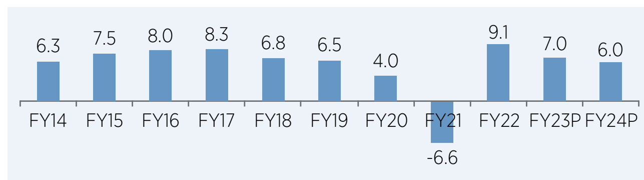
MANAGEMENT DISCUSSION & ANALYSIS

MACROECONOMIC OUTLOOK

The global economy recovered further from geopolitical conflicts and the COVID-19 pandemic in 2022. Despite rising global uncertainty and weak growth, India has maintained its status as the world's fastest-growing major economy. Certain high-frequency indicators, such as steel production, cement production, cargo handled at major ports, production of commercial vehicles, railway freight traffic, non-oil imports, etc., have not only registered higher growth rates but also demonstrated continuous successive improvements, validating India's sustained growth momentum. The growth has been further fueled by robust private consumption in response to pent-up demand, a rapid recovery in contact-intensive service industries, and the government's sustained emphasis on capital expenditures. However, steadily increasing inflationary pressures and longer-term projections of higher interest rates could undermine India's economic growth. According to the National Statistical Office (NSO), India's GDP growth is expected to be 7.2% in FY 2022-23, compared to 9.1% in FY 2021-22.

Indian Economic Outlook (%)



Source: NSO's Second Advanced Estimates dated 28th February, 2023 RBI SPF report as on 6th April, 2023

According to the Economic Survey of India, the agriculture sector is estimated to have grown by 3.5% in FY 2022-23, compared to 3.9% in FY 2021-22, while the industrial sector is expected to have grown by 4.1%, compared to 10.3% in FY 2021-22. An increase in export demand, a revival in consumer spending, and public capital expenditures have contributed to a recovery in the investment/manufacturing activities of companies. Improving labour market conditions and consumer confidence have driven the expansion of private consumption in the country. Private consumption as a percentage of GDP reached 58.4% in the second quarter of FY 2022-23, the highest level since the second quarter of FY 2013-14, owing to a revival in contact-intensive services such as commerce, hotels, and transportation. The services industry has been estimated to have increased by 9.1% in FY 2022-23, up from 8.4% in FY 2021-22.

India's financial market is at par with global standards and has played a major role in the nation's growth and development. According to the CARE report, as of 31st December, 2022, the GNPA (Gross Non-Performing Asset) of SCBs (Schedule Commercial banks) decreased by 19.7% YoY to ₹ 6.1 lakhs crore from ₹ 7.5 lakhs crore a year earlier. PSBs (Public Sector banks) accounted for 75.9% of aggregate GNPAs compared to 61.9% of advances as of 31st December, 2022.

Despite global turmoil, India's foreign currency reserves were around USD 585 as of 7th April, 2023. The fiscal deficit (as a percentage of GDP) has improved by declining for three consecutive years, from 9.2% in FY 2020-21 to 6.4% in FY 2022-23, indicating an improved balance between the country's revenue and expenses. In FY 2023-24, the total revenue receipts and revenue expenditures of the government are estimated to be ₹ 26.32 lakhs crore and ₹ 35.02 lakhs crore, respectively. The proportion of revenue receipts to revenue expenditures is expected to increase to 75.2% in FY 2023-24 from 67.9% in FY 2022-23 and 67.8% in FY 2021-22, respectively.

The Reserve Bank of India (RBI) tightened its monetary policy in order to maintain a balance between inflation and growth as consumer inflation grew in FY 2022-23. Inflation had reached 7.4% in the second quarter of FY 2022-23, compelling the RBI to raise the repo rate from 4.0% in May 2022 to 6.5% in February 2023 in five separate sessions. Later in April 2023, the Monetary Policy Committee (MPC) of the RBI halted the rate increase cycle and maintained its "withdrawal of accommodation" stance. By the end of FY 2022-23, inflation level was recorded at 5.7% in March 2023, which was within the target range of 4-6%. The RBI expects consumer inflation to decline to 5.3% in FY 2023-24, and its SPF (Survey of Professional Forecasters) report forecasts real GDP growth of 6.0% for FY 2023-24.

Three megatrends are creating the foundation for the nation's robust economic growth: global offshoring, digitalisation, and the energy transition. According to the State of India's Digital Economy Report 2023 by ICRIER (Indian Council for Research on International Economic Relations), about 2,300 crore digital payment transactions have been recorded in India during FY 2022-23. India's rising global growth is supported by a number of achievements, such as the unique World Class Digital Public Infrastructure of Aadhaar, Co-Win, and UPI; unprecedented scale; and a proactive role in frontier areas, such as the achievement of climate-related objectives and the National Hydrogen Mission.

OUTLOOK

The Union Budget for FY 2023-24 includes a well-targeted strategy expected to stimulate cross-sectoral growth via capital investment, infrastructure development, technological advancement, and sustainability. The 33% increase in capital expenditures to ₹ 10 lakhs crore reflects the continued emphasis on infrastructure-led development and the resulting multiplier effect. This will significantly propel India's high growth in 2023 and beyond, with infrastructure development playing a crucial

role in facilitating the economic progress. The combination of digitalisation and efficiency-enhancing measures, along with substantial capex expenditures, will eventually increase business productivity. Moreover, India's financial sector remains strong, supported by improvements in asset quality and robust private-sector credit expansion.

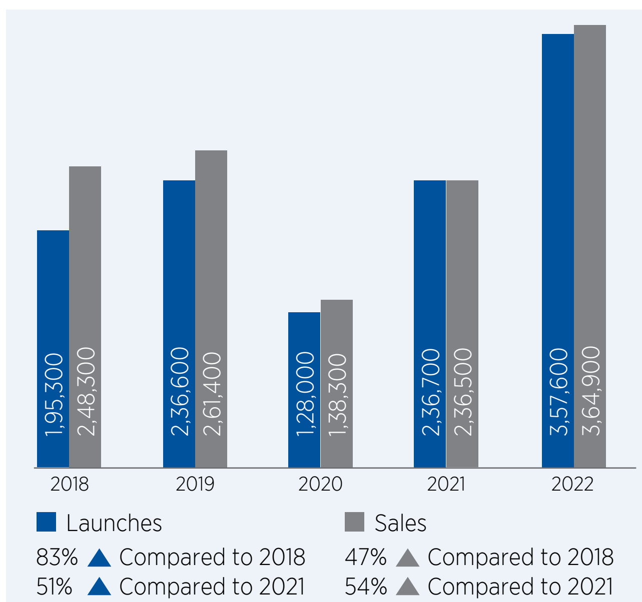
INDUSTRY OUTLOOK

REAL ESTATE AND HOUSING SECTOR

The Indian real estate sector has become the most preferred asset class, attracting investments from all over the world. In India, real estate has been the second largest employment generating sector. Growing institutional investment and the rising number of real estate investment trusts (REITs) have led to the growth of India's real estate market. This was further aided by improvement in real estate market transparency. According to property consultant JLL, India's ranking on the Global Real Estate Transparency Index has risen from 39 to 36 over the past eight years, from 2014 to 2022.

The growth in the real estate sector can be attributed to the rising demand for residential properties, led by rapid urbanisation and rising disposable incomes. Apart from this, various initiatives undertaken by the Indian government, such as investments in smart city projects and tax exemptions for interest on housing loans, have created attractive business opportunities for industry players in the country.

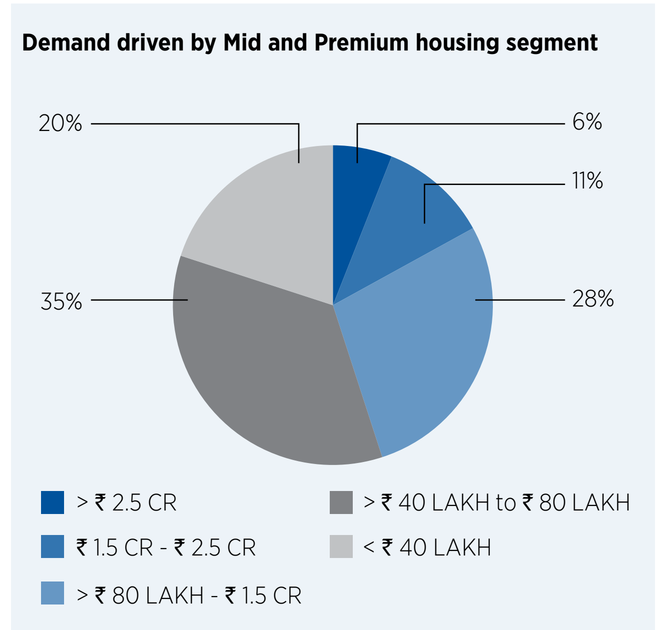
Early in 2022, relatively low mortgage interest rates and a steadily growing enthusiasm for homeownership fueled growth in the residential real estate market. As a result, by the end of 2022, housing sales surpassed the previous peak achieved in 2014, and have witnessed all-time highs across the number of housing units sold in the top seven cities. The residential housing unit sales increased by 54% YoY, from 2,36,500 units in 2021 to 3,64,900 units in 2022. NCR (National Capital Region), MMR (Mumbai Metropolitan Region), Bengaluru, Pune, and Hyderabad accounted for 90% of the total housing sales.



Source: Anarock Report 2022

Consumer demand has been supported by favourable market conditions such as a reduction in stamp duty, seasonal promotions, and flexible payment plans. Ready-to-move-in properties had gained more popularity than under-construction properties. The total number of new housing units launched in 2022 increased by 51% YoY, reaching 3,57,600 units, compared to 2,36,700 units introduced in 2021. MMR, Hyderabad, Pune, and Bengaluru were key cities contributing to new unit launches in 2022, accounting for 86% of the total addition of housing units.

Pan India housing sales in 2022 – By different price ranges



As per Anarock, the total housing sales increased by 14% YoY in 1Q CY2023 reaching 1,13,770 housing units as compared to 99,550 housing units recorded in 1Q CY2022. MMR, Pune, and NCR collectively accounted for 63% of the total housing transactions during the same period. Housing sales and launches continued their growth momentum in 2023 and also witnessed record numbers in early 2023. In 1Q CY2023, approximately 1.09 lakhs units were launched, compared to 89,100 units in 1Q CY2022, representing an increase of 23% on an annual basis. MMR, Hyderabad, Pune, NCR, and Bengaluru were key contributors to new launches in 1Q CY2023, accounting for 89% of the increase in new launches. In 1Q CY2023, MMR had the highest number of new housing launches, accounting for 34% of the total new supply across the top seven cities, while Kolkata had the lowest percentage of 5%. During 1Q CY2023, about 36% of the new launches consisted of properties priced between ₹ 40 lakhs and ₹ 80 lakhs, followed by premium segments priced between ₹ 80 lakhs and ₹ 1.5 crore contributing 24%, and affordable segments priced below ₹ 40 lakhs having about 18% share of the total housing launches.

Average property prices in the top seven cities have increased by 6-9% YoY in 1Q CY2023, owing to an increase in the price of raw materials and an overall increase in demand. In 1Q CY2023, MMR and Bangalore recorded the highest 9% YoY growth each in average property prices.

The discovery of new consumer trends and preferences provides additional information for future planning. Such trends are mentioned as follows:

- Real estate had been the most preferred asset class, comprising 61% of investments as against the other asset categories of stock markets, gold and fixed deposits.
- Millennials are fueling real estate demand by selecting real estate as their preferred investment vehicle.
- End-users continue to dominate the residential real estate market relative to those who choose real estate as an investment alternative.
- The majority of residential property sales comprised of 3 BHK flats, followed by 2 BHK flats.
- Ready to move-in flats to receive more traction in the future.
- Maximum housing sales to be within the premium price range of ₹ 45 lakhs and ₹ 1.5 crore

Key Emerging Growth Drivers

Several key emerging growth drivers that will likely to influence the future of the Indian residential real estate sector are as follows:

Government's Budgetary Push

The 66% increase in PMAY's (Pradhan Mantri Aawas Yojana) budgetary allocation to ₹ 79,000 crore in the budget for FY 2023-24 will help many Indians realise their dreams of home ownership, thereby assisting the government in achieving its 'housing for all' goal. About 119.70 lakhs houses had been sanctioned as on 29th May, 2023, out of which about 74.51 lakhs houses had been completed. In addition, the threshold for income tax rebates has been raised from ₹ 5 lakhs to ₹ 7 lakhs, resulting in increased purchasing power for the middle class. The Budget for FY 2023-24, also bolstered the infrastructure sector. To encourage cities to implement urban planning reforms, the government has established an Urban Infrastructure Development Fund with an annual allocation of ₹ 10,000 crore that will be used to build a balanced and sustainable infrastructure in tier-2 and tier-3 cities.

Premium and Luxurious Housing Taking Centre Stage

Affluent consumers are attracted to premium and luxurious residential developments with sophisticated amenities. The landscape of luxury residential real estate has undergone significant change in recent years. The primary impetus for the transformation has been a change in consumer behaviours prompted by shifting demographics and increased technology adoption. For example, Millennials are becoming increasingly interested in purchasing luxury residences as a result of their rising income and urban lifestyle. Millennials are known for being tech savvy and having high regard for quality of life, and they prefer opulent residences with modern amenities, exclusive experiences, safety, and well-being. The potential for a high return on investment and the possibility of generating substantial rental income are also significant growth drivers for the luxury housing market.

Rapid Urbanisation

It is anticipated that the population of Indian residing in urban areas will reach 54.27 crore by the year 2025 and 67.55 crore by the year 2035. Urban and semi-urban housing trends, as well as the rising demand for modern office space, are driving the real estate industry's growth.

Large addressable market beyond Tier I cities: India's housing (and home loans) demand remains fairly widespread beyond Tier I cities, with ~60% contribution coming from non-Tier I cities

HOUSING FINANCE INDUSTRY – STRUCTURE & DEVELOPMENT

In India, the development of housing and the liberalisation of home ownership have been two of the most important economic and social goals for individuals. Multiple nations' governments have devised intricate procedures for obtaining financing; however, to meet the goals of affordable housing in India, Housing Finance Company (HFCs) have been serving as an alternative financial channel to the real estate and housing sectors. They are an important part of the Non-Banking Finance Company (NBFC) group and are supervised under RBI and National Housing Bank (NHB) directions/guidelines. The RBI has been appointed as the regulatory authority for HFCs as of August 2019, while grouping HFCs with retail-NBFCs.

NBFCs play a crucial role in housing finance in India, providing funding to both individual consumers and developers. In recent years, they have been able to increase their market share due to their flexible lending products and competitive interest rates. Microfinance institutions (MFIs) also play a role in housing finance, aiding in the provision of financing for low-income households.

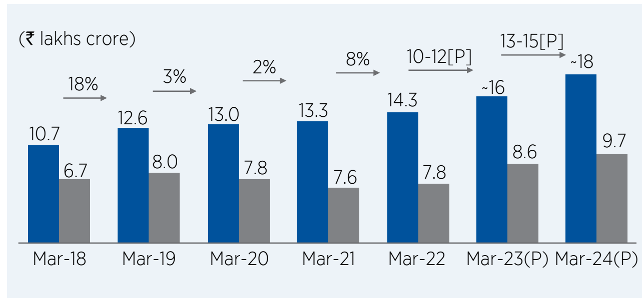
Apart from retail housing loans, HFCs also offers multiple other products including loan against property (LAP), real-estate construction finance, lease rental discounting (LRD) loans, etc. The HFCs have maintained robust liquidity on their balance sheets and have progressively decreased their reliance on short-term funding sources such as CP (Commercial Paper), which has helped improve asset-liability mismatches in the near-term categories.

As construction finance expanded, growth rates in LAP are expected to be resilient over the medium term. The effect of competition is also evident in the rising proportion of self-employed customers in the portfolio, a trend that is anticipated to continue for HFCs over the medium term. As a result, the AUM of HFCs is anticipated to have increased from 10% to 12% in FY 2022-23. The cost of borrowing for HFCs is projected to increase to a range of 7.4%-7.6% in FY 2023-24, up from 6.4% in FY 2021-22.

The housing finance market is expected to experience continued demand momentum aided by the entry of new players and sustained demand in the mid-to-luxury segment. According to the CRISIL ASSSOCHAM report, the housing finance market is anticipated to expand at 13%-15% growth rate in FY 2023-24,

growing to a size of ₹ 18 lakhs crore from 14.3 lakhs crore recorded in FY 2022-23, as a result of growing penetration of affordable housing, attractive tax incentives, and a rise in household income. This is further aided by a rising demand in tier-II and tier-III cities, an increase in the number of nuclear families, a rise in disposable income.

Trend in AUM and AUM growth for HFCs



Source: CRISIL ASSOCHAM Report

Government Initiatives

The following initiatives have been proposed under the FY 2023-24 Budget:

- The government had proposed a budget allocation of ₹ 10 lakhs crore for stimulating infrastructure development, boosting economic growth, and creating job opportunities. This represents an increase of 33% over FY 2022-23 expenditures of ₹ 7.3 lakhs crore
- The government had proposed expenditures under the PM Awas Yojana which had been increased by 66% over last year's budgeted amount, to over ₹ 79,000 crore. This massive allocation will help boost the number of affordable housing units.
- Cities to be transformed into 'sustainable cities of tomorrow' by undertaking urban planning reforms.
- About 100 critical transport infrastructure projects are to be launched, for last- and first-mile connectivity for the ports, coal, steel, fertiliser, and food grain sectors. The projects will be taken up on priority with an investment of ₹ 75,000 crore, including about ₹ 15,000 crore from private resources.
- The newly established Infrastructure Finance Secretariat has proposed to assist all stakeholders in obtaining more private investment in infrastructure, including railways, roads, urban infrastructure and power, which mainly depend on public resources.
- In FY 2023-24, the government proposed to continue the 50-year interest-free loan to state governments for one more year to spur investment in infrastructure and to incentivise them for complementary policy actions. The outlay has been increased to ₹ 1.3 lakhs crore, from FY 2022-23 budgeted expenditure of ₹ 1.05 lakhs crore.
- An expert committee to review Harmonised Master List of infrastructure for recommending changes suitable for 'Amrit Kaal'.

Other government initiatives and macroeconomic factors like robust growth in fixed investment, revival in private consumption, strong credit growth in the banking system, better-than-expected government revenue and strong policy support to promote investment-led growth are expected to boost the housing finance industry.

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 lakhs u/s 80C for principal repayments;
- ₹ 2 lakhs 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 lakhs, 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 lakhs 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 lakhs. Section 24(b) of the Act allows individuals who own a residential property to claim a house loan tax exemption of up to ₹ 2 lakhs 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 foster 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 benefit HFCs

At present, non-systemically significant, non-deposit accepting NBFCs classify advances with a delinquency period of more than 180 days as non-performing assets (NPA). All other NBFCs have an NPA threshold of more than 90 days of delinquent advances. The RBI has now standardised the 90-day NPA classification requirement for all NBFCs. The new NPA classification norms could lead to an increase in the NPA on the accounts of NBFC-BL (non-systemically essential, non-deposit taking NBFCs) and, as a result, an increase in the provisions.

In accordance with the RBI Master Directions, every HFC is required to have ₹ 20 crore in net owned funds in order to commence housing finance as one of its principal businesses or continue housing finance as one of its principal businesses. An HFC holding a certificate of registration and having a net owned fund of less than ₹ 20 crore may continue to operate if it reaches ₹ 15 crore by 31st March, 2022, and ₹ 20 crore by 31st March, 2023. In addition, HFCs that have net owned fund below ₹ 20 crore are required to submit a statutory auditor's certificate to the RBI within one month demonstrating compliance with the prescribed levels as at the end of the relevant period, with failure to meet the minimum requirement resulting in cancellation of registration as an HFC with the option to convert to an NBFC- Investment and Credit Companies. Moreover, RBI had issued a framework for Compliance Function and Role of Chief Compliance Officer in NBFC-Upper layer and NBFC-Middle layer via circular dated 11th April, 2022.

Following this, on 19th April, 2022, the RBI issued circulars on the large exposure framework for NBFCs regarding the Upper layer, regulatory restrictions on loans and advances, and disclosures in the notes to accounts of NBFCs' financial statements. On 29th April, 2022, the RBI issued guidelines on the compensation policy of key managerial personnel and members of senior management of all NBFCs under the SBR framework, with the exception of those classified as 'Base Layer' and government-owned NBFCs, effective as of 01st April, 2023. The RBI had also issued guidelines on provisioning for standard assets on 6th June, 2022, which apply to Upper layer NBFCs.

On 11th April, 2023, the RBI issued the Framework for Acceptance of Green Deposits (the "Framework") for banks and deposit-taking NBFCs/HFCs to be effective from 1st June, 2023. Green deposits are raised with the intention of financing "green" initiatives or activities. The Framework defines green deposits as "an interest-bearing deposit for a fixed period, the proceeds of which are designated for use in green finance." Green deposits will only be used for "green finance"; a taxonomy for this will be developed in India. A catalogue of eligible green activities and/or initiatives has been released by the RBI, in accordance with Securities and Exchange Board of India's ('SEBI's') definition of green bonds under the NCS Regulations.

Private Equity ('PE') investments

Despite intensifying global economic recessionary concerns and inflationary pressures in 2022, PE investments in Indian real estate assets offered global and domestic institutional investors a favourable investment opportunity. According to Knight Frank's report 'Investments in Real Estate; Trends in Private Equity Investments in India – 2022', PE investments decreased by 17% YoY from USD 6,200 crore in 2021. In 2022, PE investments in the Indian real estate sector totaled USD 5,100 crore across 29 transactions in the office, warehousing, residential, and retail sectors. In 2022, residential and retail investment accounted for 12% and 6% of total investment, respectively.

From 2011 to 2022, private equity investments in the Indian real estate sector totaled USD 54,800 crore through 659 deals. Except for the decline in investments observed in 2020 due to the onset of COVID, private equity investments in Indian real estate have remained robust over the past decade, averaging USD 4,600 crore per year from 2011 to 2022. In terms of PE investments across India's top eight markets in 2022, Mumbai received the most investments across all sectors, accounting for 41% of the total, followed by the National Capital Region (NCR) with 15% and Bengaluru with 14%.

From 2011 to 2022, among the top eight Indian markets, Mumbai, Bengaluru, and the NCR collectively accounted for 86% of all exits. In 2022, exits from PE totaled USD 82 crore, down 41% from the peak of USD 139.2 crore in 2021. The average deal size of exits grew substantially quicker than the volume of exits, indicating higher valuations and a growing investor appetite for higher-value transactions. In 2021 and 2022, the average magnitude of an exit via sale on the public market was USD 15.5 crore and USD 16.4 crore, respectively.

COMPETITION

The Scheduled Commercial Banks (SCBs) and HFCs play a significant role in the home loan industry. The aggregate outstanding housing loan portfolio stood at ₹ 24.31 lakhs crore as of March 2022 as compared to ₹ 21.48 lakhs crore as of March 2021. The individual housing loan portfolio consists of one-third from HFCs and two-thirds from SCBs, with a share of 33% and 67%, respectively.

HFCs facing increasing Competition from Banks for home loans

Individual Housing Loan Portfolio	Outstanding (₹ in crore)		Growth (%)
	31st March 2021	31st March 2022	y-o-y
Housing finance Companies	7,14,264	8,05,367	12.75
Public Sector Banks	9,62,841	10,52,462	9.31
Private Sector Banks	4,71,217	5,72,926	21.58
Total Outstanding	21,48,322	24,30,775	13.15

Source: NHB Annual Report for FY 2021-22

HFCs are expected to prefer partnership options like co-lending or increased direct assignments with banks to augment Asset Under Managements (AUMs).

OPPORTUNITIES

The Indian real estate market is currently experiencing an evolutionary shift. The pandemic had sparked realisations of the importance of owning a home, and attractive pricing and discounts provided by the developers have aided in boosting sales momentum. With the increased use of AI (Artificial Intelligence), the real estate industry is also experiencing a technological transformation. The demand for real estate in Tier 2 and 3 has increased significantly. Since the implementation of demonetisation, the Real Estate (Regulation and Development) Act of 2016, and the Goods and Services Tax (GST), the country's real estate market has been relatively resilient even in the face of current rising uncertainties across the globe. Such factors present a great opportunity for the growth of the housing and housing finance industry as a whole.

The HFCs have maintained healthy liquidity on their balance sheets and have progressively decreased their reliance on short-term funding sources such as CP, which has helped improve asset-liability mismatches in the near-term buckets as of June 2022. The overall profitability of HFCs is estimated to have returned to pre-Covid levels in FY 2022-23.

Moreover, HFCs are expected to leverage their strong origination and collection expertise due to their presence in local markets and capitalise on the growing demand for the affordable housing finance segment. The lenders have optimally utilised other sources of funding, including public deposits, NHB funding, and securitisation, to manage their cost of funds in order to remain competitive and increase customer retention.

Affordable HFCs have substantial risk-adjusted pricing power because they operate in a higher risk segment than banks and traditional HFCs customer profile consists of informal salaried or self-employed borrowers with minimal formal documentation and properties being located outside municipal limits. Hence, the high processing fees, insurance cross-selling, and other penal charges contribute to the increase in effective yields and fee income.

BENEFITS OF BUYING PROPERTY

Various benefits of buying a property are being enlisted as below:

- **Alternate Savings method**

  Renting out a property can provide an additional source of income. The money generated from a monthly rental income can not only be used to make mortgage payments and pay off the loan, but it can also be used to pay one's own rent without having to tap into savings.

- **Tax Benefits**

  Buying real estate with a loan offers tax advantages that cannot be obtained when renting property or purchasing real estate with savings. Loans are a prudent and advantageous option for prospective purchasers seeking to buy real estate.

- **Government's Active Role**

  The government has undertaken a number of initiatives to promote the real estate industry, all with the aim of attracting investments and fostering economic expansion. Schemes such as Pradhan Mantri Awas Yojana (PMAY) and Credit Linked Subsidy Scheme (CLSS) offer financial assistance and incentives to purchasers, particularly in the segment of affordable housing.

- **Safety against Inflation**

  As inflation continues to increase, so do residential prices. Therefore, it is prudent to invest in a residence before prices rise even further. In fact, home ownership can provide long-term value appreciation and financial stability, thereby protecting an investor's capital.

THREATS (BOTTLENECKS)

The lenders are expected to diversify across non-housing to reduce margin pressures due to increasing competitive pressures among banks and HFCs in the housing finance sector. In the face of increased competition intensity, banks are gradually shifting their house loan (HL) origination models based on their target client segment – this strategy is advantageous not just from a risk-management perspective, but also provides levers for optimisation. The funding mix for both large-ticket and affordable housing financiers has become skewed towards the banking channel, as capital market borrowings have become more expensive and their availability has been restricted to a selected group of better-rated lenders, thereby creating a bottleneck for the HFCs.

According to the ratings agency, 'India ratings', the GNPAs are also expected to moderate to 2.5% in FY 2022-23, from 2.8% recorded in FY 2021-22, mainly due to an increase in the on-book portfolio and recovery in the non-housing segment of certain large HFCs. However, it is expected to increase marginally to 2.67% in FY 2023-24, due to the expected increase in credit costs.

Moreover, following the RBI's takeover as the regulatory authority for HFCs, a number of regulatory changes have resulted in rising regulatory costs, such as Liquidity Coverage Ratio (LCR) norms, NPA recognition norms, a floor for exposure to housing finance, etc., which have had a progressive impact on the profitability of the majority of HFCs. Certain HFCs whose non-home loan portfolios are already fully optimised to generate higher margins are likely to experience the impact of the RBI's new guidelines on minimum exposure to housing finance and housing finance for individuals. The current asset composition and regulatory restrictions may limit the growth of non-home loans (LAP/CF, etc.) for a number of HFCs, which could limit the growth of non-home loans to the same extent as the growth of the core HL portfolio.

OUTLOOK

The Indian residential sector reached a new high point in 1Q CY2023, as housing sales and new launches surpassed 1,00,000 units. However, while the first quarter remained positive, global headwinds currently pose short-term challenges to the housing market. In CY2023, it is expected that average property prices in the seven largest cities will increase by 8% to 12% over the course of the year, and the leading developers will continue to dominate new product launches. It has been predicted that 2023 will be a year of expansion and growth for the Indian real estate market, driven primarily by a stable economy and strong residential demand. The Indian real estate market is anticipated to reach USD 1.0 lakhs crore by 2030, and it will contribute 13% of the nation's GDP by 2025.

In 2022, the premium market was the primary driver of real estate growth, and this trend will also continue in 2023. The demand for larger, luxurious homes will increase due to the increasing prominence of WFH (Work from Home) and hybrid working models in the country. Despite growing property prices, homeownership will remain in high demand in 2023, as

millennials and first-time purchasers are expected to dominate the real estate and housing markets. FY 2023-24 will likely see a 10% to 15% increase in total sales of housing units across the real estate sector according to the Anarock report.

The growth of the real estate industry would facilitate the expansion of the housing finance industry. According to the India Ratings report, the housing finance sector is expected to grow by 12.3% YoY in FY 2023-24, as compared to the 12.6% growth registered in FY 2022-23. The housing finance sector would be driven by growth in the affordable financing segment, which is expected to record growth of 16% in FY 2023-24.

While larger HFCs are anticipated to explore customer and asset diversification to increase profitability through partnerships, mid-sized HFCs with a focus on affordable housing finance will likely grow consistently. However, competition for emerging HFCs is likely to intensify due to the growth ambitions of a number of HFCs that are focusing on the affordable housing finance segment. While smaller players are expected to contemplate partnerships for effective credit cost management which would continue to be essential for sustaining profitability.

HFCs are anticipated to reduce their on-balance-sheet liquidity from the current high level, but the same is anticipated to remain comfortable as a result of the reduced uncertainty and rising interest rate scenario. Housing finance companies and institutions that lend retail home loans would also have an increased lending volume of an average of 12 to 15% in the future.

Affordable Housing and Affordable Housing Finance to drive long-term growth

Affordable housing was the third most popular category among developers in India, accounting for 20% of all new launches in 2022. The mid-range price segment continued to have the largest share of new launches in 2022 at 35%, and the high-end price segment came in second with a 28% share of the overall pie. In 2022, 11% and 6%, respectively, of the new supply was comprised of luxury and ultra-luxury ticket categories. This trend is supported by the rising aspirations of homebuyers seeking to upgrade their lifestyle and quality of life by investing in upscale residential properties.

To encourage Rural Housing and housing for EWS (Economically Weaker Section) in urban centres, the Affordable Housing Fund (AHF) provides full refinancing to EWS creditors (with annual incomes of up to 3 lakhs) in Rural and Urban Housing. In FY 2021-22, affordable housing fund of NHB comprised of 45.51% share among other modes of investment, followed by taxable Bonds at 21.64%. The Government of India annually allocates ₹ 10,000 crore to the AHF. Scheduled commercial banks with shortfalls in meeting their priority sector lending obligations, as determined by the RBI from time to time, also contribute to the fund's corpus. The fund's objective is to enhance NHB's refinancing operations for the affordable housing market. As of 30th June, 2022, the total amount received under the AHF is ₹ 29,873 crore.

The total loan book of Affordable Housing Finance Companies (AHFC) reached ₹ 83,052 crore as of 31st December 2022, a 25% year-on-year increase due to an improvement in the operating environment and high demand. AHFCs are one of the niche sectors of the overall house financing industry, with a market share of only 6%. However, the government's drive for "housing for all" initiatives may give the sector a lift in the future. The indicators of profitability for AHFCs improved in FY 2022-23 due to an increase in NIMs and low credit costs, resulting in an increase in the overall return indicator.

Growth Factors

Real estate owners and investors are increasing their demands for ESG (environmental, social, and governance) investing disclosure. In the post-pandemic era, consumers are more conscious of their carbon footprint and the health of the environment, and as a result, they seek homes that reflect their stance. The majority of real estate buyers are prepared to pay a premium for a green property.

In 2023, the demand for eco-friendly, nature-balanced housing will continue to exist. In addition, such homes also provide lower operational costs and a higher resale value. Given the numerous benefits that sustainable buildings provide, real estate players and consumers will continue to favour them even more in 2023.

While the pandemic is now history, the culture of remote work is here to stay. Many businesses continue to operate in a hybrid mode and permit employees to work from wherever they choose. The rise in popularity of vacation residences has been fueled in part by the remote working culture. As individuals continue to work in hybrid mode, they will continue to operate from unconventional locations, allowing them to be more adaptable and experience a better work-life balance.

HFCs' Core Strengths

HFCs have grown significantly in stature over the years and have gained systemic importance in the Indian financial system. HFCs have mastered the art of assessing the creditworthiness of niche customer segments, primarily those with informal income and the unbanked segments of society, which banks have avoided due to differences in their core target segment and credit risk management approach.

The report by India Ratings anticipates that affordable housing financiers will continue to experience robust loan growth, primarily as a result of increasing geographic penetration, an increase in ticket size (value), and customer base expansion due to a rising sense of home ownership. Since HFCs are among the primary sources of financing for the affordable housing sector, exceptional growth in AHFCs is much anticipated in the future.

The underlying demand for housing in India is expected to remain robust due to factors such as the government's emphasis on affordable housing, favourable demographics, urbanisation, and rising affordability. In addition, timely actions taken by the Government of India and the RBI are likely to alleviate the housing and housing finance sectors, thereby relieving pressure and making funds accessible to distressed areas.

COMPANY OVERVIEW

SEGMENT-WISE REPORTING

Segments have been identified in accordance with the Accounting Standard for segment reporting, taking organisational structure and the varying risks and returns of these segments into consideration. LIC Housing Finance Ltd. (hereafter referred to as “the Company” or “LICHFL”) is solely engaged in the Housing Finance industry, from which it generates the majority of its revenue.

RISKS AND CONCERNS

Risk management is an integral part of the business. Risk management measures include risk assessment, a risk catalogue, a framework for risk appetite, risk planning, risk culture, internal controls, and good governance. The Company’s risk appetite, functional policies, and key risk indicators (KRIs) explicitly define the degree and type of risk it is willing to assume. LICHFL has a risk management structure that proactively identifies risks, implements effective risk mitigation measures, and reviews them continuously. As a provider of housing finance, the Company’s performance is contingent on adequate risk management.

The Board has delegated risk management responsibilities to its Risk Management Committee (RMC), which evaluates the effectiveness of the risk management framework, provides critical oversight, and determines whether it is commensurate with the established risk tolerance limits.

Credit risk, market and interest rate risk, liquidity risk, and operational risk are the primary risks associated with the HFC business. LICHFL has implemented tools such as time-bucket-wise liquidity statements, duration gap reports, and forex exposure reports to mitigate risks resulting from unfavorable liquidity conditions, interest rates, and currency fluctuations.

The Company continually optimises its asset liability management function in order to protect against and mitigate adverse fluctuations in liquidity, interest rates, and currency exchange rates. The prudent procedure ensures that Net Interest Income (NII) is not negatively impacted by adverse changes in the aforementioned risks to the greatest extent possible. The following are some of the most significant risks and mitigation strategies:

1. Credit Risk

Credit risk is the risk of debt default resulting from a borrower’s failure to make principal or interest payments to the lender. Nearly all types of credit extensions expose lenders to the risk of default. If the customer is unable to pay within 90 days of the due date, the loan is classified as a NPA on the Company’s balance sheet.

LICHFL has a standardised credit approval procedure in place, which includes a comprehensive credit risk assessment that includes an analysis of relevant quantitative and qualitative data to determine the creditworthiness of the borrower. The loans are disbursed in lump sums and repaid in Equated Monthly Installments (EMIs) based on the progress of the construction of the security, etc. On an ongoing basis, the Company conducts a dynamic and static analysis of its data and portfolio, identifies relevant trends and red flags, and takes corrective action based on the output of data analytics.

The Company has a Standard Operating Procedure (SOP) document that describes the due diligence guidelines in detail, including credit evaluation, legal appraisal, technical appraisal, verification, value, documentation, etc. The Company regularly evaluates the SOP and, if necessary, revises it based on lessons learned and industry trends.

2. Market Risk

Market risk is the risk of a decline in the value of a Company’s trading assets or an increase in the value of its trading liabilities due to changes in interest rates, credit spreads, external variables, or market prices. Balance sheet items susceptible 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. This risk can be divided into two categories:

i. **Interest Rate Risk:** Interest rate risk refers to fluctuations in a Company’s net interest income and the value of its assets and liabilities resulting from unfavorable interest rate movements, such as hardening or softening due to market forces or RBI intervention. Higher interest rates on liabilities or lower yields on assets could be detrimental. In the lending industry, maturity mismatches and re-pricing of assets and liabilities are common and pose significant risks. Regular monitoring of the composition and pricing of the Company’s assets and liabilities aids in mitigating this risk. In addition, the Asset Liability Committee (ALCO) of the Company actively reviews the interest rate scenario and monitors the ALM position in order to take necessary actions.

ii. **Liquidity Risk:** It is the risk of not having sufficient liquid assets or limited access to the financing market to satisfy contractual maturities of liabilities, regulatory requirements, or the Company’s investment needs. In addition, the finance company must always have sufficient liquidity to manage redemptions, higher-than-anticipated disbursements, operational expenses, etc. External factors such as CRR hike, increased government borrowing programmes, and advance tax outflows, among others, may impact the Company’s liquidity. Additionally, any excess liquidity is detrimental to the business. LICHFL prudently manages its fund flow activities, assets, and obligations based on a decades-long understanding of market conditions. The management establishes standards for maintaining liquid investments in order to meet immediate liquidity requirements. The Company’s borrowing strategy is based on the fluctuation in liquidity market conditions and business needs. To mitigate these risks, the Company’s

well-diversified pool of resources aims to optimise its short- and long-term debt borrowings.

3. Operational Risk

Operational risk is the risk of loss resulting from inadequate or ineffective internal procedures, people, and systems or from external events. Any breach of people, procedures, or systems may result in capital, monetary, and reputational harm. LICHFL's operational and financial growth could be adversely affected if it cannot effectively implement its operational controls. The Company's dependable internal control systems and regular monitoring procedures guarantee efficient operations and adequate control. In addition, to mitigate these risks, the organisation has implemented stringent MIS reporting procedures. The operational risks can be classified into the following categories:

i. Compliance Risk

As a housing financing company, LICHFL is obligated to abide by a variety of governing bodies, government agencies, associations, etc. The Company's inability to comply with ever-changing rules and regulations could negatively impact its business operations and finances. As the Company is governed by NHB and RBI, registered with ROC, and its equity shares are listed on the Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), and Luxembourg Stock Exchange, it is imperative that the Company abide by all applicable rules and regulations. In order to ensure compliance, the Company's Compliance Officer takes the utmost care of all obligations on an ongoing basis.

ii. Legal Risk

Legal risks refer to the cost of litigation resulting from cases caused by a lack of legal diligence. To protect their interests, the firm's lending nature necessitates the execution of numerous legal contracts. It may result from any omission, carelessness, deceit, or wrongdoing in legal due diligence or other legal processes. As lending money for/against home loans is the Company's primary activity, it too is susceptible to these legal issues. The Company's legal and technical teams are highly knowledgeable and have extensive sector experience. A competent legal team monitors stringent legal procedures and systems for title verification and legal review of all loan documents. In order to reduce customer complaints, the Company has also clearly established customer delivery criteria and the operational mechanisms to adhere to these standards.

4. Regulatory Risk

The Company's operations are governed by multiple regulatory and governing bodies. Business continuity may be impacted by the Company's inability to conform to ever-evolving regulations and standards. To mitigate these risks, LICHFL evaluates and controls all changes/directives/rules issued or anticipated to be issued by various such authorities, such as NHB, SEBI, RBI, etc., and modifies its operations and systems accordingly.

5. Competition Risk

The lucrative prospects of the highly fragmented housing finance market pose a threat from competitors, which may result in revenue loss or market share loss. Due to economic growth, greater urbanisation, government incentives, credit acceptance in society, and the rise of nuclear families, a large number of new players are anticipated to enter the housing finance industry. With a track record of positive ALM and declining NPA, the Company has established a strong reputation in its industry. To mitigate risk, the Company continues to prioritise customer-centricity, the use of cutting-edge infrastructure facilities, including IT interfaces, and efficient marketing strategies. Due to its long-standing position in the market and its nimble team across all industry verticals, the Company is always striving to stay ahead with improved product offerings, prices, and customer service.

ASSET LIABILITY MANAGEMENT

The Company adheres to "The Asset-Liability Management System for Housing Finance Companies – Guidelines" issued by the National Housing Bank. The Board has approved the Asset and Liability Management (ALM) policy of the Company. The policy specifies prudential gap limits, tolerance limits, and the reporting system. Periodically, the Asset Liability Management Policy is reviewed to incorporate regulatory changes or to realign the policy with the economic environment. The Asset Liability Management (ALM) reports are evaluated periodically by the Asset Liability Committee (ALCO), which then updates the Board periodically on ALM-related matters.

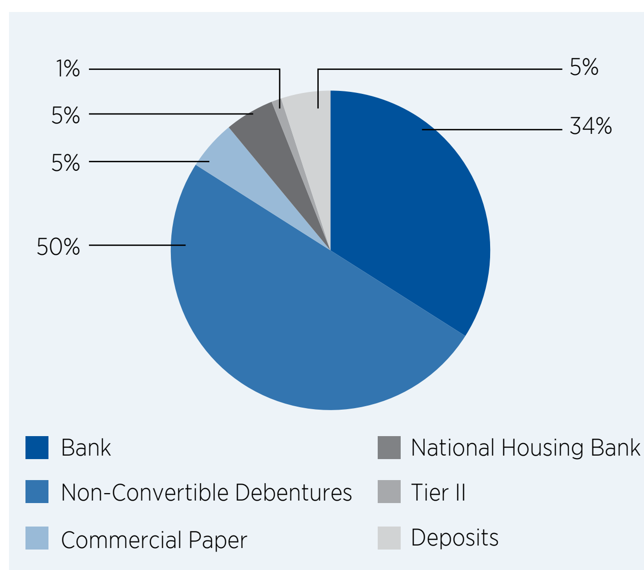
INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

Internal controls enable the prompt recognition and correction of operational irregularities and provide a constant and accurate summary of the organisation's position. Internal controls that are adequate ensure that transactions are authorised, recorded, and reported accurately, and that assets are safeguarded against unauthorised use or disposition. LICHFL has implemented an internal control system commensurate with its size and operations. The organisation adheres to stringent procedures, systems, policies, and processes to ensure the accuracy of recording financial information, the protection of assets from unauthorised use, the prevention and detection of frauds and errors, the completeness of accounting records, the timely preparation of accurate financial information, and compliance with regulations and laws. Regular internal inspections and audits ensure that responsibilities are carried out effectively and in a timely manner. Management routinely reviews the internal auditors' reports and initiates corrective actions to strengthen controls and enhance the effectiveness of existing systems. The Board's Audit Committee receives summaries of all reports, and actions are taken accordingly.

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

ALM gaps, interest rate inconsistencies, and the state of the market are all taken into consideration when planning the Company's borrowing. For bank borrowings, non-convertible debentures, CP, and public deposit plans, the Company has received the highest rating from CRISIL, CARE and ICRA rating agencies, enabling the Company to secure financing at incredibly favourable rates. The Company's prime lending rate is frequently reviewed and adjusted as a benchmark for asset pricing. The Company revalues the loan assets in response to changes in the Company's prime lending rate at predetermined intervals because approximately 97% of the asset portfolio has a floating rate. In an additional effort to reduce negative carry, the Company assesses the fund position every day and parks excess funds in fixed deposits and overnight/ liquid mutual fund schemes in accordance with board-approved policy. The Company carefully enters into derivative contracts to manage the risks associated with changes in interest rates and foreign exchange, as applicable. These contracts are periodically reviewed, and the Company dissolves such transactions as needed.

Outstanding Borrowing – ₹ 2,44,696 crore



STATEMENT OF COMPLIANCE

Standalone Financial Statements have been prepared in accordance with generally accepted accounting principles in India, including Indian Accounting Standards ("the Ind AS") prescribed under section 133 of the Companies Act, 2013 ("the Act") read with Rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time and the guidelines issued by the NHB and RBI, to the extent applicable. Division III of Schedule III to the Act's prescribed format is followed in the preparation and presentation of the balance sheet, statement of profit and loss, and statement of changes in equity. In accordance with the specifications of Ind AS 7, "Statement of Cash Flows," the Statement of Cash Flows has been prepared and presented. The balance sheet is presented by the Company in order of liquidity.

BASIS OF PREPARATION OF IND-AS FINANCIAL STATEMENTS

These Standalone Financial Statements were prepared by the Company using the historical cost method, with the exception of certain financial instruments. They include the Balance Sheet as of 31st March, 2023, the Statement of Profit and Loss, the Statement of Cash Flows, and the Statement of Changes in Equity for the year ended 31st March, 2023, 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. This 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, and

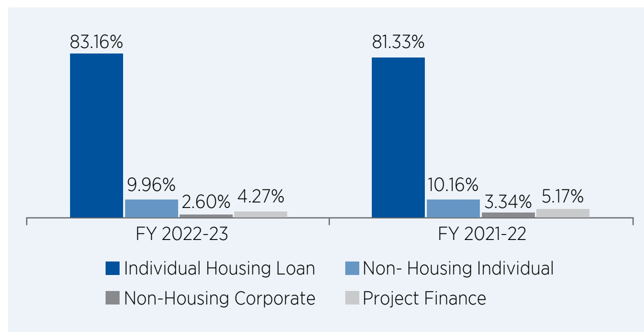
Level 3 inputs are unobservable inputs for the asset or liability.

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 2022-23 totaled ₹ 64,115 crore, which increased by 4% over the same period the year before. The total outstanding portfolio grew from ₹ 2.51 lakhs crore to ₹ 2.75 lakhs crore, registering a growth of 9.53%. The Individual Housing Loan grew by 12% YoY, from ₹ 2.04 lakhs crore in FY 2021-22 to ₹ 2.29 lakhs crore in FY 2022-23, comprising the largest portion of the total outstanding loan pie. The Non- Housing Individual loans grew by 7.4% YoY, from ₹ 25,519 crore in FY 2021-22 to ₹ 27,411 crore in FY 2022-23. While the Non-Housing Corporate loans and Project Finance loans experienced declines in annual growth of 14.6% and 9.6%, respectively, during FY 2022-23.

Percentage Share of Outstanding loans during the last two years



The revenue from operations was ₹ 22,656.95 crore for FY 2022-23, compared to ₹ 19,919.07 crore for FY 2021-22, which represents an increase of 13.75%. The FY 2022-23 recorded an increase in net profit after taxes to ₹ 2,891.03 crore from ₹ 2,287.28 crore during the same time last year. Net Interest Margin (NIM) for FY 2022-23 stood at 2.41 % as against 2.28% for the previous year. Taxes for the year amounted to ₹ 665.97 crore, up from ₹ 490.87 crore the year before. The Net Interest Income (NII) for FY 2022-23, increased by 14.86% to ₹ 6,330.26 crore from ₹ 5,511.21 crore recorded during the previous fiscal year. A dividend of 425% of about 8.50 per share, the same as the previous year, was declared for FY 2022-23.

During the year under review, both the outstanding loan portfolio and the number of disbursements increased steadily. In addition, the asset quality has demonstrated stability and improvement. Numerous initiatives, such as the opening of new branches, the formation of clusters to improve turnaround time, the implementation of SAP, etc., have been undertaken and proposed in FY 2022-23.

IMPAIRMENT ASSESSMENT

The Company's methodology for measuring and assessing impairment is described in the references below. This section should be read in conjunction with the Summary of key accounting policies. According to Ind AS 109, the Company recognises lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition as well as 12-month expected credit losses when credit risk has not changed significantly since initial recognition. This is done while taking into account all reasonable and supportable information, including that which is forward-looking.

DEFINITION OF DEFAULT

When a borrower falls ninety days behind on his contractual responsibilities, the Company considers the financial instrument to be in default and hence Stage 3 (credit-impaired) for ECL calculations is being implemented. The three phases reflect the typical progression of a financial instrument's credit deterioration. The accounting differences between stages involve the recognition of anticipated credit losses and the calculation and presentation of interest income.

Stage-wise Categorisation of Loan Assets

The Company classifies loan assets according to their Days Past Due status:

Stage 1 [0-30 days Past Due]: It is comprised of exposures for which there has been no significant increase in credit risk since initial recognition and which were not credit impaired at origination. The Company employs the same criteria enumerated in the standard and assumes that when the number of past-due days exceeds '30', the probability of default has increased significantly. Therefore, the Company recognises as a collective provision, for loans with less than 30 days of delayed payment, the amount of the lifetime ECL associated with the probability of default events occurring within the next 12 months.

Stage 2 [31-90 days past due]: The Company evaluates ECL for exposures that have experienced a substantial increase in credit risk since initial recognition, but are not credit impaired. The organisation acknowledges a lifetime ECL as a collective provision for these exposures. (i.e., the remaining useful life of the financial asset).

Stage 3 [More than 90 days Past Due]: The Company identifies, both collectively and individually, the ECL for credit-impaired exposures based on whether or not one or more events that have a negative impact on the projected future cash flows of the asset have occurred. When the number of days past due exceeds 90, the Company relies on the same criteria stated in the Standard and assumes a default has occurred.

Legislation such as the SARFAESI Act encourages the Company to utilise one of the most efficient NPA recovery systems in its category. Depending on the structure of the financial instruments and the credit risk information available for specific categories of financial instruments, it may be impossible for an entity to detect significant changes in credit risk for individual financial instruments before they become overdue. In the case of individual housing loans, the underlying security provides a sufficient margin to support the financial instruments and absorb the associated risks. As a result, the Company has conducted a collective evaluation of the substantial increase in credit risk for individual housing loans by analysing data indicating major credit risk increases for categories of financial instruments. To determine credit risk increases and to collectively recognise loss allowance, LICHFL has grouped financial instruments based on shared credit risk characteristics in order to facilitate an analysis that will enable timely identification of significant rises in credit risk. The Company does not have a history of loans transitioning from one rating to another over a sufficient time frame to generate a valid transition matrix. For the purpose of determining the default rate, LICHFL utilised a transition matrix developed and published by a prominent rating agency in India.

INDIVIDUAL HOUSING LOANS:

As of 31st March, 2023, LICHFL's individual housing loan book represented 83.16% of the total retail portfolio. The individual

home loan segment registered disbursements of ₹ 53,459 crore in FY 2022-23, as against ₹ 53,662 crore for the same period of the previous year.

NON- HOUSING INDIVIDUAL LOANS: During FY 2022-23, the Non-Housing Individual Loans accounted for 11.63% of total disbursed loans. In FY 2022-23, the Company disbursed approximately ₹ 7,458.91 crore in non-housing individual loans, compared to ₹ 6539.60 crore in FY 2021-22. The total number of Non-Housing Individual Loans stood at 31975 loans being disbursed in FY 2022-23, as compared to 28989 loans disbursed in FY 2021-22.

NON- HOUSING CORPORATE LOANS: During FY 2022-23, the Non-Housing Corporate Loans accounted for 0.8% of the total disbursed loans. The Company disbursed approximately ₹ 500.57 crore in Non-Housing Corporate Loans in FY 2022-23, as compared to ₹ 334.39 crore in FY 2021-22. The total number of Non-Housing Corporate Loans stood at 80 loans being disbursed in FY 2022-23, as compared to 71 loans disbursed in FY 2021-22.

PROJECT LOANS:

The loan book represented 4.27% of the project portfolio as of 31st March, 2023. The total Project Loan disbursements stood at ₹ 2,697 crore in FY 2022-23 as against ₹ 1,312 crore for the previous fiscal, a growth of 106%.

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

Amount ₹ 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, 2023	2,48,857.28	677.76	14,083.07	1,171.31	12,124.74	5,381.22	2,75,065.09	7,230.29
As at 31st March, 2022	2,31,853.54	579.32	7,665.50	240.11	11,616.40	5,019.68	2,51,135.45	5,839.12
As at 31st March, 2021	2,08,018.16	117.16	14,336.50	37.17	9,659.13	3,745.19	2,32,013.80	3,899.53

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 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 use 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 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 taken into account 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 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.

MARKETING

LICHFL has established itself as a market authority and possesses one of India's largest marketing networks. As of 31st March, 2023, the Company's network consists of 9 Regional Offices, 281 Marketing Offices, 24 Back Offices to manage credit evaluation and administrative duties, and a centralised Customer Service Point. In order to expand its global market presence, the Company has also opened a representative office in Dubai. To assure contact with end customers, the organisation has assembled a formidable team of Home Loan Agents, Direct Selling Agents, and Customer Relationship Associates.

Throughout the year, LICHFL publicised its products in various regions of the country through different types of media, which contributed to its marketing success.

RECOVERY MANAGEMENT

Gross NPAs as of 31st March, 2023 totaled ₹ 12,124.74 crore, or 4.41% of the Company's loan portfolio, compared to ₹ 11,616.40 crore, or 4.64% of the loan portfolio as of 31st March, 2022.

The net NPA as of 31st March, 2023 was ₹ 6,743.52 crore, or 2.50% of the loan portfolio, compared to ₹ 6,596.73 crore, or 2.69%, as of 31st March, 2022.

In accordance with Ind AS 109, asset categorisation and provisioning modifications for anticipated credit loss are reported on an Expected Credit Loss (ECL) basis. According to the same method, the provisions for ECL were ₹ 7,230.26 crore on 31st March, 2023, up from ₹ 5,839.12 crore on 31st March, 2022.

As of 31st March, 2023, Stage 3 Exposure at Default was 4.37%, down from 4.64% as of 31st March, 2022. The Company is constantly focused on accelerating the recovery by initiating all-out efforts and allocating more resources to its most vital business sector. The collection efficiency was 99% in March 2023.

HUMAN RESOURCES DEVELOPMENT

LICHFL believes that its human resources have the greatest impact on the expansion of the organisation. In all aspects, including efficient resource management and the rapid scaling of existing and new initiatives, the human resources division has been a pillar of the Company's strength. The Company maintains a safe, accommodating, and productive working environment throughout all of its activities. The Company guarantees the welfare and professional development of its personnel through different programmes such as performance and appraisal, learning management, talent management, internal and external training courses, and so on. The Company's human resource management procedures provide a work atmosphere that encourages employee satisfaction, constant motivation, and a high retention rate. The Company evaluates its business and personnel policies on a regular basis in order to improve working procedures. As of 31st March, 2023, there were 2,462 employees at the Company. As of 31st March, 2023, the loan asset per employee was ₹ 111.72 crore, while the net profit per employee was ₹ 1.17 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 in the event that actual results considerably differ from those projected due to changes in internal or external causes. These statements are based on various assumptions about anticipated future events.