges during the year, but the consistent performance of service exports had strengthened India's economic position.

In FY 2023-24, credit growth has significantly grown in both the industrial and retail sectors, signaling positive economic progress. Additionally, the return of foreign portfolio investors has further enhanced the positive outlook. Gross Non-Performing Assets (GNPAs) for Scheduled Commercial Banks (SCBs) declined by 21.1% year-over-year to ₹ 4.85 lakh crore as of 31st December, 2023, mainly due to lower slippages, steady recoveries, and write-offs. Public Sector Banks (PSBs) saw a 27.7% reduction in GNPAs to ₹ 3.61 lakh crore. The improvement in asset quality and reduction in non-performing assets indicates a healthier banking sector, setting a positive backdrop for FY 2024-25, where total receipts (excluding borrowings) are estimated at ₹ 30.80 lakh crore and total expenditure at ₹ 47.66 lakh crore, with tax receipts expected to be ₹ 26.02 lakh crore.

Innovative technology solutions have played a key role in improving financial inclusion in India, with digital payments like UPI (Unified Payments Interface), formal credit through account aggregator networks, and online tax platforms such as FASTag leading the way. The volume of digital payment transactions has seen tremendous growth, increasing from 2,071 crore in FY 2017-18 to 13,462 crore in FY 2022-23, representing an impressive Compound Annual Growth Rate (CAGR) of 45%. As of 11th December, 2023, digital payment transactions had already reached 11,660 crore, demonstrating the sustained momentum of digital payment adoption. Furthermore, the government's interim Union Budget for FY 2024-25, with its allocation of ₹ 1 lakh crore for technology financing, aligns with India's vision for continued technological innovation and progress.

The Government's commitment to structural reforms that encourage private investment has been instrumental in boosting investor confidence. Overall, these developments suggest a favorable environment for investment and growth. India's Gross Fixed Capital Formation (GFCF), a key investment indicator, accounted for around 34.1% of GDP in FY 2023-24, an increase from the 33.3% share in FY 2022-23, reflecting a greater focus on investment in the economy. Despite broader economic challenges, the government continued to prioritise capital expenditure and infrastructure spending. Meanwhile, private investment had also begun to rebound, largely due to improved balance sheets among banks and companies, indicating a healthier financial environment.

The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) held the policy repo rate steady at 6.5% during FY 2023-24 while maintaining a 'withdrawal of accommodation' stance. The RBI reiterated its goal to keep headline inflation at 4% and projected an inflation rate of 5.4% for FY 2023-24.

India's economic resilience was supported by strong Goods and Services Tax (GST) collections, consistent bank credit growth, and a positive Purchasing Managers' Index (PMI). Gross GST revenue for FY 2023-24 reached ₹ 20.18 trillion, an 11.7% increase from the previous year. As of 16th February, 2024, India's foreign exchange reserves had grown to USD 616 billion.

OUTLOOK

In FY 2024-25, private consumption is set to increase due to a favorable rabi crop and anticipated strong kharif production, driven by a likely above-normal southwest monsoon. The government's commitment to supporting farmers is evident in a significant budget allocation increase for agriculture, rising from ₹ 1.4 lakh crore during the 2007-2014 period to ₹ 7.3 lakh crore from 2014 to 2025. This substantial funding growth has reflected the government's farmer-centric approach and its efforts to boost the agricultural sector.

The rise in government capital expenditure is projected to stimulate economic growth, drive up consumer spending, and enhance infrastructure across the country. The government plans to raise capital expenditure to ₹ 11.1 lakh crore for FY 2024-25, up from ₹ 10 lakh crore allocated for FY 2023-24, indicating a strong commitment to promoting economic development and establishing a robust infrastructure framework.

The gradual reduction in India's fiscal deficit has further improved the government's financial stability. The fiscal deficit target for FY 2024-25 has been lowered to 5.1%, down from the previous target of 5.8% for FY 2023-24. This anticipated reduction indicates a shift toward greater fiscal discipline and suggests that the government is effectively managing its budgetary resources.

The economy's inherent strength, alongside recent reforms, has laid a strong foundation for sustained long-term growth. The Reserve Bank of India (RBI) forecasts India's GDP to grow by 7% in FY 2024-25, with an estimated inflation rate of 4.5% for the same period. This expected growth trajectory, coupled with a reduction in overall inflation, suggests that India is on track to become the world's third-largest economy by 2030.

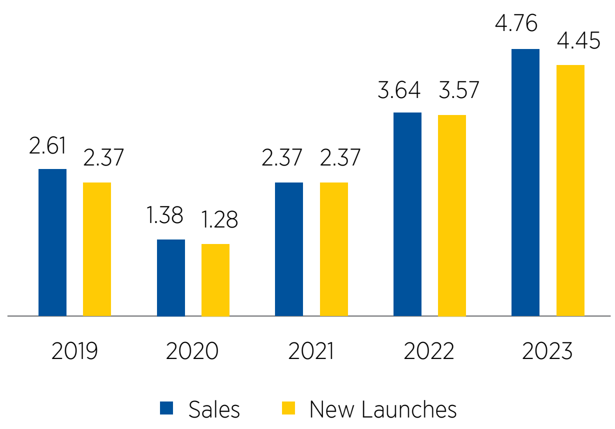
Source: PIB

INDUSTRY OUTLOOK

REAL ESTATE AND HOUSING SECTOR

Residential real estate sales in 2023 reached their highest level in last 15 years, even though concerns about inflation, high interest rates, and slowing economic growth persisted, but these factors did not substantially impact the market's underlying fundamentals. The total residential sales across the top seven cities in 2023 reached 4.76 lakh units, up from 3.64 lakh units in 2022, marking a 31% increase YoY. The rapid expansion across the real estate sector was fueled by policy reforms, increased consumer confidence, higher disposable incomes, and growing demand for bigger living spaces. Increased investment activity has also spurred growth across all asset classes, including commercial, retail, warehousing, and residential properties.

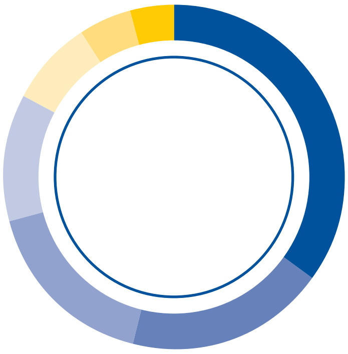
Total Sales and New launches in India (in Lakh Units)



Source: Anarock Indian Residential Real Estate Annual Report 2023

In 2023, the top seven cities experienced a 25% increase in new housing supply compared to the previous year. About 4.45 lakh new units were launched in 2023, up from over 3.57 lakh units in 2022. However, the total number of new launches in 2023 remained below the record high of 2014, when more than 5 lakh units were introduced in the top seven cities. The Mumbai Metropolitan Region (MMR) and Pune accounted for nearly 54% of these new launches, leading the way in overall residential market growth. Hyderabad closely followed with a 17% share among the newly launched housing units. Chennai, which held only a 5% share of the total new supply, recorded over 100% YoY growth in new unit launches, while the National Capital Region (NCR) saw a 45% YoY increase.

Supply – CityWise (%)



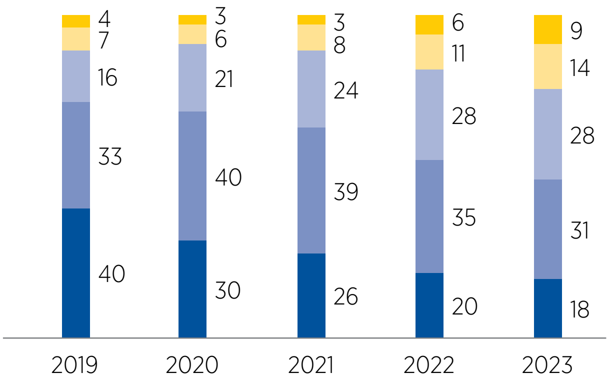
■ **35%** MMR ■ **19%** Pune ■ **17%** Hyderabad ■ **12%** Bengaluru

■ **8%** NCR ■ **5%** Central ■ **4%** Kolkata

Source: Anarock Indian Residential Real Estate Annual Report 2023

In 2023, most new residential launches were in the budget range of ₹ 40 lakh – ₹ 80 lakh, constituting about 31% of the total new supply across the top seven cities; however, this share was lower than the 35% recorded in the previous year. The high-end segment, priced between ₹ 80 lakh and ₹ 1.5 crore, accounted for 28% of all new supply in 2023.

Supply – By Income Segments (%)



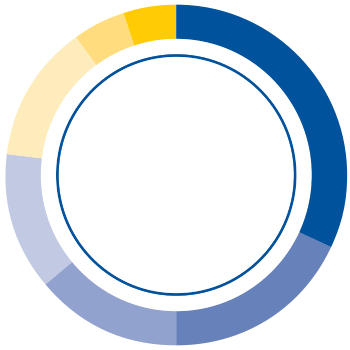
■ Affordable ■ Mid-end ■ High-end ■ Luxury ■ Ultra Luxury

Source: Anarock Indian Residential Real Estate Annual Report 2023

The real estate developers have responded to the growing demand for luxury projects, leading to a significant increase in launches in the luxury and ultra-luxury segments. These premium categories accounted for almost 23% of new launches in 2023, up from 17% in 2022. In contrast, affordable housing experienced moderation, comprising about 18% of total new launches in 2023, down from 20% in 2022.

The MMR and Pune led in sales, accounting for half of the sales across the top seven cities in 2023. MMR recorded the highest sales with about 1,53,870 units sold in 2023, while Pune followed with around 86,680 units. The NCR saw sales exceeding 65,600 units, contributing 14% of the total, despite fewer new launches during 2023.

Sales – CityWise (%)



■ **32%** MMR ■ **18%** Pune ■ **14%** NCR ■ **13%** Bengaluru

■ **13%** Hyderabad ■ **5%** Kolkata ■ **5%** Chennai

Source: Anarock Indian Residential Real Estate Annual Report 2023

Residential property prices across the top 7 cities have seen significant growth in response to rising demand. During the year, prices have appreciated between 10% and 24%, mainly due to increased construction costs and strong buyer demand.

Hyderabad experienced the most substantial price hike, with a 24% increase from ₹ 4,620 per square feet in 2022 to ₹ 5,750 per square feet at the end of 2023. Bengaluru experienced an 18% YoY increase in property prices, while both the MMR and the NCR saw a 15% rise in 2023. Other cities also reported price hikes, with Pune up by 13%, Chennai by 12%, and Kolkata by 10% during the year.

In 2023, housing sales continued to outpace new supply for the second consecutive year, reducing available inventory by 5%. About 6 lakh housing units were available across the top 7 cities, down from 6.30 lakh units at the end of 2022. The mid-end and affordable segments held the largest share of available inventory, followed by the high-end segment. Such trends indicate a more balanced real estate market, with improved inventory management and a positive outlook for sustained growth in the coming years.

KEY EMERGING GROWTH DRIVERS

The residential real estate market in India is evolving rapidly, reflecting the broader changes in the country. Here are the key trends shaping the sector:

- **Rise of Low-Density Housing and Luxury Housing:** There has been growing demand for low-density housing, including villas, townhouses, and plotted developments.

Such housing promotes sustainability and provides a quiet alternative to crowded urban areas. Around 33% of high-net-worth individuals (HNIs) and ultra-high-net-worth individuals (UHNIs) are willing to spend over ₹ 10 crore for such properties. In response to this trend, developers are launching carefully designed low-density projects that focus on open spaces, lush greenery, and a sense of exclusivity. Thus, the luxury housing market is expanding as more buyers seek exclusive properties with top-tier amenities. The luxury home sales in India increased by 130% in the first half of 2023 compared to the previous year. The real estate developers are responding with high-end projects offering unique amenities and design features to attract this segment.

- **Technological Advancement:** The residential real estate sector has been incorporating more technology to improve convenience and security. Smart homes with IoT (Internet of Things) devices and AI (Artificial Intelligence)-powered systems are gaining popularity, enhancing the living experience. The smart home market in India is expected to reach USD 6.5 billion in 2024. Additionally, India is expected to have 442 million smart homes by 2025, indicating a strong trend toward tech-savvy living environments.
- **Rising Preference for Homeownership:** The COVID-19 pandemic has shifted attitudes toward homeownership, with more people opting to buy rather than rent. This change reflects a desire for stability and personalised living spaces. As a result, there's a growing recognition of the intrinsic value of homeownership, providing a stronger sense of security and stability during uncertain times.
- **Rising Demand for Housing in Tier 2 Cities:** Tier 2 cities are becoming real estate growth hubs as people seek more stable and affordable living options. These cities are attracting significant investment and experiencing rapid infrastructure expansion, driven by the government's push for smart cities and policies that support township development. A report by Cushman and Wakefield indicates that Tier-2 cities like Bhubaneswar, Coimbatore, Indore, Jaipur, Kochi, Lucknow, Nagpur, Surat, Thiruvananthapuram, and Visakhapatnam have become attractive hubs for real estate development.
- **Government Support:** The government has made significant progress under the Prime Minister Awas Yojana – Gramin (PMAY Rural) program, with nearly 3 crore houses built as part of the initial target. Moreover, under the Interim Budget for FY 2024-25, an additional 2 crore homes under the same scheme have been announced, bringing the total to 5 crore homes. These new homes are expected to be completed within the next 5 years till 2029.

The demand for residential properties in India continues to rise, driven by various factors such as changing demographics, technology, and post-pandemic trends. Developers and policymakers are adapting to these changes, ensuring the real estate market's sustained growth and inclusivity.

Source: PIB

HOUSING FINANCE INDUSTRY – STRUCTURE & DEVELOPMENT

Housing Finance Companies (HFCs) play a crucial role in India's financial system, providing essential funding to the housing sector. This is reflected in the uptick in individual housing loans and the disbursement of funds by Primary Lending Institutions (PLIs), signaling a robust recovery in housing credit. HFCs have driven this growth by adapting to market changes and continuing to meet the housing finance needs of a growing population. The ongoing support of HFCs has helped create a more stable and accessible housing market, mirroring their significance within the broader financial landscape.

As of 30th June, 2023, a total of 97 HFCs were registered in India. The Individual Housing Loan Portfolio of PLIs saw a notable annual growth rate of 14.9% during FY 2022-23. By the end of March 2023, the Individual Housing Loan portfolio of HFCs had expanded by 15.3%, reaching a total of ₹ 9,28,542 crore. This significant growth in individual housing loans demonstrates the strong performance of HFCs in supporting the housing finance sector and reflects the continued demand for housing credit in India.

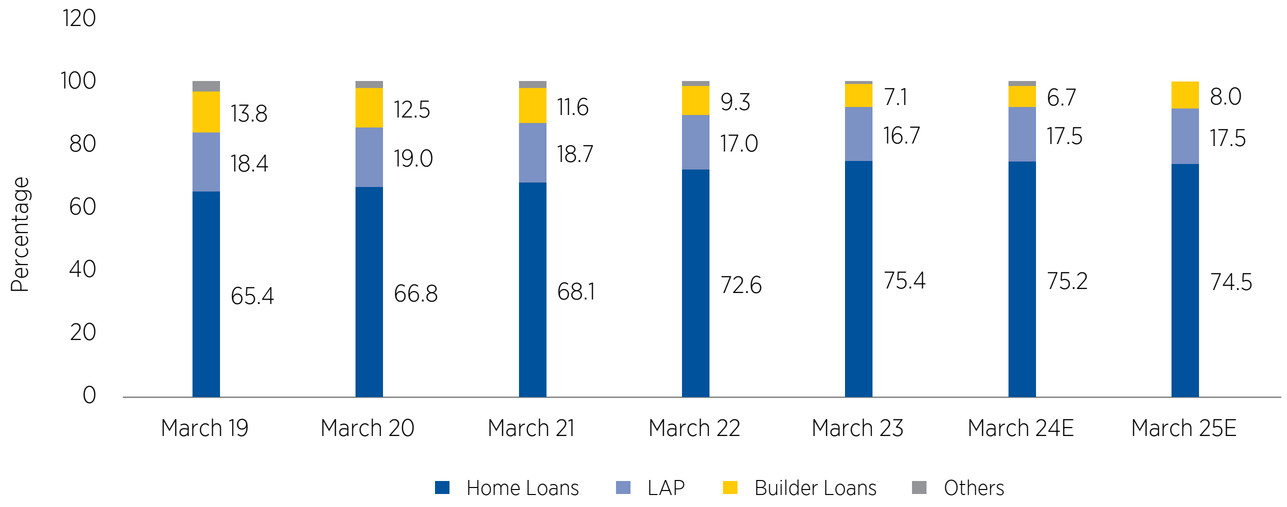
Individual Housing Loan Outstanding of Primary Lending Institutions

Individual Housing Loan Portfolio	Outstanding (In ₹ Crore)		Growth (%)
	As on March 2022	As on March 2023	
Housing Finance Companies	8,05,367	9,28,542	15.29
Public sector Banks	10,52,482	11,96,416	13.67
Private Sector Banks	5,72,926	6,67,484	16.50
Total Outstanding	24,30,775	27,92,442	14.88

Source: NHB Annual Report FY 2022-23

Going forward, with strong residential sales, a declining number of distressed developers, and ongoing resolutions/recoveries in the developer financing book, the share of developer financing is expected to gradually increase in the medium term. Home loans form a significant part of HFCs' business portfolio. According to a CareEdge report, home loans made up about 75.4% of the overall portfolio for HFCs in FY 2022-23. This share is expected to slightly decrease to 75.2% in FY 2023-24 and to 74.5% in FY 2024-25. The share of Loans Against Property (LAP) is projected to reach 17.5% in both FY 2023-24 and FY 2024-25, as compared to 16.7% recorded in FY 2022-23. In addition, the Assets under management (AUM) size is expected to grow at 12.3% in FY 2023-24 and by 13.5% in FY 2024-25, as compared to 8.9% growth registered in FY 2022-23.

Portfolio Mix OF HFCs (%)

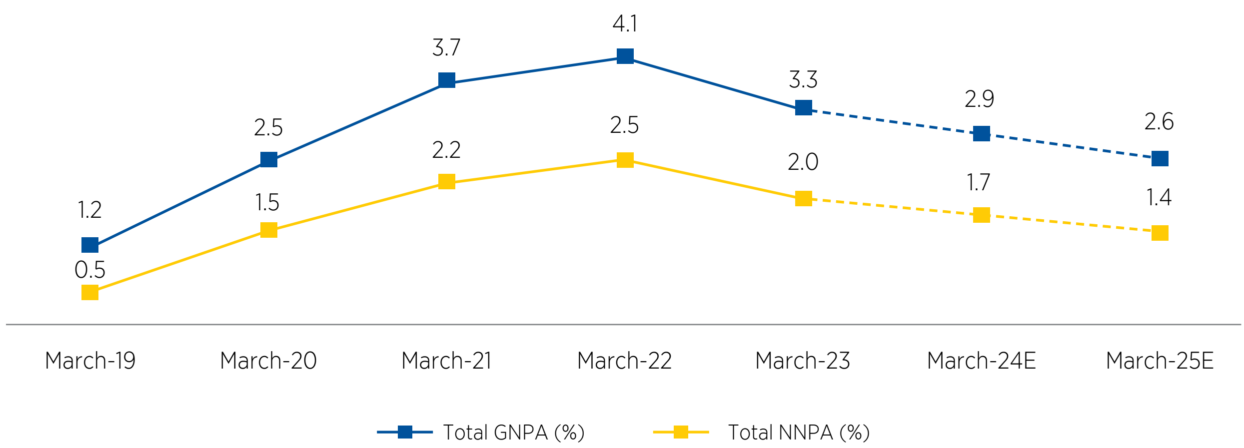


Source: CareEdge April 2024 report

During the 2023-24 financial year, most HFCs that specialise in providing loans for prime housing responded to the rising cost of borrowing by increasing their interest rates. This rate hike was then passed on to their customers, leading to higher mortgage rates or loan costs for those seeking home financing. The strong margin growth, along with decreasing credit costs, is expected to enhanced profitability for HFCs in FY 2023-24 and FY 2024-25. Going forward, the lenders are expected to take a balanced approach, focusing on both growth and asset quality. The Return on Total Assets (ROTA) for HFCs is projected to be near or slightly above pre-COVID levels in FY 2023-24. It is expected to increase to 1.8% in FY 2023-24 and further to 1.9% in FY 2024-25 as compared to 1.4% recorded in FY 2021-22 and 1.7% recorded in FY 2022-23.

With FY 2022-23 marking the first full year of economic recovery and an uptick in demand, Non-Performing Asset (NPA) levels have exhibited improvement, a trend expected to persist. The GNPA reduced from 4.1% in FY 2021-22 to 3.3% in FY 2022-23 and is further expected to improve by declining to 2.9% in FY 2023-24 and to 2.6% in FY 2024-25. The provision coverage ratio for HFCs, estimated at 42% as of 31st March, 2023, is expected to stay robust, ranging between 44% and 46% during FY 2023-24 and 2024-25, indicating that HFCs are maintaining adequate provisions to mitigate credit risks.

Asset Quality of HFCs (%)



Source: CareEdge April 2024 report

Government Initiatives

- **Pradhan Mantri Awas Yojana (PMAY)**

  PMAY, under the broader mission "Housing for All by 2022," aims to address the housing needs of both urban and rural populations in India through two distinct programs: PMAY (Urban) and PMAY (Gramin).

- **Pradhan Mantri Awas Yojana (Urban) - Credit Linked Subsidy Scheme (CLSS)**

  The Credit Linked Subsidy Scheme (CLSS) is a core component of PMAY (U) designed to make housing more affordable by offering interest subsidies on home loans. It targets Economically Weaker Sections (EWS), Low Income Groups (LIG), and Middle-Income Groups (MIG). PLIs like Scheduled Commercial Banks (SCBs), HFCs, Regional Rural Banks (RRBs), Co-operative Banks, Small Finance Banks (SFBs), and Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) have implemented the scheme. The National Housing Bank (NHB) serves as the Central Nodal Agency (CNA), overseeing the scheme's implementation for the Government of India's Ministry of Housing and Urban Affairs (MoHUA).

- **CLSS for EWS/LIG**

  This scheme offers interest subsidies for loans with maximum tenures of 20 years (or the actual tenure if shorter). The interest rate subsidy is 6.5% for households in the EWS/LIG categories, where EWS has an annual income of up to ₹ 3 lakh, and LIG has an annual income between ₹ 3 lakh and ₹ 6 lakh. NHB, as the CNA, has disbursed ₹ 10,643.87 crore in 2022-23, benefiting 4.31 lakh households. By 30th June, 2023, 295 PLIs had signed MoUs with NHB, leading to a total disbursement of ₹ 39,736.1 crore to 239 PLIs, benefiting 16.45 lakh households.

- **CLSS for MIG**

  This scheme covers Middle Income Groups, with two segments: MIG-I (annual income between ₹ 6 lakh and ₹ 12 lakh) and MIG-II (annual income between ₹ 12 lakh and ₹ 18 lakh). MIG-I receives a 4% interest subsidy on loans up to ₹ 9 lakh, while MIG-II receives a 3% subsidy on loans up to ₹ 12 lakh. NHB has disbursed a total of ₹ 9,733.9 crore by 30th June, 2023, benefiting 4.62 lakh households through various PLIs.

- **Rural Housing Interest Subsidy Scheme (RHISS)**

  To complement PMAY-G, the Rural Housing Interest Subsidy Scheme (RHISS) aims to provide institutional loans for those not covered under PMAY-G. Launched on 19th June, 2017, RHISS offers a 3% interest subsidy on loans up to ₹ 2 lakh for a maximum tenure of 20 years. It covers rural areas outside statutory towns and is implemented through a range of PLIs. NHB is the Central Nodal Agency for RHISS, and by 30th June, 2023, it had executed MoUs with 100 PLIs and disbursed ₹ 21.23 crore to 24 PLIs, benefiting 10,533 households.

These initiatives demonstrate the government's commitment to addressing India's housing needs, with a focus on affordability, inclusivity, and sustainability, while leveraging various financial institutions to deliver results effectively.

Tax Incentives on Home Loans

An individual can claim a home loan tax exemption for the following principal repayments and interest payments made on a home loan:

- Upto ₹ 1.5 lakh u/s 80C for principal repayments
- ₹ 2 lakh worth of housing loan tax benefit u/s 24(b) of the Income Tax Act; the actual interest amount paid in a financial year or ₹ 1.5 lakh, whichever is lesser, under the Affordable Housing Scheme u/s 80EEA

The Section 80EEA housing loan tax benefit is in addition to Section 24(b). Thus, an individual who meets the eligibility requirements of Sections 24(b) and 80EEA can claim a total tax rebate on a home loan up to the applicable tax rate on ₹ 3.5 lakh for interest payments made on their home loan. The maximum possible tax refund for a taxpayer in the 30% tax bracket can exceed ₹ 1.05 lakh. Section 24(b) of the Act allows individuals who own a residential property to claim a house loan tax exemption of up to ₹ 2 lakh for the interest payments made on their home loan, regardless of whether the property is occupied by them or their family or is vacant. However, if the property has been let-out, the actual amount paid as interest towards the mortgage can be claimed, without any upper limit for a mortgage interest tax deduction.

To facilitate the efficient flow of credit, promote financial inclusion, and promote financial stability, the National Financial Information Registry is to be set up to serve as the central repository of financial and ancillary information. A new legislative framework is to govern this credit for public infrastructure and will be designed in consultation with the RBI. The deduction from capital gains on investment in residential houses under sections 54 and 54F to be capped at ₹ 10 crore for better targeting of tax concessions and exemptions.

Revised Regulatory Framework Issued by RBI to improve financial stability.

- **Guidelines for Public Deposits:** HFCs that accept public deposits are required to maintain specific prudential parameters. The revised guidelines align these requirements with those applicable to Non-Banking Financial Companies (NBFCs), ensuring a consistent approach. HFCs must maintain liquid assets equivalent to a specified percentage of their public deposits, with gradual increases leading to 15% by 31st March, 2025. This approach aims to ensure financial stability and protect depositors' interests.
- **Safe Custody of Liquid Assets:** HFCs are required to follow strict rules to ensure the safe storage of their liquid assets, which are assets like cash or easily convertible securities. These rules, set out by the Reserve Bank of

India, align with the regulations for NBFCs. The regulations are designed to ensure that HFCs keep their liquid assets in secure places, such as with reputable financial institutions, to avoid misuse or loss. The Master Direction for NBFC & HFC (Reserve Bank) Directions, 2021, has been updated to maintain uniformity in the regulations, ensuring that both HFCs and NBFCs adhere to the same standards for the safe custody of liquid assets.

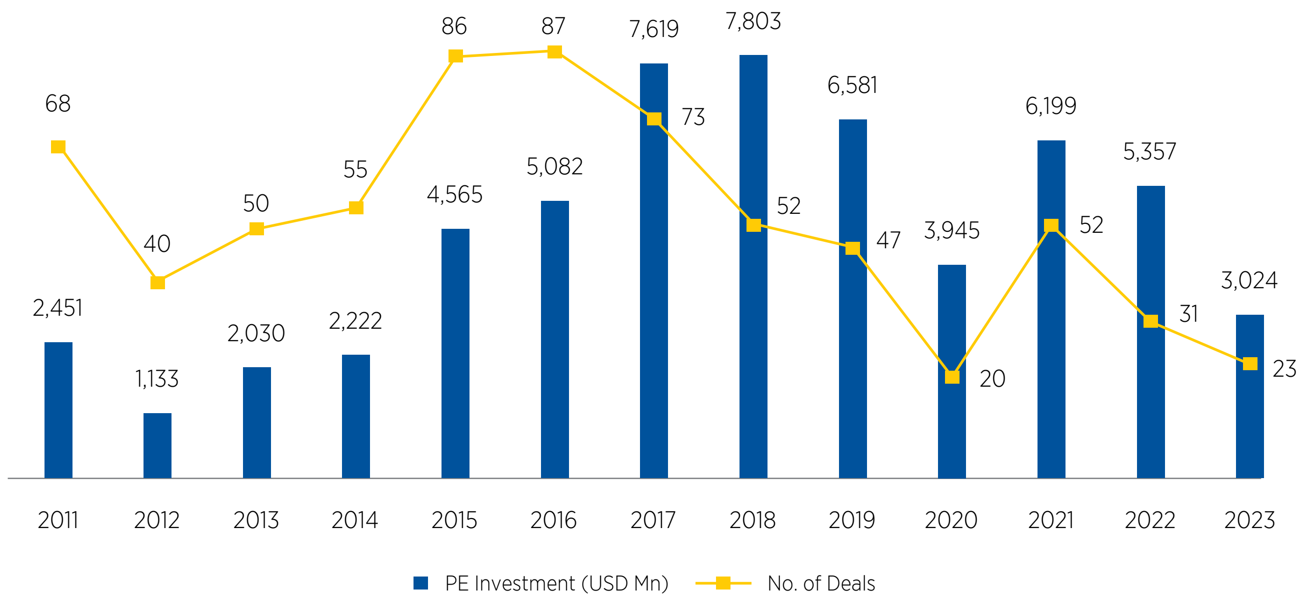
- **Deposit Limitations:** The ceiling for public deposits that HFCs can hold has been reduced from 3 times to 1.5 times of their net owned fund, indicating a move toward stricter regulations. Additionally, the period for which public deposits can be accepted or renewed has been limited to between 12 and 60 months. These limitations aim to reduce risk and ensure that HFCs maintain financial discipline.
- **Investment Restrictions:** HFCs are required to set internal Board-approved limits for investments in unquoted shares, distinguishing them from subsidiaries or companies within the same group. This change is designed to limit risky investments and align with broader capital market regulations. Additionally, HFCs must consider their exposure to capital markets when setting these limits.
- **Participation in Derivative Markets:** HFCs are permitted to participate in currency derivatives and interest rate futures to hedge their risks. However, they must comply with the guidelines from the Reserve Bank of India (RBI) and provide necessary disclosures. This permission allows HFCs to manage their financial risks more effectively while adhering to regulatory requirements.
- **Co-branded Credit Cards:** HFCs can issue co-branded credit cards in partnership with scheduled commercial banks, but they require prior approval from the Reserve Bank of India. These cards are issued without risk sharing, ensuring that HFCs comply with the stipulated regulations and follow the guidelines detailed in Master Direction – Reserve Bank of India (Non-Banking Financial Company–Scale Based Regulation) Directions, 2023.
- **Accounting Year and Audit Requirements:** HFCs are required to prepare their financial statements for the year ending on 31st March and finalise their balance sheets within three months. If HFCs seek to extend their accounting year, they must first get approval from the National Housing Bank (NHB). Additionally, Information System (IS) audits must be conducted as per the periodicity prescribed by the RBI's guidelines on IT governance and risk management.

Source: RBI

Private Equity ('PE') investments

PE investments totaling USD 3.0 billion had flowed into various sectors of the Indian real estate market, including office spaces, warehousing, and residential segments as of 12th December, 2023.

Private Equity Investments: Number of deals (in Units) and Deal Value (USD Million)



Source: Knight Frank

However, compared to 2022, PE investors in 2023 adopted a more cautious approach, resulting in a 44% YoY decline in PE investments. This decreased investment activity can be attributed to geopolitical uncertainties and high interest rates worldwide, which made investors more cautious and led to limited market engagement. The surge in interest rates has dampened investment activities from different nations. The impact of increased interest rates was relatively moderate, with significant transactions occurring in the office and warehousing sectors. Investors strategically positioned their investments across different sectors, with the office segment attracting the largest share of funds. Foreign PE investors continued to play a significant role, contributing to 78% of India's total PE investments in 2023.

However, over the past two years, India has seen increased interest from investors in the Middle East and Asia because of growing wealth in these regions and Western PE investors' sensitivity to rising interest rates. During this period, the distribution of PE investments showed that office properties took the lead with 58%, followed by warehousing at 23%, and residential properties at 19%. MMR and the NCR attracted the most significant share of PE investments across sectors among Indian cities in 2023. Additionally, over 69% of the total PE investments were directed toward readily available assets, reflecting the cautious approach adopted by investors. India is currently an attractive investment destination on the global stage, owing to its strong economic growth and a variety of lucrative exit opportunities for investors.

COMPETITION

The disbursement of Individual Housing Loans by HFCs has shown a consistent upward trend over recent years. The growth in loan disbursements gained significant momentum, with total disbursements reaching ₹ 2.61 lakh crore in FY 2021-22 and ₹ 3.11 lakh crore in FY 2022-23. This steady increase underscores the expanding role of HFCs in providing housing finance and reflects the growing demand for housing loans in India. However, HFCs face intense competition from banks which occupy majority of the share in housing loans in India. In FY 2022-23, loan disbursements by PSBs grew at a faster rate of 32.38%, while HFCs saw a growth rate of 19.05%.

Individual Housing Loan Disbursement by Primary Lending Institutions

Individual Housing Loan Disbursement	Disbursement (In ₹ Crore)		Growth (%)
	FY 2022	FY 2023	
Housing Finance Companies	2,61,429	3,11,237	19.05
Public sector Banks	2,42,463	3,22,306	32.38
Private Sector Banks	1,69,564	1,75,011	3.21
Total Disbursements	6,74,456	8,08,554	19.88

Source: NHB Annual Report for FY 2022-23

OPPORTUNITIES

India's real estate sector in 2024 is on a positive trajectory, owing to strong market growth in 2023. This upward trend has been expected to continue, indicating the sector's resilience and potential. The combination of stable interest rates and rising property prices has led to a surge in demand, especially in the residential market, creating a vibrant and encouraging environment.

Government initiatives are crucial in promoting stability and accessibility within the real estate sector. The "Housing for All" program exemplifies the government's commitment to providing housing for every Indian, addressing the housing shortage while boosting economic activity by creating jobs in construction and related sectors.

Additionally, the sector's push for sustainability, with policies like the Green Rating for Integrated Habitat Assessment (GRIHA), promotes eco-friendly construction practices. Since real estate plays a significant role in India's emissions, contributing 22%, adopting energy-efficient practices and green building standards offers a valuable opportunity for the sector's future. As developers and homebuyers increasingly adopt green building standards, the industry's shift towards sustainability is becoming more pronounced, further supporting the sector's positive outlook.

BENEFITS OF BUYING PROPERTY

- **Property Appreciation**

  Housing finance companies highlighted that real estate generally appreciates over time, which allows homeowners to build equity. This increase in property value can be used to finance future investments or significant expenses like education or retirement, making it a valuable long-term asset.

- **Stability and Security**

  Owning a home provides a sense of stability and control over living conditions. Homeowners aren't subject to unexpected rent increases or lease terminations, promoting a more secure environment for families and individuals planning long-term residency.

- **Tax Advantages**

  Homeownership offers significant tax benefits, such as deductions on mortgage interest, property taxes, and certain home-related expenses. These tax advantages can lower the overall tax burden, helping improve financial health and providing additional savings.

- **Passive Income Opportunities**

  Property ownership can open the door to passive income opportunities by renting out the property. This consistent revenue stream contributes to financial stability and can support other ventures, attracting those who wish to diversify their income sources.

- **Customisation**

  Owning a home gives homeowners the freedom to customise their living spaces according to their tastes and needs. This ability to personalise the home not only enhances comfort and satisfaction but also can improve the overall quality of life.

THREATS (BOTTLENECKS)

India's real estate sector has exhibited positive trends, but it also faces several significant challenges that require close attention. One of the primary concerns is the effective implementation of government policies. Even the best policies can fall short if they aren't executed with precision, efficiency, and transparency. Collaboration among stakeholders is essential to ensure that these policies are carried out properly and deliver the intended benefits.

Another major issue is affordability, a critical factor for sustainable and inclusive growth. Despite programs like the Pradhan Mantri Awas Yojana (PMAY) aimed at providing housing for low and middle-income groups, challenges persist. These include complex land acquisition processes and the need for stronger infrastructure in affordable housing projects. Addressing these hurdles is crucial to narrow the affordability gap and promote broader economic inclusion.

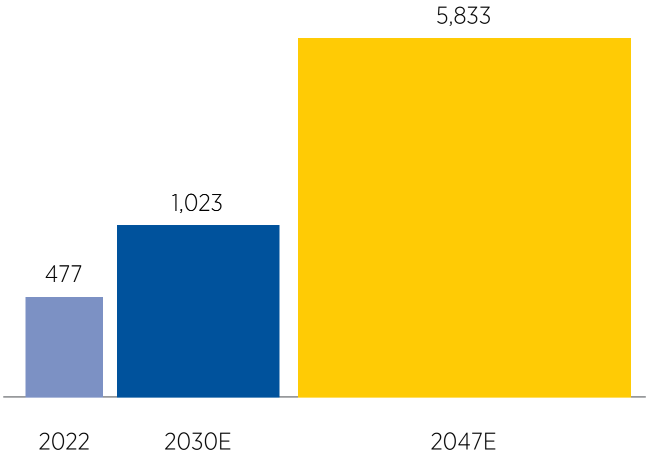
Maintaining a balanced real estate market, especially in the luxury segment, also requires careful consideration. While the sector generally shows positive signs, there's a risk of correction in high-end markets. This underscores the importance of balanced growth to prevent disruptions that could impact the sector's stability.

OUTLOOK

The Indian real estate sector in FY 2023-24 presents a multifaceted yet optimistic outlook, with market growth driven by supportive government policies and a focus on sustainability. The sector's progress is challenged by issues like policy implementation hurdles and affordability concerns. Real estate developers must adopt a balanced approach, staying informed through industry insights and expert analysis to navigate this evolving landscape. Sustainable practices are increasingly emphasised to ensure long-term success, benefiting the broader economy and community well-being.

India's real estate sector has significantly changed owing to a strong economy and rapid urbanisation. The sector connects with around 250 supporting industries, making it one of the biggest job creators after agriculture, accounting for 18% of total employment. The market size is estimated at USD 477 billion, contributing 7.3% to India's economic output. By 2047, the sector is expected to grow to USD 5.8 trillion, accounting for 15.5% of the country's total economic output.

Multifold growth in India's real estate market size (USD billion)



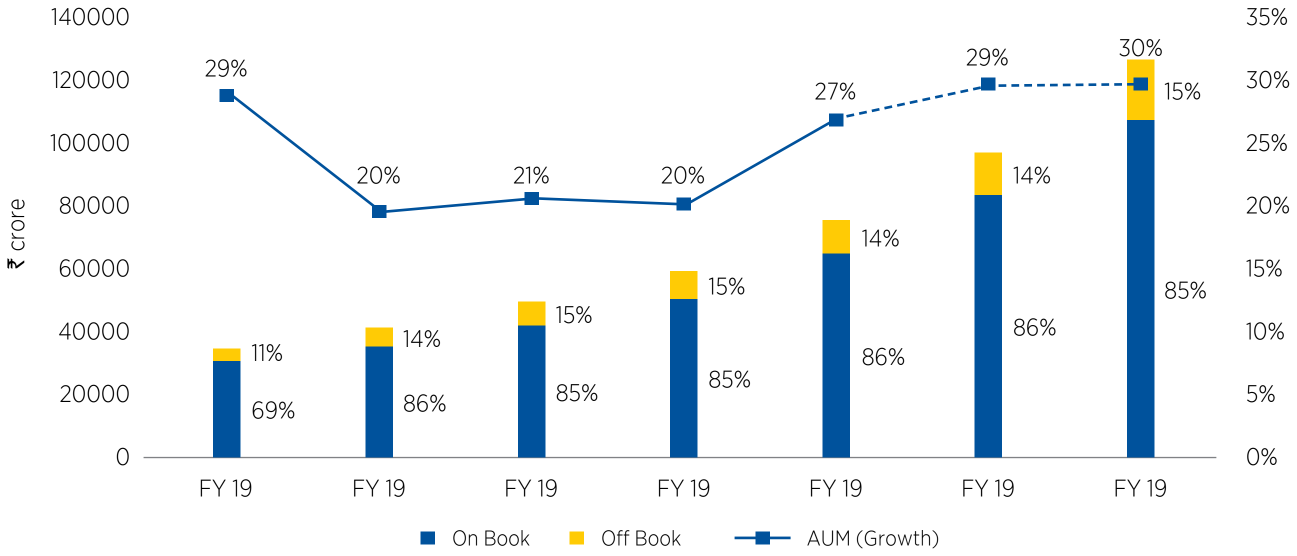
Source: Knight Frank Report (India Real Estate: Vision 2047)

Foreign Direct Investment (FDI), along with government programs like the Pradhan Mantri Awas Yojana (PMAY), play critical roles in driving growth and reducing the housing gap. The government's policy allowing up to 100% FDI in specific segments can attract a substantial influx of foreign capital, aiding industry expansion and positioning India as a favorable destination for global real estate investment. As the sector employs over 80 million people, its continued expansion could have a significant socio-economic impact. However, attention must be paid to high vacancy rates in certain areas and interest rate fluctuations, highlighting the need for careful planning and adaptive strategies to maintain stability and growth.

Affordable Housing and Affordable Housing Finance

Affordable housing and affordable housing finance are expected to be key drivers of long-term growth in the real estate sector. These two factors contribute to broader socio-economic objectives while promoting sustainability in the housing market. As of December 2023, over 3.8 crore houses have been sanctioned under PMAY-Urban, indicating a significant contribution to housing supply. The government's ambitious target of completing 1 crore houses under PMAY-Urban by 2024 reflects its commitment to reducing the housing gap. Affordable Housing Finance Companies (AHFCs) experienced a resurgence in FY 2022-23, achieving 27% YoY growth in its overall AUM size. According to the CareEdge report, this upward trend would continue in the coming period, with estimated growth of 29% for FY 2023-24 and 30% for FY 2024-25. In addition, amid intense competition and the need to preserve margins, the share of the non-housing portfolio among AHFCs increased from 17% on 31st March, 2019, to 26% on 31st March, 2023, and is further projected to rise to 27% by 31st March, 2024.

AHFCs AUM



Source: CareEdge February 2024 Report

On 16th November, 2023, the RBI issued guidance to address the rapid growth in specific consumer credit segments, directing banks and NBFCs to mitigate risks by increasing the risk weights for NBFCs rated A and above on consumer credit exposures, excluding housing loans, education loans, vehicle loans, and loans secured by gold and gold jewelry. While housing loans are exempted, which reduces sectoral vulnerability, the tightening liquidity conditions are expected to keep the cost of funds high in the short to medium term.

As disbursements and branch networks expand, the ratio of operating expenses to average total assets has returned to pre-COVID levels. Strong asset quality metrics have kept credit costs under control. However, with interest rates expected to decline in the second half of FY 2024-25, AHFCs could face a higher risk of customers transferring their loan balances to other lenders. Given the higher operating expenses ratio and the expected narrowing of Net Interest Margins (NIM), the ROTA is forecast to moderate to 3.23% in FY 2023-24 and further to 3.04% in FY 2024-25, as compared to 3.8% in FY 2022-23.

Growth Factors

A key factor driving strong growth in the real estate sector is the rising demand for residential properties due to urbanisation and higher disposable incomes. Alongside residential growth, the demand for modern office spaces, hospitality, and retail properties is also rising to meet growing consumption needs. Additionally, the e-commerce boom has increased the demand for warehousing and storage facilities, which has further boosted the sector.

The expanding use of telecommunications has created a need for data centres and data storage facilities, adding to the sector's growth. Government initiatives like affordable housing, smart city projects, and tax deductions on housing loans have also stimulated investment in real estate. These factors together indicate a fast-growing real estate sector in India, offering substantial opportunities for employment and contributing to the economy.

Additionally, many companies are expanding their focus on the rural economy, investing in areas like agribusiness, rural infrastructure, and microfinance, further driving market growth. This broadening of the investment landscape is attracting a range of private equity entities seeking robust returns and a share of India's expanding market potential.

HFCs' Core Strengths

HFCs have unique strengths that distinguish them in the financial sector, especially in housing finance. Their specialised focus on housing loans gives them an edge in understanding the complexities of homeownership and meeting diverse borrower needs. HFCs are known for their customer-centric approach, building strong relationships with clients, and providing personalised support throughout the loan process. This focus on customer service increases loyalty and repeat business, as borrowers value the detailed assistance and personal attention that HFCs offer.

Another key strength of HFCs is their flexibility in loan structures, accommodating a wide range of income levels, employment types, and property categories. This versatility allows them to serve a broader customer base, including salaried workers, the self-employed, and those in the informal sector. HFCs are also recognised for their quick and efficient loan processing, which is often faster than traditional banks. This speed gives them a competitive advantage, especially in a dynamic housing market.

Additionally, HFCs have a deep knowledge of local markets and a strong presence across different regions. This local expertise helps them assess property risks and tailor loan offerings to fit regional trends. Their established networks with real estate developers, property agents, and other stakeholders provide valuable insights into the housing market. HFCs are committed to financial inclusion, offering housing finance to underserved groups, including low- and middle-income families. This focus on inclusivity supports broader social and economic development, aligning with goals like affordable housing and community growth. Overall, HFCs play a critical role in the housing finance landscape, showing a unique ability to adapt to changing market conditions and contributing to the growth and stability of the real estate sector.

COMPANY OVERVIEW

Segment-wise Reporting

The segments have been defined following the Accounting Standard for segment reporting, considering the organisational structure and the different risks and returns associated with each segment. LIC Housing Finance Ltd. (hereafter referred to as "the Company" or "LICHFL") primarily operates in the Housing Finance industry, which serves as its main source of revenue.

Risks and Concerns

Risk management plays a crucial role in the Company's operations. It involves several key measures such as risk assessment, a comprehensive risk catalogue, a framework for risk appetite, risk planning, risk culture, internal controls, and robust governance practices. The Company has clearly defined its risk appetite, functional policies, and key risk indicators (KRIs) to set out the degree and type of risk it is willing to accept. LICHFL has a structured risk management approach that identifies risks proactively, implements effective mitigation strategies, and continuously monitors them for improvement. The Company's success as one of the leading HFC heavily relies on maintaining strong risk management practices.

The Company's Board of Directors has assigned the Risk Management Committee (RMC) the responsibility to oversee risk management, ensuring the effectiveness of framework in line with the Company's set risk tolerance levels.

The HFC business faces several key risks, including credit risk, market and interest rate risk, liquidity risk, and operational risk. LICHFL has adopted a range of tools to address these risks, such as time-bucket-wise liquidity statements, duration gap reports, and forex exposure reports, all of which help manage risks related to liquidity, interest rates, and currency fluctuations.

The Company continually optimises its asset-liability management function to further mitigate these risks. This approach aims to protect against adverse movements in liquidity, interest rates, and currency exchange rates. LICHFL seeks to ensure that these risks have minimal impact on its Net Interest Income (NII) by following prudent risk management procedures. The following sections outline the most significant risks and the Company's key mitigation strategies:

Credit Risk

Credit risk refers to the risk of default on a loan resulting from a borrower's failure to make principal or interest payments to the lender. Virtually all forms of credit involve some level of default risk, and if a customer fails to pay within 90 days of the due date, the loan is classified as a Non-Performing Asset (NPA) on the Company's balance sheet.

LICHFL follows a standardised credit approval process that incorporates a thorough credit risk assessment. This assessment involves analysing both quantitative and qualitative data to evaluate the borrower's creditworthiness. Loans are disbursed in lump-sums and repaid in Equated Monthly Installments (EMIs), which are linked to the progress of construction or other relevant factors.

The Company conducts ongoing dynamic and static analysis of its data and loan portfolio, identifying trends and potential red flags. This data-driven approach allows LICHFL to take corrective actions when necessary. LICHFL also has a detailed Standard Operating Procedure (SOP) that outlines the due diligence process, covering credit evaluation, legal appraisal, technical appraisal, verification, valuation, documentation etc. The Company periodically reviews and updates the SOP to incorporate lessons learned and adapt to the industry trends.

Market Risk

Market risk represents the potential for loss in a Company's trading assets or an increase in its trading liabilities due to fluctuations in interest rates, credit spreads, external factors, or market prices. Balance sheet items subject to market risk include floating-rate home loans, floating-rate developer loans, Non-Convertible Debentures (NCDs) with options, bank loans with options, foreign currency bank loans, and coupon swaps, among others.

Market risk can be broadly categorised into two types:

- **Interest Rate Risk:** It is the risk that a Company's net interest income and the value of its assets and liabilities may fluctuate due to adverse movements in interest rates, whether caused by market dynamics or regulatory interventions by the Reserve Bank of India (RBI). These shifts can pose risk when higher interest rates increase the cost of liabilities, or when lower yields reduce the value of assets. The lending industry is particularly susceptible to this risk due to frequent maturity mismatches and the need for periodic re-pricing of assets and liabilities. The Company regularly monitors the composition and pricing of its assets and liabilities to mitigate interest rate risk. Additionally, the Asset Liability Committee (ALCO) actively reviews the current interest rate environment and continuously tracks the Company's Asset-Liability Management (ALM) position to take timely corrective actions.

- **Liquidity Risk:** Liquidity risk refers to the risk of not having enough liquid assets or adequate access to financing to meet obligations when they become due, comply with regulatory requirements, or support the Company's investment needs. Moreover, a finance Company like LICHFL must maintain adequate liquidity to handle redemptions, unexpected disbursements, and operational expenses. External factors like a Cash Reserve Ratio (CRR) hike, increased government borrowing, or advance tax payments can also affect the Company's liquidity. Excess liquidity can also be harmful to business efficiency. LICHFL prudently manages its cash flow, assets, and liabilities based on years of market experience. The management sets standards to ensure sufficient liquidity for immediate needs. The Company's borrowing strategy is tailored to fluctuating liquidity conditions and evolving business requirements. LICHFL uses a diversified resource pool to optimise its short- and long-term debt structures to mitigate these risks.

Operational Risk

Operational risk is the potential for loss due to inadequate or ineffective internal procedures, personnel, or systems, as well as external events. A breakdown in any of these areas can lead to capital loss, financial damage, or reputational harm. LICHFL's operational and financial growth could face setbacks if its operational controls are not properly implemented.

The Company relies on robust internal control systems and consistent monitoring procedures to ensure operational efficiency and control to address this risk. Additionally, LICHFL has adopted strict Management Information System (MIS) reporting practices to further mitigate these risks.

Operational risks can be categorised into the following types:

- **Compliance Risk:** As an HFC, LICHFL must comply with regulations set by various governing bodies, government agencies, and industry associations. Failure to meet these ever-changing rules and regulations could adversely affect the Company's business operations and financial stability. LICHFL is regulated by the National Housing Bank (NHB) and the Reserve Bank of India (RBI) and is registered with the Registrar of Companies (ROC) and has its equity shares listed on the Bombay Stock Exchange (BSE), and the National Stock Exchange of India Limited (NSE). Thus, the Company must adhere to all relevant laws and regulations. The Compliance Officer at LICHFL precisely oversees all regulatory obligations to ensure the Company consistently meets the necessary requirements.

- **Legal Risk**: Legal risks include the potential costs of litigation resulting from cases due to inadequate legal diligence. Since LICHFL operates in the lending business, it must execute numerous legal contracts to protect its interests. Legal risks can arise from omissions, negligence, fraud, or misconduct during legal due diligence or other legal processes. LICHFL's primary business is lending money for or against home loans, making these legal issues a significant concern. The Company manages these risks by appointing a team of highly skilled legal and technical experts with extensive industry experience. The team actively monitors strict legal procedures, ensuring thorough title verification and legal review of all loan documents. LICHFL has established stringent customer service standards and created robust operational processes to ensure compliance with these guidelines, aiming to reduce customer complaints.

Regulatory Risk

LICHFL's operations are subject to supervision by various regulatory and governing bodies. The Company's business continuity could be compromised if it fails to comply with continuously changing regulations and standards. LICHFL mitigates these risks by tracking and adapting to all directives, rules, or expected changes issued by authorities like NHB, SEBI, RBI, etc., and adjusting its operations and systems accordingly.

Competition Risk

The housing finance market's lucrative opportunities and high fragmentation increases the risk of competition, potentially leading to revenue or market share loss for LICHFL. Factors such as economic growth, increased urbanisation, government incentives, broader societal credit acceptance, and the rise of nuclear families contribute to the likelihood of many new players entering the housing finance industry. LICHFL has established a strong reputation in the industry, with a proven track record of positive ALM and decreasing NPA. LICHFL mitigates competitive risks by focusing on customer-centricity, adopting advanced infrastructure such as Information Technology (IT) interfaces, and adapting effective marketing strategies. LICHFL leverages its established market position and a flexible team across various industry verticals to lead continually by offering superior products, competitive pricing, and excellent customer service.

ASSET LIABILITY MANAGEMENT

LICHFL complies with "The Asset-Liability Management System for Housing Finance Companies – Guidelines" issued by the NHB. The Board has approved the Company's ALM policy, which outlines prudential gap limits, tolerance limits, and the reporting system. The ALM policy is reviewed periodically to integrate regulatory changes or adjust to the economic environment. The Asset Liability Committee (ALCO) evaluates ALM reports periodically and provides regular updates to the Board on ALM-related matters.

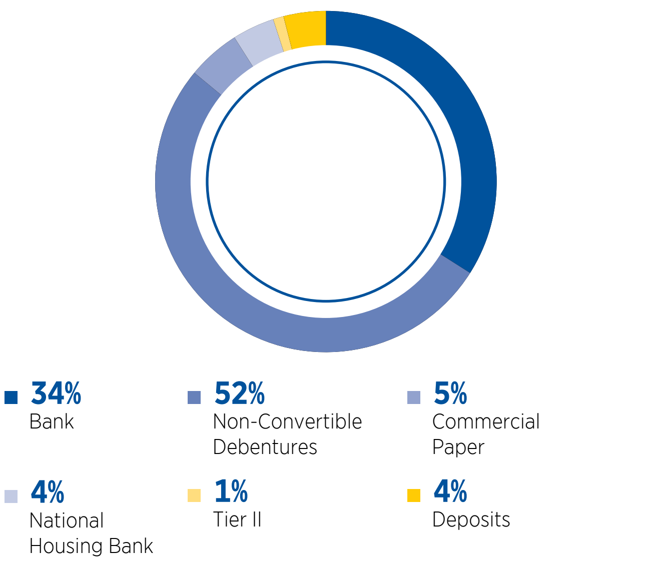
INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Internal controls are crucial for promptly identifying and correcting operational irregularities while providing a consistent and accurate overview of the organisation's status. Effective internal controls ensure that transactions are properly authorised, recorded, and reported, and that assets are protected from unauthorised use or disposal. LICHFL has implemented an internal control system that suits its size and operations. The Company follows strict procedures, systems, policies, and processes to ensure that financial information is recorded accurately, assets are secured, fraud and errors are prevented, accounting records are complete, financial information is prepared promptly, and compliance with relevant regulations and laws is maintained. Regular internal inspections and audits ensure responsibilities are carried out effectively and on time. Management reviews internal audit reports and takes corrective actions to strengthen controls and improve existing systems. The Board's Audit Committee receives summaries of these reports and acts on them as needed.

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE FINANCIAL / FUND MANAGEMENT

LICHFL takes ALM gaps, interest rate discrepancies, and market conditions into account while planning its borrowing strategy. LICHFL holds the highest ratings from CRISIL, CARE, and ICRA for its bank borrowings, non-convertible debentures, commercial paper (CP), and public deposit plans, enabling it to secure funding at competitive rates. The Company frequently reviews its prime lending rate, adjusting it to set a benchmark for asset pricing. The Company checks its cash position daily and invests excess funds in fixed deposits and overnight or liquid mutual fund schemes according to board-approved policies to prevent excess costs from idle cash.

Outstanding Borrowing: ₹ 2,53,030 crore



For FY 2023-24, Incremental Cost of funds was 7.76%.

STATEMENT OF COMPLIANCE

These Standalone Financial Statements were prepared by the Company using the historical cost method, apart from certain financial instruments. The financial statements include the Balance Sheet as of 31st March, 2024, the Statement of Profit and Loss, the Statement of Cash Flows, and the Statement of Changes in Equity for the year ended 31st March, 2024, as well as accounting policies and other explanatory information (collectively referred to as "Standalone Financial Statements" or "Financial Statements" below).

In an orderly transaction between market participants at the measurement date, fair value is the price that would be received upon the sale of an asset or paid to transfer a liability. The price does not need to be directly observable; it can also be estimated using another valuation technique. The Company considers an asset's or liability's characteristics when estimating an asset's or liability's fair value if market participants would consider those characteristics when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are classified into Level 1, Level 2, or Level 3, depending on how observable the inputs to the measurements are and how important those inputs are overall. These categories are described as follows:

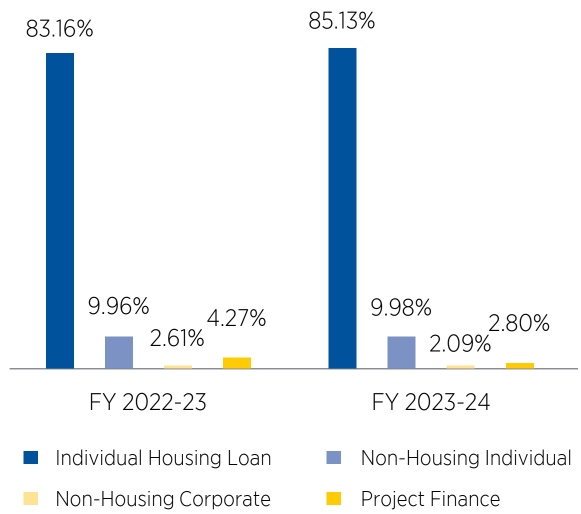
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.
- The financial statements are only available in Indian Rupees (₹), and except when otherwise stated, all values are rounded to the nearest crore.

PERFORMANCE / OPERATION HIGHLIGHTS

Total disbursements for FY 2023-24 stood at ₹ 58,937 crore, as compared to ₹ 64,115 crore in the previous year. The total outstanding portfolio grew by 4.29%, from ₹ 2.75 lakh crore to ₹ 2.87 lakh crore. The Individual Housing Loan segment, the largest component of the total outstanding portfolio, increased by 6.77% year-on-year, from ₹ 2.29 lakh crore in FY 2022-23 to ₹ 2.44 lakh crore in FY 2023-24. The Non-Housing Individual Loan segment grew by 4.43% YoY, from ₹ 27,411 crore to ₹ 28,624 crore.

However, the Non-Housing Corporate Loan segment and Project Finance Loan segment saw declines in annual growth of 16.58% and 31.54%, respectively, during FY 2023-24.

Percentage Share of Outstanding loans during the last two years



Revenue from operations for FY 2023-24 reached ₹ 27,228.22 crore, up from ₹ 22,656.95 crore for FY 2022-23, representing a 20% increase. The net profit after taxes also grew, from ₹ 2,891.03 crore in the previous year to ₹ 4765.41 crore in FY 2023-24. The Net Interest Margin (NIM) for FY 2023-24 was 3.08%, compared to 2.41% for the previous year. Tax expenses for FY 2023-24 increased to ₹ 1288.51 crore, up from ₹ 665.97 crore the year before. The Net Interest Income (NII) increased by 36.66% to ₹ 8650.89 crore in FY 2023-24, from ₹ 6,330.26 crore in FY 2022-23. A dividend of 450%, amounting to about ₹ 9 per share, is proposed by the Board for FY 2023-24, and if approved by the shareholders dividend declared shall be ₹ 0.5 per share more than the dividend declared for the FY 2022-23.

During FY 2023-24, both the outstanding loan portfolio and the number of disbursements grew steadily. Additionally, the asset quality showed signs of stability and improvement. Various initiatives were undertaken and proposed during the year, such as opening new branches, forming clusters to improve turnaround time, and implementing SAP to streamline operations.

IMPAIRMENT ASSESSMENT

The Company applies general approach to provide for credit losses prescribed by Ind AS 109, which provides to recognise 12-months expected credit losses where credit risk has not increased significantly since initial recognition and to recognise lifetime expected credit losses for financial instruments for which there has been significant increase in credit risk since initial recognition considering all reasonable present and forward looking information.

DEFINITION OF DEFAULT

The Company considers a financial instrument as defaulted when the borrower becomes 90 days past due on its contractual payments. Such instruments are considered as Stage 3 (credit-impaired) for ECL calculations.

The three stages reflect the general pattern of credit deterioration of a financial instrument. The differences in accounting between stages relate to the recognition of expected credit losses and the calculation and presentation of interest revenue

Stage-wise Categorisation of Loan Assets

The Company classifies loan assets based on their Days Past Due status:

Stage 1 [0-30 days Past Due]: it represents exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. The Company uses the same criteria mentioned in the standard and assume that when the days past due exceeds '30 days', the risk of default has increased significantly. Therefore, for those loans for which the days past due is less than 30 days, one year default probability is used.

Stage 2 [31-90 days Past Due]: [31-90 days Past Due] The Company collectively assesses ECL on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Company recognises as a collective provision, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

Stage 3 [More than 90 days Past Due]: The Company identifies, both collectively and individually, ECL on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. The Company use the same criteria mentioned in the standard and assume that when the days past due exceeds '90 days', the default has occurred.

Legislation like the SARFAESI Act allows the Company to use one of the most effective NPA recovery systems in its category. For certain financial instruments, detecting significant changes in credit risk before they become overdue can be challenging. However, for individual housing loans, the underlying security provides enough margin to absorb risks. The Company conducts a collective evaluation of significant increases in credit risk for individual housing loans by analysing data indicating major credit risk increases for categories of financial instruments.

LICHFL classifies financial instruments according to shared credit risk characteristics to evaluate credit risk increases and determine loss allowances collectively, enabling prompt detection of significant increases in credit risk. The Company doesn't have a history of loans transitioning from one rating to another over a sufficient time frame to generate a valid transition matrix. Instead, to determine the default rate, LICHFL used a transition matrix developed and published by a prominent Indian rating agency.

ECL MODEL AND ASSUMPTIONS CONSIDERED IN THE ECL MODEL

The Company has through its previous experience estimated the probability of default on loans. Thus, it is seen that receivable for an account moves through different delinquency stages every month. For example, an account in the "Regular" state this month will continue to be in the "Regular" state next month if a payment is made by the due date and will be in the "30 days past due" state if no payment is received during that month.

Further, focus is on maintaining the progression and timing of events in the path from "Regular" to "Defaulted". For example, an account in the "Regular" state doesn't suddenly become "Defaulted". Instead, an account must progress monthly from the "Regular" state to the "30 days past due" state to the "60 days past due" state and so on until foreclosure activities are completed and the collateral assets are sold to pay the outstanding debt.

The transition represents the period-by-period movement of receivables between delinquency classifications or states. The transition evaluates loan quality and loan collection practice. The loan portfolio for the past years is analysed to arrive at the transition matrix. Each loan is traced to find out how the loan has performed over such a period. The occurrences of every loan over the past years are considered to arrive at the total transitions happening from different buckets in the previous month to different buckets in the current month.

Probability of Default

Stage 1 – [No significant increase in credit risk]: the monthly transition matrix is converted into a 12-month transition matrix for determining the probability of default for those loan accounts on which the risk has not increased significantly from the time the loan is originated. The Company uses the same criteria mentioned in the standard and assume that when the days past due exceeds '30 days', the risk of default has increased significantly. Therefore, for those loans for which the days past due is less than 30 days, one-year default probability is considered.

Stage 2 – [Significant increase in credit risk]: The credit risk is presumed to have increased significantly for loans that are more than 30 days past due and less than 90 days past due. For such loans, lifetime default probability is considered. Based on the maturity date of the loan, the probability of default is arrived at to determine the quantum of the loan that is likely to move into the buckets '90 days past due' and greater. The monthly transition matrix is used to find out the transition matrix applicable for the loan considering the maturity date of such loan.

Stage 3 – [Defaulted loans]: As per the standard there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument. The Company assumed that the default has occurred when a loan moves into '90 days past due' bucket.

When the loan moves from stage 3 to stage 2 / stage 1 or from stage 2 to stage 1, from an ECL computation perspective there is a curing period of one quarter on such loans.

Exposure at Default

The borrower's ability to raise its exposure as it nears default as well as potential early repayments are both considered in the Exposure at Default (EAD), which represents the gross carrying value of the financial instruments subject to impairment calculation.

Probability of default of the loan that is likely to move into buckets 90 days past due and above over next 12 months. The PD is used to measure quantum of loan that is likely to move buckets 90 days past due and above over the remaining life of the loan.

Loss given Default

The loans are secured by adequate collateral. The present value of such collateral property is considered while calculating the Expected Credit Loss. The Company initiates the recovery process of non-performing accounts within the statutory time limit as per SARFAESI and other applicable laws and accordingly the realisable period has been considered for computing the Present Value of Collateral. The difference between present value of collateral and EAD is loss given default.

Lending Vertical	PD				
	Stage 1	Stage 2	Stage 3	EAD	LGD
Home Loans	The Historical data is used for computing the probability of default. Forecasted PD is estimated based on multivariate regression methodology.		100%	EAD is the Net Present Value of the Contractual Cash-Flows discounted based on the Effective Interest Rate which would be the Principal Outstanding at the date of exposure. The undrawn loan commitments is considered as part of the EAD.	LGD is computed as (1 - Recovery Rate). The Recovery Rate is present value of collateral divided by the EAD. The value of collateral of each loan is computed separately.
Loan Against Property					
Lease Rental Discounting					
Developer Loans					
Other Loans					

Legislation like the SARFAESI Act allows the Company to use one of the most effective NPA recovery systems in its category. For certain financial instruments, detecting significant changes in credit risk before they become overdue can be challenging. However, for individual housing loans, the underlying security provides enough margin to absorb risks. The Company conducts a collective evaluation of significant increases in credit risk for individual housing loans by analysing data indicating major credit risk increases for categories of financial instruments.

LICHFL classifies financial instruments according to shared credit risk characteristics to evaluate credit risk increases and determine loss allowances collectively, enabling prompt detection of significant increases in credit risk.

INDIVIDUAL HOUSING LOANS

In FY 2023-24, LICHFL's Individual Housing Loan book accounted for 83.31% of the total disbursed loans. The individual home loan segment recorded disbursements of ₹ 49,103 crore in FY 2023-24, slightly down from ₹ 53,459 crore during the same period of the previous year.

NON-HOUSING INDIVIDUAL LOANS

In FY 2023-24, non-housing individual loans accounted for 11.32% of total disbursed loans. LICHFL disbursed approximately ₹ 6,671 crore in this category, compared to ₹ 7,459 crore in FY 2022-23. The total number of non-housing individual loans disbursed in FY 2023-24 was 26,195, compared to 31,975 loans in FY 2022-23.

NON-HOUSING CORPORATE LOANS

In FY 2023-24, non-housing corporate loans accounted for 1.02% of total disbursed loans. LICHFL disbursed approximately ₹ 603 crore in non-housing corporate loans in FY 2023-24, an increase from ₹ 500 crore in FY 2022-23. The total number of non-housing corporate loans in FY 2023-24 was 93, compared to 80 loans in the previous year.

PROJECT LOANS

In FY 2023-24, Project Finance loans accounted for 4.35% of total disbursed loans. Total disbursements for Project Loans in FY 2023-24 were ₹ 2,560 crore, as compared to ₹ 2,697 crore in the previous fiscal year.

Credit Quality Analysis – Classification on the basis of risk pattern (Collective and Individual Basis) (in ₹ crore)

Parameter	Stage 1		Stage 2		Stage 3		Total	
	Outstanding Balance	Impairment Loss	Outstanding Balance	Impairment Loss	Outstanding Balance	Impairment Loss	Outstanding Balance	Impairment Loss
As at 31st March, 2024	2,65,401.77	625.46	11,959.22	768.35	9,483.39	4,876.26	2,86,844.39	6,270.06
As at 31st March, 2023	2,48,839.34	677.73	14,083.07	1,171.32	12,124.74	5,381.22	2,75,047.15	7,230.27
As at 31st March, 2022	2,31,837.84	579.32	7,665.50	240.11	11,616.40	5,019.68	2,51,119.74	5,839.11

ECL MODEL AND ASSUMPTIONS CONSIDERED IN THE ECL MODEL

The Company has through its previous experience estimated the probability of default on loans. Thus, it is seen that receivable for an account moves through different delinquency stages every month. For example, an account in the "Regular" state this month will continue to be in the "Regular" state next month if a payment is made by the due date and will be in the "30 days past due" state if no payment is received during that month.

Further, focus is on maintaining the progression and timing of events in the path from "Regular" to "Defaulted". For example, an account in the "Regular" state doesn't suddenly become "Defaulted". Instead, an account must progress monthly from the "Regular" state to the "30 days past due" state to the "60 days past due" state and so on until foreclosure activities are completed and the collateral assets are sold to pay the outstanding debt.

The transition represents the period-by-period movement of receivables between delinquency classifications or states. The transition evaluates loan quality and loan collection practice. The loan portfolio for the past years is analysed to arrive at the transition matrix. Each loan is traced to find out how the loan has performed over such a period. The occurrences of every loan over the past years are considered to arrive at the total transitions happening from different buckets in the previous month to different buckets in the current month.

MARKETING

LICHFL has established itself as a leading authority in the market and has one of India's largest marketing networks. In FY 2023-24, the Company implemented several transformational changes, including a new technology platform, SAP integration, restructuring the marketing setup with 46 new offices and 44 cluster offices, and enhancing the credit process with specialised credit appraisal clusters. As of 31st March, 2024, the Company's network includes 9 Regional Offices, 310 Marketing Offices, 23 Back Offices and 44 Cluster Offices to handle credit evaluation and administrative tasks, and a centralised Customer Service Point. LICHFL operates across more than 450 centers, providing extensive geographical coverage to meet customers' housing finance needs. The Company operates a representative office in Dubai to expand its global presence. LICHFL's priority has been to strengthen its distribution network through ongoing development efforts, enabling itself to expand its reach and better serve customers. The Company has brought together a strong team of Home Loan Agents, Direct Selling Agents, and Customer Relationship Associates to maintain close contact with end customers. Throughout the year, LICHFL promoted its products across various regions in India through a range of media, contributing to its marketing success.

RECOVERY MANAGEMENT

Gross NPAs totaled ₹ 9,483.39 crore as of 31st March, 2024, accounting for 3.31% of the Company's loan portfolio. This is a significant improvement over 31st March, 2023, when gross NPAs were ₹ 12,124.74 crore, or 4.41% of the loan portfolio. Net NPAs as of 31st March, 2024 were ₹ 4,607.13 crore, or 1.63% of the loan portfolio, compared to ₹ 6,743.52 crore, or 2.50%, a year earlier. Ind AS 109 governs the asset categorisation and provisioning for expected credit loss (ECL), and the ECL provisions were ₹ 6,270.06 crore as of 31st March, 2024, the same were ₹ 7,230.26 crore on 31st March, 2023. The Stage 3 Exposure at Default was 3.31% on 31st March, 2024, a decrease from 4.41% on 31st March, 2023.

The Company is committed to enhancing recovery rates by directing increased resources to its most critical business sector and intensifying its efforts. The Company's overall collection efficiency reached 91.89% in March 2024.

HUMAN RESOURCES DEVELOPMENT

LICHFL considers its human resources critical to the Company's growth and success. Overall the Human Resources department acts as a bridge between the employees and the organisation, ensuring a smooth workflow and effective resource management.

LICHFL is committed to maintaining a safe, inclusive, and productive work environment throughout its operations. The Company invests in employee welfare and professional development through a range of programs, including performance appraisals, learning management, talent management, and various internal and external training courses. LICHFL's human resource management practices create a work environment that promotes employee satisfaction, continuous motivation, and high retention rates. The Company regularly reviews its business and personnel policies to improve workplace practices. As of 31st March, 2024, LICHFL had 2,396 employees. The loan asset per employee was ₹ 119.72 crore, and the net profit per employee was ₹ 1.99 crore.

DISCLAIMER

This report contains "forward-looking statements" within the meaning of relevant laws, rules, and regulations. These statements describe the Company's goals, plans, estimates, and expectations. The Company disclaims all liability if actual results differ considerably from those projected due to changes in internal or external causes. These statements are based on various assumptions about anticipated future events.