CHAPTER IV

HDFC AND LICHFL IN HOUSING FINANCE INDUSTRY – PROFILE AND ROLE

In order to tap the potential of demand for housing finance, a number of institutions emerged into this field. They are offering innovative housing loan products to meet the varied requirements of present and prospective borrowers. The role of specialized HFIs has increased further as the financial assistance provided under the public housing schemes is inadequate to satisfy their requirements. HDFC and LICHFL are the two specialized housing finance institutions selected for the study. One of the major objectives of the study is to examine the role of HDFC and LICHFL in alleviating the problem of housing finance. Hence, the profile and role of HDFC and LICHFL in the housing finance scenario of the country is given in this chapter. The chapter is divided into two sections - A) Profile and Role of HDFC, and B) Profile and Role of LICHFL.
4.1 PROFILE AND ROLE OF HDFC

Incorporation

HDFC was incorporated on October 17, 1977 under the chairmanship of late Mr. H.T. Parekh. Since 1993, Mr. Deepak S. Parekh is the executive chairman of the corporation. It was set up at the initiative of ICICI as the first formal housing finance institution in the private sector. Now, HDFC is India’s premier HFC and enjoys an impeccable track record in India as well as in international markets. It has developed significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities. With the attainment of Rs.1 lakh crore loan approvals, HDFC has become India’s leading example of how a private institution can successfully enable growth in a socially relevant sector.

HDFC was promoted with an initial authorized capital of Rs.50 crore and the paid up capital was Rs.10 crores. Its authorized capital as on 31st March 2010 was Rs.325 crores. Its paid up capital has increased from Rs.119.11 crore as on March 31, 2000 to Rs.287.11 crores on 31st March 2010 showing an overall growth of 141.05 percent.

Share Holding Pattern of HDFC

As on 31st March 2010, Foreign Institutional Investors held majority (57.91 percent) shares, followed by 15.19 percent by Foreign Direct Investors. Resident Individuals contributed 10.38 percent of the total share holding and
insurance companies 11.22 percent. Others consisting of domestic companies, mutual funds, Banks, NRIs, overseas corporate bodies and clearing members contributed 5.3 percent.

**Business Objective**

HDFC was formed with the main objective of meeting a social need - that of promoting home ownership by providing long term finance to households for their housing needs. Its primary objective is to enhance residential housing stock in the country through the provision of housing finance in a systematic and professional manner and also to increase the flow of resources to the housing sector by integrating the housing finance sector with the overall domestic financial market. By maintaining its fundamental principle of corporate governance,—that of integrity, transparency and fairness - the corporation seeks to provide an enabling environment to harmonise the goals of maximising shareholder value and maintaining a customer centric focus.

**Performance Indicators (Income, PBT and PAT)**

The income earned by the company, PBT, PAT and dividends are the major indicators of good performance. Since its origin, HDFC has maintained a consistent and healthy growth in its operation to remain the clear market leader in mortgages. The income earned, PBT and PAT of HDFC during the period 2000-2010 is shown in Table 4.1.
Table 4.1

Income, PBT and PAT of HDFC during 2000–2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (Rs.cr)</th>
<th>Increase Y-O-Y %</th>
<th>PBT (Rs.cr)</th>
<th>Increase Y-O-Y %</th>
<th>PAT (Rs.cr)</th>
<th>Increase Y-O-Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>2016</td>
<td>0</td>
<td>461</td>
<td>0</td>
<td>402</td>
<td>0</td>
</tr>
<tr>
<td>2000-01</td>
<td>2382</td>
<td>18.16</td>
<td>556</td>
<td>20.61</td>
<td>474</td>
<td>17.91</td>
</tr>
<tr>
<td>2001-02</td>
<td>2700</td>
<td>13.35</td>
<td>691</td>
<td>24.28</td>
<td>580</td>
<td>22.36</td>
</tr>
<tr>
<td>2002-03</td>
<td>2976</td>
<td>10.22</td>
<td>851</td>
<td>23.16</td>
<td>690</td>
<td>18.97</td>
</tr>
<tr>
<td>2003-04</td>
<td>3078</td>
<td>03.43</td>
<td>1027</td>
<td>20.68</td>
<td>852</td>
<td>23.48</td>
</tr>
<tr>
<td>2004-05</td>
<td>3410</td>
<td>10.79</td>
<td>1257</td>
<td>22.40</td>
<td>1037</td>
<td>21.71</td>
</tr>
<tr>
<td>2005-06</td>
<td>4278</td>
<td>25.46</td>
<td>1557</td>
<td>23.87</td>
<td>1257</td>
<td>21.22</td>
</tr>
<tr>
<td>2006-07</td>
<td>5896</td>
<td>37.82</td>
<td>1968</td>
<td>26.40</td>
<td>1570</td>
<td>24.90</td>
</tr>
<tr>
<td>2007-08</td>
<td>8196</td>
<td>39.01</td>
<td>2737</td>
<td>39.08</td>
<td>1943</td>
<td>23.76</td>
</tr>
<tr>
<td>2008-09</td>
<td>11018</td>
<td>34.43</td>
<td>3219</td>
<td>17.61</td>
<td>2283</td>
<td>17.50</td>
</tr>
<tr>
<td>2009-10</td>
<td>11361</td>
<td>3.11</td>
<td>3916</td>
<td>21.65</td>
<td>2826</td>
<td>23.79</td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>19.58</td>
<td></td>
<td>23.97</td>
<td></td>
<td>21.56</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.

The income of the corporation increased from Rs.2,016 crore during 1999-00 to Rs.11,361 crore in 2009-10 registering a CAGR of 19.58. During the period, the profit before tax increased from Rs.461 crore to Rs.3916 crore with a CAGR of 23.97 and the profit after tax increased from Rs.402 crore to Rs.2,826 crore with 21.56 CAGR. It confirms the consistent and healthy operations of the company.
The growth in income, PBT and PAT of HDFC during 2000-2010 is depicted in Figure 4.1.

**Figure 4.1**

Income, PBT and PAT of HDFC during 2000–2010

---

**Marketing and Distribution Network of HDFC**

The network of HDFC branches is much wider and has deeper reach. As a result, the opportunities to provide housing finance services have become faster and increasing. The distribution network of HDFC spreads over 279 outlets, which include 65 offices of the wholly owned distribution company-HDFC Sales Private Limited and a few dedicated Direct Sales
Associates. In addition, HDFC covers over 90 locations through outreach programs. The Company has an international office at Dubai, London and Singapore to cater to the needs of NRIs. In Kerala, the operations of HDFC are effectively carried out through 10 offices spread throughout the state.

As a result of this, total loans sourced from distribution channels accounted for 82 percent of individual loans disbursed by HDFC during 2007-08 in value terms. The subsidiaries of HDFC have strong synergies with HDFC. Hence, as a marketing strategy, efforts are channalised into cross selling so as to offer customers a wide range of financial products and services under the HDFC brand.

As a successful marketing tool, HDFC organized and participated in property fairs and exhibitions like ‘budget homes’ and ‘priceless homes’ which brought together a number of developers providing a platform to showcase various homes in parts of the country. Property fairs and exhibition have proved to be a successful marketing tool, giving HDFC, an opportunity to give home-seekers a complete solution, right from identifying a home to financing it. During 2009-10 HDFC ran a key brand campaign—“HDFC—because every family needs a home” with the objective of connecting with its existing and prospective customers making the HDFC brand synonymous with a home. Table 4.2 shows the number of outlets of HDFC during the period 1999-2010.
The number of outlets increased from 67 in 1999-00 to 279 in 2009-10 showing an overall increase of 316.42 percent. However, the growth rate of outlets shows a declining trend from 2001-02. This may be due to the efficient services rendered by the company using modern information technology.
Subsidiaries and Associates of HDFC

To explore new avenues of investment and to gain strong synergies, HDFC makes investments in its subsidiary and associate companies. Such investments are made with the objective of providing a wide range of financial services and products under the HDFC brand name. During 2009-10, HDFC made gross investments in the equity capital of its subsidiary companies, HDFC-SL-Rs.127.28 crore and HDFC-ERGO-Rs.159.10 crore.

The investment function supports the core business of housing finance of HDFC. The investment mandate ensures adequate levels of liquidity to support core business requirements, maintaining high degree of safety and optimizing the level of returns. The investment portfolio of HDFC as on 31st March 2010 stood at Rs.10,727 crore as against Rs.10469 crore in the previous year. During 2009-10, the percentage of investment to total assets was 10 percent. The increased level of investment is primarily on account of investments in shares of subsidiaries and in mutual and other funds.

Resource Mobilization

The major source of funds of the corporation, apart from share capital and reserves, consists of loan funds. The loan funds mainly comprises of loans from international agencies, NHB, scheduled banks, bonds, debentures, commercial paper and deposits. The funds raised from major sources by HDFC during 1999-00 to 2009-10 are shown in Table 4.3.
**Table 4.3**

**Funds Mobilised by HDFC During 1999-00 to 2009-10**
(Rs. in crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net worth</th>
<th>Term borrowings</th>
<th>Deposits</th>
<th>Total borrowings</th>
<th>Total fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>2096</td>
<td>6765</td>
<td>6224</td>
<td>12989</td>
<td>15085</td>
</tr>
<tr>
<td>2000-01</td>
<td>2372</td>
<td>8220</td>
<td>7250</td>
<td>15470</td>
<td>17842</td>
</tr>
<tr>
<td>2001-02</td>
<td>2703</td>
<td>10265</td>
<td>8491</td>
<td>18756</td>
<td>21459</td>
</tr>
<tr>
<td>2002-03</td>
<td>3044</td>
<td>14130</td>
<td>9122</td>
<td>23252</td>
<td>26296</td>
</tr>
<tr>
<td>2003-04</td>
<td>3394</td>
<td>19346</td>
<td>9338</td>
<td>28684</td>
<td>32078</td>
</tr>
<tr>
<td>2004-05</td>
<td>3883</td>
<td>28807</td>
<td>7840</td>
<td>36647</td>
<td>40531</td>
</tr>
<tr>
<td>2005-06</td>
<td>4468</td>
<td>37980</td>
<td>8741</td>
<td>46721</td>
<td>51190</td>
</tr>
<tr>
<td>2006-07</td>
<td>5551</td>
<td>46809</td>
<td>10384</td>
<td>57193</td>
<td>62744</td>
</tr>
<tr>
<td>2007-08</td>
<td>11947</td>
<td>57855</td>
<td>11296</td>
<td>69151</td>
<td>81098</td>
</tr>
<tr>
<td>2008-09</td>
<td>13137</td>
<td>64481</td>
<td>19375</td>
<td>83856</td>
<td>94993</td>
</tr>
<tr>
<td>2009-10</td>
<td>15198</td>
<td>73484</td>
<td>23081</td>
<td>96565</td>
<td>111763</td>
</tr>
<tr>
<td>Increase %</td>
<td>625.10</td>
<td>986.24</td>
<td>270.84</td>
<td>643.44</td>
<td>640.89</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC

The net worth of the corporation increased from Rs.2,096 crore in 1999-00 to Rs.15,198 crore in 2009-10 showing an increase of 625.1 percent.

The total borrowings also has grown to Rs.96,565 crore in 2009-10 as against Rs.12,989 crore in 1999-00 recording an overall growth of about 643 percent.

The term borrowings also increased by 986.24 percent during the period.

Hence, the total fund of the corporation increased from Rs.15,085 crore to Rs.1,11,763 crore with an increase of 640.89 percent over the period. This shows the efficiency of the company in mobilising resources.
Asset Profile of HDFC

The loan portfolio constitutes the major component of assets of HDFC.

The asset profile of HDFC during 1999-00 to 2009-10 is shown in Table 4.4.

Table 4.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Portfolio* Percentage to total assets</th>
<th>Investments** Amount (Rs.cr)</th>
<th>Percentage to total assets</th>
<th>Housing Loan Amount (Rs.cr)</th>
<th>Annual growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>78</td>
<td>3318.59</td>
<td>13</td>
<td>10062.99</td>
<td>0.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>78</td>
<td>3043.05</td>
<td>13</td>
<td>13224.66</td>
<td>31.42</td>
</tr>
<tr>
<td>2001-02</td>
<td>84</td>
<td>2931.03</td>
<td>11</td>
<td>17207.68</td>
<td>30.12</td>
</tr>
<tr>
<td>2002-03</td>
<td>86</td>
<td>2977.86</td>
<td>9</td>
<td>21749.91</td>
<td>26.36</td>
</tr>
<tr>
<td>2003-04</td>
<td>90</td>
<td>2973.37</td>
<td>7</td>
<td>27974.27</td>
<td>28.62</td>
</tr>
<tr>
<td>2004-05</td>
<td>92</td>
<td>3130.04</td>
<td>6</td>
<td>36011.50</td>
<td>28.73</td>
</tr>
<tr>
<td>2005-06</td>
<td>91</td>
<td>3876.34</td>
<td>7</td>
<td>44990.12</td>
<td>24.93</td>
</tr>
<tr>
<td>2006-07</td>
<td>90</td>
<td>3666.23</td>
<td>7</td>
<td>56512.36</td>
<td>25.61</td>
</tr>
<tr>
<td>2007-08</td>
<td>90</td>
<td>6915.01</td>
<td>8</td>
<td>72997.94</td>
<td>29.17</td>
</tr>
<tr>
<td>2008-09</td>
<td>89</td>
<td>10468.75</td>
<td>10</td>
<td>85198.11</td>
<td>16.73</td>
</tr>
<tr>
<td>2009-10</td>
<td>88</td>
<td>10727.46</td>
<td>10</td>
<td>97966.99</td>
<td>14.99</td>
</tr>
<tr>
<td>Increase (%)</td>
<td></td>
<td>223.25</td>
<td></td>
<td>873.54</td>
<td></td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25.69</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC

* Portfolio (loans, preference shares & debentures for financing housing & real estate)

** Investments (excluding preference shares & debentures for financing housing & real estate)
The portfolio constituted 78 to 92 percent of the total assets of the corporation while the investments to total assets formed 7 to 13 percent during the period. The amount of housing loan shows almost a steady increase throughout the period with a CAGR of 25.69.

**Asset-Liability Management**

HDFC manages various risks associated with the mortgage business. These risks include credit risk, liquidity risk and interest rate risk. The credit risk is managed through stringent credit norms. Liquidity risk and interest rate risk arising out of maturity mismatch of assets and liabilities are managed through regular monitoring of the maturity profiles. The asset-liability management of HDFC is very efficient and it does not take an interest rate mismatch. As at March 31, 2010, assets and liabilities with maturity up to one year amounted to Rs.30,837 crore and Rs.29,352 crore respectively. Asset and liabilities with maturity of between 2-5 years amounted to Rs.50,962 crore and Rs.51,340 crore respectively and assets and liabilities with maturity beyond 5 years amounted to Rs.34767 crore and Rs.35874 crore respectively. As at March 31, 2010, 79 percent of the assets and 78 percent of the liabilities were on a floating rate basis.\(^{11}\)

From time to-time HDFC entered into risk management arrangements, in order to hedge its exposure to foreign currency and interest rate risks. The currency risk on the borrowings is actively hedged through a combination of dollar denominated assets, long term forward contracts, principal only swaps, full currency swaps and currency options. As at March 31, 2010, the
corporation had foreign currency borrowings of USD 1,036.03 million equivalents. The entire principal on the foreign currency borrowings has been hedged by way of principal only swaps, currency options and forward contracts and risk management arrangements with financial institutions. Further, interest rate swaps on a notional amount of USD 90 million equivalents are outstanding and have been undertaken to hedge the interest rate risk on the foreign currency borrowings. As at March 31, 2010, the corporation’s net foreign currency exposure on borrowings net of risk management arrangements was nil\textsuperscript{12}.

On account of the predominance of it’s Adjustable Rate Home Loan product and also to reduce overall borrowing cost, HDFC has entered into interest rate swap whereby it has converted its fixed rate rupee liabilities of a notional amount of Rs.16,065 crore as at March 31, 2010 for varying maturities into floating rate liabilities. It also entered into cross currency swaps for a notional amount of USD 693.86 million equivalents wherein it has converted its rupee liabilities into foreign currency liabilities and the interest rate is linked to benchmarks of the respective currencies\textsuperscript{13}. These risk management arrangements have resulted in a substantial savings for HDFC.

**Capital Adequacy Norms**

HDFC has complied with the HFCs directions, 2001, prescribed by NHB, regarding capital adequacy. The Capital Adequacy Ratio (CAR) of the corporation for different years is given in Table 4.5.
Table 4.5

Capital Adequacy Ratio of HDFC

<table>
<thead>
<tr>
<th>Year</th>
<th>CAR (%)</th>
<th>As per NHB norm (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>12.7</td>
<td>10</td>
</tr>
<tr>
<td>2001-02</td>
<td>14.5</td>
<td>12</td>
</tr>
<tr>
<td>2002-03</td>
<td>14.5</td>
<td>12</td>
</tr>
<tr>
<td>2003-04</td>
<td>13.3</td>
<td>12</td>
</tr>
<tr>
<td>2004-05</td>
<td>12.1</td>
<td>6</td>
</tr>
<tr>
<td>2005-06</td>
<td>8.5</td>
<td>6</td>
</tr>
<tr>
<td>2006-07</td>
<td>7.6</td>
<td>6</td>
</tr>
<tr>
<td>2007-08</td>
<td>14.6</td>
<td>6</td>
</tr>
<tr>
<td>2008-09</td>
<td>13.2</td>
<td>6</td>
</tr>
<tr>
<td>2009-10</td>
<td>12.8</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.

HDFC’s capital adequacy ratio of the risk weighted assets and of tier I capital was always above the minimum prescribed by NHB which is 12 percent and 6 percent respectively. This reveals the strong capital base of the company.

Corporate Governance

HDFC is a professionally managed company following the corporate governance principles of integrity, transparency and fairness as per the provisions of the listing agreement. The corporation has always believed in forging and nurturing long-term relationships with its borrowers, depositors, agents, shareholders and other stakeholders. For HDFC, corporate governance is a continuous journey, seeking to provide an enabling
environment to harmonize the goals of maximizing shareholders value and maintaining a customer centric focus. HDFC was ranked amongst the top three Indian companies with “Best Governance Practices” as per the Finance Asia Survey 2007\textsuperscript{14}.

**Lending Operation of HDFC**

The growth of any financial institution can be appraised in terms of the extent of loan disbursed by it. The amount of loan approvals, disbursements, and the proportionate increase during 2000-10 is shown in Table 4.6.

**Table 4.6**

**Housing Loan Sanctioned and Disbursed by HDFC**

<table>
<thead>
<tr>
<th>Year</th>
<th>Approval</th>
<th>Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (Rs.cr)</td>
<td>Cumulative total (Rs.cr)</td>
</tr>
<tr>
<td>1999-00</td>
<td>5305</td>
<td>24215</td>
</tr>
<tr>
<td>2000-01</td>
<td>6880</td>
<td>31094</td>
</tr>
<tr>
<td>2001-02</td>
<td>9041</td>
<td>40136</td>
</tr>
<tr>
<td>2002-03</td>
<td>11732</td>
<td>51867</td>
</tr>
<tr>
<td>2003-04</td>
<td>15216</td>
<td>67083</td>
</tr>
<tr>
<td>2004-05</td>
<td>19715</td>
<td>86798</td>
</tr>
<tr>
<td>2005-06</td>
<td>25634</td>
<td>112432</td>
</tr>
<tr>
<td>2006-07</td>
<td>33332</td>
<td>145764</td>
</tr>
<tr>
<td>2007-08</td>
<td>42520</td>
<td>188284</td>
</tr>
<tr>
<td>2008-09</td>
<td>49166</td>
<td>237450</td>
</tr>
<tr>
<td>2009-10</td>
<td>60611</td>
<td>298061</td>
</tr>
<tr>
<td>Total</td>
<td>279152</td>
<td></td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>28.94</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.
During the period 2000-10 the total loan approvals were Rs.2,79,152 crore which form 93.66 percent of the cumulative loan approval as on 31st March, 2010. The total loan disbursements during the same period were Rs.2,26,563 crore which account for 93.54 percent of the cumulative loan approval as on 31st March 2010. Loan approvals and disbursements showed almost steady increase during the period. The CAGR of loan approvals and disbursements stood at 28.94 and 27.78 respectively. Such a progressive trend in loan approvals and disbursements reveals that individual loan business of HDFC continued to be strong despite increased competition during the period.

Figure 4.2 give a picture of housing loan sanctioned and disbursed by HDFC during 2000-2010.

**Figure 4.2**

*Housing Loan Sanctioned and Disbursed by HDFC*
Average Loan Size

The increased affordability due to higher income and the ever improving life style has increased the demand for quality dwellings. Similarly, the property prices have also appreciated significantly during the past three years. All these have amplified the ticket size of loans. Table 4.7 illustrates the growth of average size of individual loan during 2000-10.

Table 4.7

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Loan size (Rs.in lakh)</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>2.90</td>
<td>0</td>
</tr>
<tr>
<td>2000-01</td>
<td>3.32</td>
<td>14.18</td>
</tr>
<tr>
<td>2001-02</td>
<td>3.33</td>
<td>0.30</td>
</tr>
<tr>
<td>2002-03</td>
<td>3.66</td>
<td>9.90</td>
</tr>
<tr>
<td>2003-04</td>
<td>4.50</td>
<td>22.95</td>
</tr>
<tr>
<td>2004-05</td>
<td>6.00</td>
<td>33.33</td>
</tr>
<tr>
<td>2005-06</td>
<td>8.40</td>
<td>40.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>11.00</td>
<td>30.95</td>
</tr>
<tr>
<td>2007-08</td>
<td>14.00</td>
<td>27.27</td>
</tr>
<tr>
<td>2008-09</td>
<td>15.40</td>
<td>10.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>16.90</td>
<td>9.74</td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>19.86</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.
The average size of individual loan showed a steep increase throughout the period. The average size of individual loan increased from Rs.2.90 lakh in 1999-00 to Rs.16.9 lakh in 2009-10 with a CAGR of 19.86.

The growth in the size of average loan by HDFC during the period is illustrated in Figure 4.3.

**Figure 4.3**

**Average Loan Size**

Loans Outstanding

Loans outstanding constitute a major portion of the total assets of the company. The total loans outstanding consist mainly of individual loans, loans to corporate bodies, and other loans. The details of loans outstanding at the end of March 2000 to 2010 are presented in Table 4.8.
### Table 4.8

**Total Loans Outstanding at the end of March 2000-2010**  
(Rs.in crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan outstanding</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individuals</td>
<td>Corporate bodies</td>
<td>Others</td>
<td>Total</td>
</tr>
<tr>
<td>1999-00</td>
<td>7239 (71.94)</td>
<td>2713 (26.96)</td>
<td>111 (1.10)</td>
<td>10063 (100.0)</td>
</tr>
<tr>
<td>2000-01</td>
<td>9585 (72.48)</td>
<td>3556 (26.89)</td>
<td>84 (0.63)</td>
<td>13225 (100.0)</td>
</tr>
<tr>
<td>2001-02</td>
<td>12566 (73.19)</td>
<td>4500 (26.21)</td>
<td>103 (0.60)</td>
<td>17169 (100.00)</td>
</tr>
<tr>
<td>2002-03</td>
<td>15459 (71.08)</td>
<td>6111 (28.10)</td>
<td>180 (0.82)</td>
<td>21750 (100.0)</td>
</tr>
<tr>
<td>2003-04</td>
<td>19159 (68.49)</td>
<td>8489 (30.35)</td>
<td>326 (1.16)</td>
<td>27974 (100.0)</td>
</tr>
<tr>
<td>2004-05</td>
<td>24259 (67.36)</td>
<td>11162 (31.00)</td>
<td>591 (1.64)</td>
<td>36011 (100.0)</td>
</tr>
<tr>
<td>2005-06</td>
<td>30262 (67.27)</td>
<td>13976 (31.06)</td>
<td>752 (1.67)</td>
<td>44990 (100.0)</td>
</tr>
<tr>
<td>2006-07</td>
<td>37362 (66.11)</td>
<td>17859 (31.60)</td>
<td>1291 (2.29)</td>
<td>56512 (100.0)</td>
</tr>
<tr>
<td>2007-08</td>
<td>48378 (66.27)</td>
<td>22772 (31.20)</td>
<td>1848 (2.53)</td>
<td>72998 (100.0)</td>
</tr>
<tr>
<td>2008-09</td>
<td>54889 (64.43)</td>
<td>28417 (33.35)</td>
<td>1892 (2.22)</td>
<td>85198 (100.0)</td>
</tr>
<tr>
<td>2009-10</td>
<td>61305 (62.58)</td>
<td>35119 (35.85)</td>
<td>1544 (1.57)</td>
<td>97967 (100.0)</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.

Figures in brackets denotes percentages to total

Individual loan outstanding shows a steady increase from Rs.7,239 crore in 1999-00 to Rs.61305 in 200-10. The total loan outstanding also
increased continuously from Rs.10,063 crore to Rs.97,967 crore during the same period. Individual loan constitutes a major share (62 to 73 percent) of the total loan outstanding. The corporate loan forms about 26-35 percent of the total loan. It is to be noted that the proportion of individual loan decreased from 71.94 to 62.58 while that of corporate loan increased from 26.96 to 35.85 during the period. This shows the preference of the company towards big ticket loans.

**Loan Quality / NPA**

The quality of asset in housing finance industry is superior to that of any other segment of finance industry. However, the incidence of default is a reality. The efficiency of a HFI can be evaluated in terms of the extent of the recovery of loans.

HDFC has an excellent recovery mechanism to minimize its NPA. For this, it strengthened its recoveries workforce by setting up special call centers all over India to arrest defaults at the preliminary stage. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 has also proved to be a useful recovery tool, which facilitated the corporation to successfully initiate recovery action under this Act. This will enable the HFCs to foreclose bad loans without the intervention of the Court and control NPAs. With effect from March 31, 2005, an asset is a non-performing asset if the interest or installment is overdue for 90 days, earlier it was 6 months. The provision for contingencies as a percentage of portfolio and NPAs during 2000-10 is given in Table 4.19.
### Table 4.9
Provision for Contingencies and NPA as a Percentage of Portfolios

<table>
<thead>
<tr>
<th>Year</th>
<th>Provision for contingencies</th>
<th>6 month norm</th>
<th>3 month norm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>1.38</td>
<td>0.90</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>1.34</td>
<td>0.81</td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>1.30</td>
<td>0.91</td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>1.38</td>
<td>0.92</td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>1.19</td>
<td>0.89</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>1.01</td>
<td>0.84</td>
<td>1.10</td>
</tr>
<tr>
<td>2005-06</td>
<td>0.82</td>
<td>0.79</td>
<td>0.96</td>
</tr>
<tr>
<td>2006-07</td>
<td>0.71</td>
<td>0.77</td>
<td>0.92</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.63</td>
<td>0.68</td>
<td>0.84</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.72</td>
<td>0.56</td>
<td>0.81</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.66</td>
<td>0.53</td>
<td>0.79</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.

The proportion of NPA (as per 6 months norm) to total loan portfolio steeply declined from 0.9 in 1999-00 to 0.53 in 2009-10. The provision for contingencies also decreased from 1.38 percent to 0.66 during the same period. The percentage of NPA (as per 3 months norm) decreased from 1.1 in 2004-05 to 0.79 in 2009-10. The gross NPA as per 90 days norms as on March 31, 2010 amounted to Rs.782.85 crore which forms 0.75 percent of the total loan portfolio as against 0.81 percent in 2008-09\(^{15}\). This shows the improvement in the quality of loan assets.
Figure 4.4 gives a pictorial representation of Table 4.9

**Figure 4.4**

Provision for Contingencies and NPA as a Percentage of Portfolios

Spread on Loans

HDFC’s growth in loan assets is a clear reminder of the distribution strength of the company. The operational efficiency of the company can be evaluated in terms of the spread of loan which is the excess of average yield over the average cost of borrowing. The average yield on loan assets, the average all-inclusive cost of funds and the spread on loans during the period 2000-2010 are given in Table 4.10.
Table 4.10

<table>
<thead>
<tr>
<th>Year</th>
<th>Average yield (%)</th>
<th>Average Cost of borrowing * (%)</th>
<th>Spread on loan (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>14.84</td>
<td>13.00</td>
<td>1.84</td>
</tr>
<tr>
<td>2000-01</td>
<td>14.31</td>
<td>12.51</td>
<td>1.80</td>
</tr>
<tr>
<td>2001-02</td>
<td>13.37</td>
<td>11.41</td>
<td>1.96</td>
</tr>
<tr>
<td>2002-03</td>
<td>11.84</td>
<td>9.69</td>
<td>2.15</td>
</tr>
<tr>
<td>2003-04</td>
<td>9.97</td>
<td>7.77</td>
<td>2.20</td>
</tr>
<tr>
<td>2004-05</td>
<td>8.64</td>
<td>6.47</td>
<td>2.17</td>
</tr>
<tr>
<td>2005-06</td>
<td>8.66</td>
<td>6.50</td>
<td>2.16</td>
</tr>
<tr>
<td>2006-07</td>
<td>9.67</td>
<td>7.49</td>
<td>2.18</td>
</tr>
<tr>
<td>2007-08</td>
<td>11.25</td>
<td>8.93</td>
<td>2.32</td>
</tr>
<tr>
<td>2008-09</td>
<td>12.20</td>
<td>9.99</td>
<td>2.21</td>
</tr>
<tr>
<td>2009-10</td>
<td>10.90</td>
<td>8.59</td>
<td>2.31</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, HDFC.
*including term loans, bonds, debentures & deposits

The average yield on loan assets decreased from 14.84 percent in 1999-00 decreased to 8.64 in 2004-05 and then increased to 12.2 percent during 2008-09. The average all-inclusive cost of funds also showed the same trend during the period. The spread on loans over the cost of borrowings increased almost steadily from 1.84 percent in 1999-00 to 2.31 percent in 2009-10. This shows the operational efficiency of the organization.

The expanding spreads suggest that, HDFC can match the competition from large banks on the cost front too. Large banks are mobilising incremental funds at rates of 4 percent or even lower, but the operating costs peg their over all cost higher and the advantage is neutralised to some extent. In
contrast, HDFC is accessing incremental funds at lower than 6 percent which is higher relative to banks. However, its operating cost is much lower relative to banks\textsuperscript{16}. So, HDFC’s spreads are high and provide it with a sustainable advantage to deal with the competition.

**Human Resources**

The success and survival of any organization depends to a great extent on the commitment and contribution of its dedicated members. HDFC considers human resources as the most valuable asset. The efficiency of HDFC’s staff is evident from the proportionate increase in the number of offices as against the number of employees. Particulars of employees as well as the number of offices as on March 31, 2000 to 2010 is shown in Table 4.11.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of employees</th>
<th>No. of Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>861</td>
<td>67</td>
</tr>
<tr>
<td>2001</td>
<td>937</td>
<td>87</td>
</tr>
<tr>
<td>2002</td>
<td>1029</td>
<td>118</td>
</tr>
<tr>
<td>2003</td>
<td>1151</td>
<td>142</td>
</tr>
<tr>
<td>2004</td>
<td>1230</td>
<td>173</td>
</tr>
<tr>
<td>2005</td>
<td>1291</td>
<td>203</td>
</tr>
<tr>
<td>2006</td>
<td>1343</td>
<td>219</td>
</tr>
<tr>
<td>2007</td>
<td>1388</td>
<td>234</td>
</tr>
<tr>
<td>2008</td>
<td>1445</td>
<td>250</td>
</tr>
<tr>
<td>2009</td>
<td>1490</td>
<td>267</td>
</tr>
<tr>
<td>2010</td>
<td>1505</td>
<td>279</td>
</tr>
</tbody>
</table>

**Increase %**

74.80 316.42

Source: Compiled from Annual Reports, HDFC.
The number of employees as on March 31, 2000 was 861 which increased to 1505 in 2010 showing an increase of about 75 percent. While, the number of offices increased from 67 to 279 during the same period registering a growth of 316 percent. This is a clear evidence of the efficiency of HDFC staff.

**Awards for Performance**

As a token for the excellent performance, HDFC was awarded the following awards:

- The Economic Times Corporate Citizen Award for its long-standing commitment to community development. (2004)
- Award for ‘Best present’ accounts by the Institute of Chartered Accountants of India, (2004).\(^{17}\)
- During the year 2005-06 the corporation was awarded ‘Business Superbrand’ (an annual publication explores the history, development and achievements of the strongest business brands in India) status. Other awards received during the year were: ‘Best Home Financier’ award for 2005, ‘Gold Shield’ for the best presented accounts by the Institute of Chartered Accountants of India.\(^{18}\)
Best ‘Investment Management in India’ at the EUROMONEY 2007 Real Estate Awards.

Ranked amongst India’s top three best managed companies by Finance Asia, 2007\textsuperscript{19}.

Ranked third amongst the Asian Banking and Finance Sector for ‘Highest Return on Equity’ by Asiamoney.

As regards the Corporation’s marketing initiatives, HDFC ranked amongst the top 10 most valued Indian brands by 4 Ps Business and Marketing, 2007.

In 2008, Goldman Sachs listed HDFC among the world’s seven best companies in financial services to sustain a competitive advantage in the long-term.

HDFC topped the Karmayog Corporate Social Responsibility Ratings in 2008\textsuperscript{20}.

Top Indian Company in the ‘Financial Institutions/Non-Banking Financial Companies/Financial Services’ category at the Dun & Bradstreet-Rolta Corporate Award for four consecutive years.

Motilal Oswal Financial Services ranked HDFC as the ‘Most Consistent Wealth Creator’ in 2009\textsuperscript{21}.

**Corporate Social Responsibility**

Business is a social process. It is linked with different people such as employees, suppliers, customers, and shareholders who are members of the community in which the business operates. So, business and society go hand
in hand. A business tries to bring about social change through planned CSR activities. The World Business Council for Sustainable Development has stated that ‘Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large’. It is this commitment that HDFC has exemplified with zeal, perseverance and enthusiasm.

There has been a consistent effort at HDFC to widen its role and scope as a responsible corporate. HDFC is always in the forefront in fulfilling its social commitment by venturing into new initiatives. For this purpose, a Shelter Assistance Reserve has been created to offer financial support to a wide range of social activities. The various segments in which the fund has been utilised are: Education, Community Development, Child welfare, Calamities and Disaster relief, Health, Medical Services, Physical impairment, Research and policy initiatives, sports and Arts, Heritage & Environment, Infrastructure and IT support.

**Consultancy Services**

Apart from doing the main business of housing finance, HDFC is providing a lot of technical assistance and consultancy services to a number of institutions or agencies in India and abroad. The World Bank considers HDFC as a model private sector housing finance company in developing countries and a provider of technical assistance for new and existing institutions in India and abroad. It has also served as consultant to
international agencies such as World Bank, United Nations Agency for
International Development, Asian Development Bank, United Nations Center
for Human Settlement, Commonwealth Development Corporation and United
Nation’s Development Programme. At the national level, HDFC executives
have played a key role in formulating National Housing Policies and
Strategies. Recognizing HDFC’s expertise, the Government of India has
invited HDFC executives to join a number of committees and task forces
related to housing finance, urban development and capital markets24.

4.2 Housing Finance Services of HDFC

HDFC has grown rapidly into India’s premier housing finance institution
having assisted over a million families in their dream home. HDFC’s progress
over the last twenty years chronicles in a way the development of the financial
sector in India. From a single product company, HDFC has today evolved
into ‘Brand’ representing a wide range of products and services-retail and
wholesale, served through an array of institutions.

4.2.1 Different Home Loan Products Offered by HDFC

To realize the objective of providing affordable housing finance in a
systematic and professional manner, HDFC offers the widest range of flexible
home loan products to meet the varying requirements of the home seekers.
Tailor-made home loan products are designed and are made available to suit
the diversified needs of both the existing and prospective borrowers. The
different home loan products available at the option of the borrowers based on interest rate are:

- **Variable Rate or Adjustable Rate Home Loan**, which is linked to HDFCs Retail Prime Lending Rate (RPLR). The rate will be revised every 3 months if there is a change in RPLR.

- **Fixed rate loan**, which remains fixed throughout the loan period.

- **Combi-loan (2 in one loan)** – a combination of variable and fixed rate i.e. the loan is split into a fixed and a floating component. The proportion of fixed to floating depends on the risk taking capacity of the borrower.

In order to provide simple and customized products, HDFC increased its product offerings and simplified certain existing products in the year 2000-01. A short-term loan product was introduced, having tenure of up to 5 years. Another novel product introduced in the same year was amount and term based interest rate structure in which lower rates of interest is charged for loans up to Rs.2 lakh with varying tenures. This has enhanced the eligibility for lower income customers and contributed to the growth in retail lending.

The other value option home loan products offered by HDFC are:

- **Loan for Homes** for buying or constructing home. The maximum period of the loan is 20 years subject to the age of retirement (in case of employees) or on reaching 65 years of age whichever is earlier.

- **Home Improvement loans** to enhance the quality of the house by making internal and external repairs and other structural improvements
like painting, roofing, tiling, flooring etc. The maximum term for this loan is 15 years.

- **Home Extension loans** – to facilitate the extension of an existing house like additional room, additional floor etc., to meet the needs of a growing family.

- **Short Term Bridging Loans** is provided for the interim period between purchase of a new dwelling unit and the sale of the present unit. The maximum term is 2 years.

- **Home equity loans** for meeting of expenses such as higher education of children, medical expenses, marriage etc., The maximum ceiling of the loan is Rs.100 lakh or 40 percent of the market value of the dwelling unit, whichever is less.

- **Top-up loans** for existing housing loan customers for any purpose, at special rates.

- **Home conversion Loan** to existing customers to transfer loans to a new property being acquired with an increase in loan.

- **Balance Transfer loans** to refinance home loans availed at higher rates of interest from other institutions.

- **Non Residential Premises Loans** to professionals for construction, purchase or extension of office or clinic. The maximum amount of the loans is Rs.1 crore or 85 percent of the cost of construction or purchase whichever is lower and the maximum period is 10 years.

- **Land Purchase Loans** to purchase land has all the flexibility and repayment options of a normal home loan.
- Loans to NRIs for purchase, construction, extension or renovation of a dwelling unit in India.

Apart from the innovative housing loan products available from HDFC, it also provides certain value added services from HDFC group of companies. The ‘Home Loan Protection Plan’ is a product of HDFC Standard Life Insurance Co. Ltd. It relieves the family of the borrower in discharging the liability in the event of an unfortunate demise of the borrower. The ‘Home Insurance Plan’ of the HDFC CHUBB General Insurance Co. Ltd., helps safeguard the house property and possessions from fire and allied perils such as earthquakes, flood, riots etc. Automatic repayment of HDFC home loan EMIs from HDFC Bank savings account is also provided to customers who give standing instructions to do so.

**Individual Home Loans- Procedure and Eligibility Norms**

Any person can make an application at any time after the decision to acquire or construct house property, even if the property has not been selected or the construction has not commenced. The application form is available at any of the HDFC office. The completed application form should be submitted along with the supporting documents. On receipt of the application with the necessary processing fee, HDFC will process it, make necessary enquiries and convey its decision to the person.

One can avail of a maximum of up to 85 percent of the cost including the cost of the land subject to the repayment capacity as determined by
HDFC. Repayment capacity takes into consideration factors such as income, age, qualifications, number of dependents, spouse’s income, assets, liabilities stability and continuity of occupation and savings history.

The maximum period of repayment of loan is 20 years. Naturally, the repayment period will not be extended beyond the age of retirement (if employed) or on reaching 65 years of age, which ever is earlier. HDFC will endeavor to determine the repayment period to suit the convenience of the borrowers. Repayment of loan is made in equated monthly installments comprising principal and interest. Repayment by way of EMI commences from the month following the month in which the loan amount is fully disbursed. Pending final disbursement, one can pay interest on the portion of the loan disbursed. This interest is called ‘pre-EMI interest’.

**On-Line Approval Facility**

HDFC became the first Indian HFC to offer on-line approvals for housing loans. On-line approval facility is provided to the prospective borrowers through its website-‘www.hdfc.com’ which provides information about the various products and services offered by the company as well as the details such as eligibility criteria, EMI calculation etc.

**Other facilities offered to customer**

- Loan approval application can be made even before selecting the property.
- Loan application can be submitted at any HDFC office in India.
✓ Repayment of loans can also be made at any convenient office of HDFC.
✓ Options to switch between schemes.
✓ Counseling and advisory services for acquiring property.

Repayment Options

Different options for repayment of loan are available to the borrowers at their convenience such as:

❖ Accelerated Repayment Scheme

This offers great opportunity to repay the loan faster by increasing the EMI with an increase in the disposable income of the borrower. Increase in EMI means faster loan repayment and saving of interest.

❖ Step up Repayment Facility

It helps young executives to take a much larger loan for buying a bigger home today, based on an increase in their future income.

❖ Flexible loan Installment plan

If parents and their children wish to purchase properties together and the parent is nearing retirement and their children have just started working. Such customers can combine their income and take along term loan where in the installment reduce up on retirement of the earning parent.
Tranche Based EMI

This saves the interest paid on the loan amount drawn for purchasing an under construction property. Here, the customers can fix the installments they wish to pay till the time the property is ready for possession. The minimum amount payable is the interest on the loan amount drawn, and any amount paid over and above this goes towards principal repayment. The customer benefits by early starting of EMI and hence repays the loan faster.

Structural repayment facility for optimum tax benefit.

Other charges

In addition to the agreed rate of interest on loan, the borrowers are levied some other charges such as processing and administration fees or up front charges, pre-payment or early redemption charges, commitment charges etc. A processing fee of 0.5 percent of the loan applied for is charged on submitting the application towards incidental expenses. On sanction of the loan, 0.5 percent of the loan amount sanctioned is levied as administrative fee. Further, in the case of fixed rate housing loans the borrowers are charged an early redemption charge upto 2 percent of the amount being prepaid ahead of schedule.
4.3 PROFILE AND ROLE OF LICHFL

Incorporation

LIC Housing Finance Ltd (LICHFL) was incorporated under the Companies Act 1956, on 19th June 1989, with an authorized capital of Rs.100 crore. The company has increased its capital base from Rs.100 crore to Rs.150 crore to augment resources for its growth as well as to maintain the Capital Adequacy Ratio\textsuperscript{25}. Its shares are listed on the Bombay Stock Exchange Ltd, the National Stock Exchange of India Ltd and the Luxembourg Stock Exchange in Netherlands. The paid up capital has increased from Rs.74.99 crore as on March 31, 2000 to Rs.94.99 crore as on 31st March 2010\textsuperscript{26} showing an overall growth of only about 27 percent. LICHFL was launched in association with the UTI, IFCI, and ICICI. On 15th September 1994, it became a widely held public limited company. It was the second biggest player in the market for housing loans with 18 percent market share\textsuperscript{27}. Now, LIC Housing Finance is one of the top four players in India’s housing finance industry with a market share of 6 per cent\textsuperscript{28}.

The main aim of establishing the company was to take over the individual housing portfolio of LIC and also to provide long term finance for construction purchase, repairs and renovation of individual houses or flats.

Share Holding Pattern

As on 31st March 2010, the promoter and its group hold 36.54 percent of the total shares. The public shareholding constitutes 62.70 percent of which
50.14 percent were held by institutional investors and non-institutional investors including individuals who hold only 12.53 percent shares.

**Performance Indicators**

The income earned, PBT and PAT of LICHFL during 2000-2010 is given in Table 4.12.

**Table 4.12**

Income, PBT and PAT of LICHFL during 2000 to 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (Rs.cr)</th>
<th>Increase Y-O-Y %</th>
<th>PBT (Rs.cr)</th>
<th>Increase Y-O-Y %</th>
<th>PAT (Rs.cr)</th>
<th>Increase Y-O-Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>643</td>
<td>0</td>
<td>138</td>
<td>0</td>
<td>109</td>
<td>0</td>
</tr>
<tr>
<td>2000-01</td>
<td>746</td>
<td>16.02</td>
<td>157</td>
<td>13.77</td>
<td>122</td>
<td>11.93</td>
</tr>
<tr>
<td>2001-02</td>
<td>881</td>
<td>18.10</td>
<td>183</td>
<td>16.56</td>
<td>148</td>
<td>21.31</td>
</tr>
<tr>
<td>2002-03</td>
<td>1013</td>
<td>14.98</td>
<td>230</td>
<td>25.68</td>
<td>180</td>
<td>21.62</td>
</tr>
<tr>
<td>2003-04</td>
<td>985</td>
<td>-0.276</td>
<td>198</td>
<td>-13.91</td>
<td>167</td>
<td>-07.22</td>
</tr>
<tr>
<td>2004-05</td>
<td>1048</td>
<td>0.640</td>
<td>204</td>
<td>0.303</td>
<td>144</td>
<td>-13.77</td>
</tr>
<tr>
<td>2005-06</td>
<td>1269</td>
<td>21.09</td>
<td>264</td>
<td>29.41</td>
<td>209</td>
<td>45.14</td>
</tr>
<tr>
<td>2006-07</td>
<td>1583</td>
<td>24.74</td>
<td>354</td>
<td>34.09</td>
<td>279</td>
<td>33.49</td>
</tr>
<tr>
<td>2007-08</td>
<td>2165</td>
<td>36.77</td>
<td>532</td>
<td>50.28</td>
<td>387</td>
<td>38.71</td>
</tr>
<tr>
<td>2008-09</td>
<td>2903</td>
<td>34.09</td>
<td>727</td>
<td>36.65</td>
<td>532</td>
<td>38.24</td>
</tr>
<tr>
<td>2009-10</td>
<td>3470</td>
<td>19.53</td>
<td>910</td>
<td>25.17</td>
<td>662</td>
<td>24.44</td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>14.26</td>
<td></td>
<td>17.86</td>
<td></td>
<td>18.0</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

In line with the increase in income, the PBT showed an increasing trend during the period, except in 2003-04 where the increase was negative. PAT also revealed an upward trend except in 2003-04 and 2004-05. The CAGR of income, PBT and PAT during the period were 14.26, 17.86 and 18.0
respectively. The company declared 150 percent dividend in 2009-10 as against 130 percent in the previous year\textsuperscript{30}. These indicate the healthy growth in the performance of the company.

A graphical presentation of Income, PBT and PAT of LICHFL for the period 2000-2010 is given in figure 4.5.

**Figure 4.5**

*Income, PBT and PAT of LICHFL*
Marketing and Distribution Network

LICHFL possesses the industry’s most extensive marketing network in India. The office network of the company spreads over the entire country with its central office at Mumbai, 6 Regional offices, 13 back offices, 158 marketing offices and 3 customer service points. To tap the middle-east market of the Indian expatriates effectively, the company set up representative offices in Dubai and Kuwait. Its marketing network also constitutes 1352 Direct Sales Agents, 7085 Home Loan Agents and 777 Customer Relationship Associates.

In Kerala, its business operations are carried out through 4 area offices at Trissur, Kozhikode, Kottayam and Trivandrum under the back office at Ernakulam. Apart from this, there are 8 camp offices at Kannur, Kasargod, Trissur, Palakkad, Kottayam, Kollam, Kottarakkara and Alappuzha. The company also formed tie-ups with the corporates/MNCs for employee loan schemes and strengthened its relationship with builders and developers.

To enable the operating offices to serve maximum customers efficiently with minimum time limit, the concept of ‘front and back office’ was introduced during the year 2004-05. The company also participated in property exhibitions in various parts of the country, which have been proved successful marketing tool. The company’s website namely, www.lichousing.com has also proved to be a good marketing tool for high ticket and NRI customers.
Table 4.13 shows the growth in the number of outlets of LICHFL during the period 2000-2010.

**Table 4.13**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of offices</th>
<th>Growth Y-O-Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>73</td>
<td>0.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>90</td>
<td>23.29</td>
</tr>
<tr>
<td>2001-02</td>
<td>97</td>
<td>07.78</td>
</tr>
<tr>
<td>2002-03</td>
<td>108</td>
<td>11.34</td>
</tr>
<tr>
<td>2003-04</td>
<td>113</td>
<td>04.63</td>
</tr>
<tr>
<td>2004-05</td>
<td>115</td>
<td>01.77</td>
</tr>
<tr>
<td>2005-06</td>
<td>115</td>
<td>0.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>128</td>
<td>11.30</td>
</tr>
<tr>
<td>2007-08</td>
<td>132</td>
<td>03.13</td>
</tr>
<tr>
<td>2008-09</td>
<td>150</td>
<td>13.64</td>
</tr>
<tr>
<td>2009-10</td>
<td>181</td>
<td>20.67</td>
</tr>
<tr>
<td>Increase (%)</td>
<td>147.95</td>
<td>CAGR 9.76</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

The number of offices has increased from 73 in 1999-00 to 181 in 2009-10 registering an overall growth of about 148 percent during the period with 9.76 CAGR.

**Subsidiaries and Associate Companies**

LICHFL diversified itself into related activities where better business prospects with better margin are seen. In the competitive field of housing finance, diversification is one of the alternatives when the operating margin thins in its core business. Hence, as part of its diversification process, LICHFL
had promoted three companies namely LICHFL Care Homes Ltd., LIC Mutual Fund Trust Company Pvt. Ltd. and Jeevan Bima Sahayog Asset Management Company Ltd. In 2007-08 it formed 3 wholly owned subsidiaries to manage its interest in financial services, venture capital fund and asset management. They were: LICHFL Financial Services Ltd., LICHFL Trustee Company Pvt. Ltd. and LICHFL AMC Pvt. Ltd.

LICHFL Care Home Ltd. is engaged in carrying out the business of setting up, running and maintaining “Assisted Living Community centers” (called Care Homes) to provide care and security to senior citizens on commercial basis. These centers possess facilities like stay, food, medicine, first aid, nursing, ambulance, laundry, indoor and outdoor games, reading rooms, gymnasium and meditation room among others. The objective is to provide a cluster of secure and environment friendly dwelling units (community living facilities) in cities like Mumbai, Hyderabad, Bangalore and Kochi. It is the first such organized and corporatised effort to provide retirement solutions in India. There is a big market for such projects, considering the large number of senior citizens that India is going to have in the near future.

LICHFL Financial Services Ltd. was incorporated in 2007 for undertaking non fund based activities like marketing of housing loans, insurance products, credit cards, mutual funds, personal loans etc. For undertaking the business of trustee’s off-shore fund, LICHFL Trustee Company Pvt. Ltd. was incorporated in 2008. LICHFL AMC Pvt. Ltd. was
incorporated in 2008, for undertaking the business of managing, advising, administering mutual funds, unit trust, investment trust in India as well as abroad.

**Resource Mobilization**

During 2009-10, the company raised funds aggregating to Rs.17,004.35 crore through term loans from banks, Non-Convertible Debentures, upper tier-II Bonds, commercial paper, NHB refinance and Public Deposit. It also mobilised Rs.658 crore by private placement of equity through Qualified Institutional Placement. During 2007-08, the company started accepting deposits from the public. As on 31st March, 2010, the outstanding amount on account of public deposits was Rs.326 crore.

During the volatile and rising interest rate scenario, the company has been able to contain its borrowing costs. As a policy, efforts were made to re-price the existing borrowings either by negotiation or through entering into derivatives. The company pursued a balanced approach in the mobilisation of funds at fixed and floating interest rates. While its NCDs attracted fixed rates of interest and tended to be favourably used as a mobilization option in a rising interest rate scenario, the term loans and External Commercial Borrowings enjoyed a floating rate of interest. Table 4.14 shows the composition of outstanding borrowings as on 31st March 2005 to 2010.
Table 4.14
Composition of Outstanding Borrowings
(Percentage)

<table>
<thead>
<tr>
<th>Borrowings</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term loan from Banks</td>
<td>34.01</td>
<td>36.83</td>
<td>37.97</td>
<td>43.02</td>
<td>31.93</td>
<td>33.55</td>
</tr>
<tr>
<td>Refinance from NHB</td>
<td>7.98</td>
<td>6.82</td>
<td>5.13</td>
<td>3.27</td>
<td>5.81</td>
<td>4.0</td>
</tr>
<tr>
<td>Term loan from LIC</td>
<td>23.77</td>
<td>16.72</td>
<td>2.15</td>
<td>8.17</td>
<td>5.27</td>
<td>3.0</td>
</tr>
<tr>
<td>E C Bs</td>
<td>4.29</td>
<td>5.78</td>
<td>2.90</td>
<td>1.15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>N C Ds</td>
<td>27.97</td>
<td>30.40</td>
<td>35.58</td>
<td>40.23</td>
<td>49.58</td>
<td>5.2</td>
</tr>
<tr>
<td>Subordinated bond</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3.94</td>
<td>3.0</td>
</tr>
<tr>
<td>Others</td>
<td>1.98</td>
<td>3.44</td>
<td>6.27</td>
<td>4.17</td>
<td>3.47</td>
<td>4.45</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

Term loan from scheduled bank constituted a major portion of outstanding borrowings which formed about 32-43 percent. The company reduced its exposure to its parent company for its funds requirement in an attempt to grow alternative fund sources. As a result, loan from LIC declined from 23.77 percent in 2004-05 to 3.0 percent of total outstanding loans as on March 31, 2010.

Asset Profile

The loan portfolio constitutes the major component of assets of LICHFL. The asset profile of LICHFL during 2000-2010 is shown in Table 4.15.
Housing loan constitutes about 88 to 99 percent of the total assets and investments constitute about 1 to 5 percent. The investment increased from Rs.220.98 crore in 1999-00 to Rs.1,388.70 crore in 2009-10 while the housing loan portfolio increased from Rs.4,379.37 crore to Rs.38,081.38 crore during the same period. The overall increase in investment was 410.86 percent while that of housing loan was 769.63 percent with a CAGR of 24.26.

**Asset-Liability Management**

The company maintained a prudential mix between fixed and floating coupon rates on its borrowed funds. On an average, more than 60 percent of the loans taken were on floating rate, corresponding to more than 95 percent
of individual loans were given on floating rate. By entering into interest rate
swap and placing of idle funds in various liquid funds of various mutual funds,
the company could reduce its cost of funds. Further, the company parked is
surplus funds in money market instruments to avoid funds lying idle in the
current account which ensured adequate liquidity, safety and optimum return.
As part of the efficient management of funds, the company could reduce its
average cost of debts. Table 4.16 describes the average cost of debt during

Table 4.16

Average Cost of Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Average cost of debt (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>12.88</td>
</tr>
<tr>
<td>2000-01</td>
<td>12.50</td>
</tr>
<tr>
<td>2001-02</td>
<td>11.33</td>
</tr>
<tr>
<td>2002-03</td>
<td>8.00</td>
</tr>
<tr>
<td>2003-04</td>
<td>6.85</td>
</tr>
<tr>
<td>2004-05</td>
<td>6.80</td>
</tr>
<tr>
<td>2005-06</td>
<td>7.30</td>
</tr>
<tr>
<td>2006-07</td>
<td>8.57</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

The average cost of debt has decreased continuously from 12.88
percent in 1999-00 to 6.80 percent in 2004-05 and increased to 8.57 in
2006-07. This is a clear evidence of the efficient cash management system
adopted by the company.
Capital Adequacy Norms

During the year 2004-05 the company has increased its equity capital base through an offering of Global Depository Shares. This enabled the company to raise funds of US $ 29.85 million (equivalent to Rs.138 crore) and also improved the capital adequacy ratio as well as the debt equity ratio\(^{35}\). In 2007-08 the company has increased its capital base from Rs.100 crore to Rs.150 crore to augment resources for its growth as well as to maintain the CAR as prescribed by the NHB. The capital adequacy ratio maintained by the company as against the NHB norms for the year 1999-00 to 2009-10 is given in Table 4.17.

Table 4.17

<table>
<thead>
<tr>
<th>Year</th>
<th>CAR (%)</th>
<th>As per NHB norm (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>11.86</td>
<td>8.00</td>
</tr>
<tr>
<td>2000-01</td>
<td>11.26</td>
<td>10.00</td>
</tr>
<tr>
<td>2001-02</td>
<td>12.76</td>
<td>12.00</td>
</tr>
<tr>
<td>2002-03</td>
<td>17.43</td>
<td>12.00</td>
</tr>
<tr>
<td>2003-04</td>
<td>15.00</td>
<td>12.00</td>
</tr>
<tr>
<td>2004-05</td>
<td>15.00</td>
<td>12.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>14.13</td>
<td>12.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>12.94</td>
<td>12.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>13.47</td>
<td>12.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>13.50</td>
<td>12.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>14.89</td>
<td>12.00</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.
As shown in Table 4.20 the capital adequacy ratio of the company in all the years was always higher than the norms prescribed by NHB. This indicates the strong capital base of the company.

Corporate Governance

The company has been complying with the principles of good corporate governance over the years. The company believes in continuously striving higher levels of accountability, transparency, responsibility and fairness in all aspects of its operations. It is committed to achieving optimization of returns to all stakeholders, namely, shareholders, customers, employees, business associates and the community at large. As far as LICHFL is concerned, the corporate governance practice is not merely a matter of adherence to a regulatory framework, but it is a means of achieving excellence through adoption of competitive corporate strategies, prudent business plans and strategic monitoring and mitigation of risks. The company’s Board follows ethical standards of corporate governance and adheres to the norms and disclosures mentioned in the revised clause 49 of the listing agreement with stock exchanges.

Lending Operation of LICHFL

There has been a steady increase in sanction and disbursement of housing loan by LICHFL. Table 4.18 shows the loan sanctioned and disbursed by LICHFL during 2000-2010.
Table 4.18
Loan Sanctioned and Disbursed by LICHFL During 2000-2010

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Sanctions</th>
<th>Disbursement</th>
<th>Sanctions/Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (Rs.cr)</td>
<td>Annual Growth (%)</td>
<td>Amount (Rs.cr)</td>
</tr>
<tr>
<td>1999-00</td>
<td>1433.58</td>
<td>0.0</td>
<td>1312.59</td>
</tr>
<tr>
<td>2000-01</td>
<td>1743.69</td>
<td>21.63</td>
<td>1608.37</td>
</tr>
<tr>
<td>2001-02</td>
<td>2109.85</td>
<td>21.00</td>
<td>2018.16</td>
</tr>
<tr>
<td>2002-03</td>
<td>3593.45</td>
<td>70.32</td>
<td>3190.83</td>
</tr>
<tr>
<td>2003-04</td>
<td>4068.57</td>
<td>13.22</td>
<td>3667.74</td>
</tr>
<tr>
<td>2004-05</td>
<td>4415.05</td>
<td>8.52</td>
<td>4207.22</td>
</tr>
<tr>
<td>2005-06</td>
<td>5027.28</td>
<td>13.87</td>
<td>4670.08</td>
</tr>
<tr>
<td>2006-07</td>
<td>6105.42</td>
<td>21.45</td>
<td>5121.36</td>
</tr>
<tr>
<td>2007-08</td>
<td>8617.88</td>
<td>41.15</td>
<td>7071.48</td>
</tr>
<tr>
<td>2008-09</td>
<td>8186.02</td>
<td>(-5.01)</td>
<td>7351.09</td>
</tr>
<tr>
<td>2009-10</td>
<td>14151.52</td>
<td>72.88</td>
<td>12447.73</td>
</tr>
<tr>
<td>increase %</td>
<td>887.10</td>
<td></td>
<td>848.06</td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>7.29</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

The total sanctions increased steadily from Rs.1,433.58 crore in 1999-00 to Rs.14151.52 crore in 2009-10 registering an overall growth of 887.1 percent with a CAGR of 7.29. Total disbursement during the same period increased from Rs.1,312.59 crore to Rs.12,447.73 crore with a CAGR of 2.68.

Loan sanctioned and disbursed by LICHFL during 2000-2010 is illustrated in figure 4.6.
Figure 4.6
Loan Sanctioned and Disbursed by LICHFL

The number of individual loans sanctioned and disbursed during 2000-10 is given in Table 4.19.

Table 4.19
Sanctions and Disbursements of Individual Loans (in Nos)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions</th>
<th></th>
<th></th>
<th>Disbursement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Y-O-Y (%)</td>
<td>No</td>
<td>Y-O-Y (%)</td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>49605</td>
<td>-</td>
<td>46672</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>54821</td>
<td>10.45</td>
<td>52258</td>
<td>11.96</td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>62587</td>
<td>14.23</td>
<td>63927</td>
<td>22.32</td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>84126</td>
<td>34.41</td>
<td>76633</td>
<td>19.92</td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>92400</td>
<td>9.84</td>
<td>92827</td>
<td>21.13</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>104753</td>
<td>13.37</td>
<td>86057</td>
<td>(-7.29)</td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>81011</td>
<td>(-22.67)</td>
<td>81708</td>
<td>(-5.05)</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>65890</td>
<td>(-18.67)</td>
<td>66988</td>
<td>(-18.02)</td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>60665</td>
<td>(-7.93)</td>
<td>61819</td>
<td>(-7.72)</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>67886</td>
<td>11.90</td>
<td>67237</td>
<td>8.76</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>101828</td>
<td>50.0</td>
<td>97863</td>
<td>45.55</td>
<td></td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>9.49</td>
<td></td>
<td>9.16</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.
The number of individual loans sanctioned by the company increased from 49,605 in 1999-00 to 1,04,753 in 2004-05 then declined to 60,665 in 2007-08 and suddenly increased to 101,828 in 2009-10 giving a CAGR of 9.49. The individual loan disbursements also showed almost the same trend registering a CAGR of 9.16. The decrease in the number of individual loans sanctioned and disbursed during the period 2006-08 may be due to the acute competition faced by it as a result of the entry of commercial banks in the housing finance sector and also due to the economic slowdown.

The company also sanctioned and disbursed loans to select builders and developers for housing projects. The project loans sanctioned and disbursed by the company during 2009-10 were Rs.3892.05 crore and Rs.2405.2 crore, respectively. These loans are generally for short durations and also give better yield as compared to individual loans. The company financed the construction of around 9,47,158 dwelling units under individual and project loan schemes up to 31st March 2007 since its inception. The cumulative sanctions and disbursements since incorporation, in respect of individual loans are Rs.37,559.18 crore and Rs.35,642.85 crore respectively.

**Average Loan Size**

The growth of average size of individual loan during 2000-10 is shown in Table 4.20
Table 4.20

Average Loan Size to Individuals

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Amount (Rs. in lakh)</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>2.54</td>
<td>0.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>3.13</td>
<td>23.23</td>
</tr>
<tr>
<td>2001-02</td>
<td>3.31</td>
<td>5.75</td>
</tr>
<tr>
<td>2002-03</td>
<td>3.83</td>
<td>15.71</td>
</tr>
<tr>
<td>2003-04</td>
<td>4.26</td>
<td>11.23</td>
</tr>
<tr>
<td>2004-05</td>
<td>5.07</td>
<td>19.01</td>
</tr>
<tr>
<td>2005-06</td>
<td>5.92</td>
<td>16.77</td>
</tr>
<tr>
<td>2006-07</td>
<td>8.27</td>
<td>39.70</td>
</tr>
<tr>
<td>2007-08</td>
<td>10.66</td>
<td>28.90</td>
</tr>
<tr>
<td>2008-09</td>
<td>12.06</td>
<td>13.13</td>
</tr>
<tr>
<td>2009-10</td>
<td>13.89</td>
<td>15.17</td>
</tr>
<tr>
<td>CAGR</td>
<td></td>
<td>18.86</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

The average size of loan has increased steadily from Rs.2.54 crore in 1999-00 to Rs.12.39 in 2009-10 with a CAGR of 18.86 percent. The demand for big ticket loans by individuals may be attributed to the increase in income, enhanced affordability, improved life style, desire to own quality dwelling and also the hike in property price and construction costs.

Figure 4.7 demonstrates the growth in average size of loan to individuals by LICHFL during the period.
Over the years, the company focused on providing loans to individuals on the grounds that they represented safe credit. The proportion of individual and corporate loan for the period 2000-2010 is shown in Table 4.21.
Table 4.21

Growth of Outstanding Loan Portfolio

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual</th>
<th></th>
<th></th>
<th>Corporate</th>
<th></th>
<th></th>
<th></th>
<th>Total</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (Rs.cr)</td>
<td>Annual growth (%)</td>
<td>% to total</td>
<td>Amount (Rs.cr)</td>
<td>Annual growth (%)</td>
<td>% to total</td>
<td>Amount (Rs.cr)</td>
<td>Annual growth (%)</td>
<td>% to total</td>
</tr>
<tr>
<td>1999-00</td>
<td>4202</td>
<td>0</td>
<td>95.95</td>
<td>177.00</td>
<td>0</td>
<td>4.05</td>
<td>4379</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>5107</td>
<td>21.54</td>
<td>97.26</td>
<td>144.00</td>
<td>(18.91)</td>
<td>2.74</td>
<td>5251</td>
<td>19.90</td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>6109</td>
<td>19.62</td>
<td>98.07</td>
<td>120.00</td>
<td>(16.57)</td>
<td>1.93</td>
<td>6169</td>
<td>17.50</td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>7476</td>
<td>23.15</td>
<td>96.19</td>
<td>296.00</td>
<td>214.87</td>
<td>3.81</td>
<td>7772</td>
<td>25.97</td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>9249</td>
<td>23.72</td>
<td>93.43</td>
<td>643.00</td>
<td>117.20</td>
<td>6.57</td>
<td>9892</td>
<td>25.96</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>11669</td>
<td>26.16</td>
<td>93.96</td>
<td>750.00</td>
<td>16.54</td>
<td>6.03</td>
<td>12245</td>
<td>25.07</td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>14264</td>
<td>22.24</td>
<td>95.94</td>
<td>602.00</td>
<td>(19.62)</td>
<td>4.05</td>
<td>14688</td>
<td>19.95</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>17011</td>
<td>19.25</td>
<td>96.85</td>
<td>553.00</td>
<td>(8.14)</td>
<td>3.14</td>
<td>17563</td>
<td>19.58</td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>20619</td>
<td>21.21</td>
<td>94.00</td>
<td>1317.00</td>
<td>138.16</td>
<td>6.00</td>
<td>21936</td>
<td>24.90</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>25253</td>
<td>22.47</td>
<td>91.24</td>
<td>2426.00</td>
<td>84.21</td>
<td>8.76</td>
<td>27679</td>
<td>26.18</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>33949</td>
<td>34.44</td>
<td>89.15</td>
<td>4132.00</td>
<td>70.32</td>
<td>10.85</td>
<td>38081</td>
<td>37.58</td>
<td></td>
</tr>
<tr>
<td>increase %</td>
<td>707.93</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>769.63</td>
<td></td>
<td>24.26</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

During 2000-2010, about 89 to 98 percent of the company’s outstanding portfolio comprised individual borrowers and the rest 2-11 percent represented corporate loans. The individual loan portfolio grew from Rs.4,202 crore in 1999-00 to Rs.33949 crore in 2009-10 showing an overall growth of 707.93 percent with a CAGR of 23.38. The total loan portfolio increased from Rs.4,379.37 crore in 1999-00 to Rs.38081 in 2009-10 with a CAGR of 24.26.

Non Performing Assets/Loan Quality

LICHFL created a strong team to recover funds from defaulting clients. The stringent appraisal system and the aggressive recovery mechanism adopted by the company are reflected in the decrease in NPA in recent years. The amount of gross NPA and net NPA as a percentage of total loans of LICHFL since 2001 is shown in Table 4.22.
Table 4.22
Non Performing Assets*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross NPA (Rs. cr)</td>
<td>180</td>
<td>224</td>
<td>319</td>
<td>355</td>
<td>550</td>
<td>506</td>
<td>452</td>
<td>373</td>
<td>297</td>
<td>263</td>
</tr>
<tr>
<td>Total loans (Rs. cr)</td>
<td>5251</td>
<td>6170</td>
<td>7772</td>
<td>9892</td>
<td>12418</td>
<td>14867</td>
<td>17563</td>
<td>21936</td>
<td>27679</td>
<td>38081</td>
</tr>
<tr>
<td>Gross NPA (%)</td>
<td>3.44</td>
<td>3.66</td>
<td>4.10</td>
<td>3.59</td>
<td>4.43</td>
<td>3.41</td>
<td>2.58</td>
<td>1.70</td>
<td>1.07</td>
<td>0.69</td>
</tr>
<tr>
<td>Provisions (Rs. cr)</td>
<td>35</td>
<td>21</td>
<td>69</td>
<td>121</td>
<td>203</td>
<td>238</td>
<td>224</td>
<td>232</td>
<td>240</td>
<td>217</td>
</tr>
<tr>
<td>Net NPA(Rs. cr.)</td>
<td>145</td>
<td>180</td>
<td>250</td>
<td>234</td>
<td>346</td>
<td>268</td>
<td>221</td>
<td>141</td>
<td>57</td>
<td>46</td>
</tr>
<tr>
<td>Net NPA (%)</td>
<td>2.76</td>
<td>2.96</td>
<td>3.22</td>
<td>2.37</td>
<td>2.79</td>
<td>1.80</td>
<td>1.26</td>
<td>0.64</td>
<td>0.21</td>
<td>0.12</td>
</tr>
<tr>
<td>Provision Cover (%) to Gross NPAs</td>
<td>19.44</td>
<td>9.38</td>
<td>21.64</td>
<td>34.02</td>
<td>36.97</td>
<td>47.02</td>
<td>51.16</td>
<td>62.20</td>
<td>80.8</td>
<td>82.4</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

*As per 90 day NPA recognition norms

The gross NPA increased from Rs.180 crore in 2000-01 to Rs.550 crore in 2004-05 and then decreased to Rs.263 crore in 2009-10. The company could reduce its gross NPA from 3.44 percent in 2000-01 to 0.69 percent in 2009-10. The net NPA increased from 2.76 percent in 2000-01 to 3.22 in 2002-03 and then shrunk to 0.12 percent in 2009-10 which is the lowest hitherto. The provision cover as percentage to gross NPAs increased from 19.44 in 2000-01 to 82.4 in 2009-10. The reason for the decrease in NPA is due to the IT based unbiased appraisal system involving analysis of asset quality adopted by the company which enhanced the operational efficiency.

The net NPA during 2001-2010 is depicted in Figure 4.8.
Human Resource Development

The success and survival of any organization depends to a great extent on the commitment and contribution of its dedicated members. The company is having qualified and well trained employees who are responsive to customers' needs and the changing economic scenario. For this, various training programmes were conducted for upgrading the skill and knowledge of the employees in different operational areas, taking into account the future development of the company. Outstanding performers are rewarded by elevation to the higher cadre. Employees are also paid performance-linked incentives which motivate them to perform better. The average age of the employees of the company was 36 years, which is relatively lower when compared with peer group companies. A strong external sales team...
comprising 977 direct selling agents (DSAs), 3914 home loan agents (HLAs) and 304 customer relation associates (CRAs). The company marketed its different financing schemes through these DSAs, HLAs, CRAs across the country. Apart from this, there are about 5,195 agents working LICHFL. This increases the scope of referral business received from these insurance agents.

The commitment and dedication of its staff contributes towards the progress of the company. Therefore, the increase in number of officers and increase in volume of transactions have not necessitated the company to go for recruitment. Particulars of employees as well as the number of offices as on March 31, of different years is shown in Table 4.23.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of employees</th>
<th>No. of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>899.00</td>
<td>115.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>873.00</td>
<td>115.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>834.00</td>
<td>128.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>985.00</td>
<td>132.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>1013.00</td>
<td>132.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>1160.00</td>
<td>160.00</td>
</tr>
<tr>
<td>Net increase (%)</td>
<td>29.03</td>
<td>39.13</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.
The number of offices increased from 115 in 2004-05 to 160 in 2009-10 while the number of employees increased from 899 to 1160 during the same period. The percentage increase in the number of offices was 39.13 and that of employees was only 29.03. It shows the efficiency of the staff.

The company imparts sufficient training to its employees to equip them to meet the challenges. The investment made for training and the number of employees participated during 2002-03 to 2006-07 is given in Table 4.24.

**Table 4.24**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in training (Rs. lakhs)</td>
<td>20.72</td>
<td>18.21</td>
<td>51.93</td>
<td>24.50</td>
<td>47.04</td>
</tr>
<tr>
<td>No. of employees participated</td>
<td>173</td>
<td>120</td>
<td>331</td>
<td>333</td>
<td>496</td>
</tr>
<tr>
<td>No. of training sessions held</td>
<td>17</td>
<td>19</td>
<td>40</td>
<td>29</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL.

During 2006-07 an investment of Rs.47.04 lakh were made in training employees. During the year 41 training sessions were held in which 496 employees participated. The investment made in training to employees leads to higher productivity and increased efficiency of employees.

**Awards and Recognition**

- As per the Global Financial Brand Index 2007, LIC Housing Finance is one of the top 500 financial companies in the world.
• In three consecutive years 2007, 2008 & 2009 LIC Housing Finance grew twice as fast as the industry.
• As at 16th September, 2009 the LIC Housing Finance stock was the second best performer on the 67-stock Bloomberg Asia Pacific Diverse Financial Services Index in the calendar year 2009.
• Was awarded the ‘Second Best Home Loan Provider’ award by Outlook Profit during the year 2009-10.
• The World’s leading independent arbiter on branding ‘Superbrands’ has awarded the ‘SUPERBRAND’ status to LIC Housing Finance.

4.4 Services of LICHFL

LIC Housing Finance is one of the largest housing finance companies in India. Since its inception, more than 10 lakh customers have been serviced by the company up to 31st March, 2010 with a cumulative disbursement of Rs.25000 crore. It has been playing a significant part in the economic and social life of the country with its impeccable brand image and transparent policies and practices. The cumulative sanctions and disbursements since the incorporation, in respect of individual loans are Rs.61,090 crore and Rs.55,445 crore respectively.

4.4.1 LICHFL’s Home Loan Schemes

LICHFL has several housing finance schemes tailor-made for individuals. The individual home loan schemes consist of:
o Loans to individuals for purchase of house property
o Loans for construction/Repairs/Renovation.
o Mortgage loan on existing house property-Griha Vikas
o Purchase of plots or sites
o Loans against liquid securities such as LIC policies, Fixed Deposits of Nationalized Banks, NSC Kisan Vikas Patra
o Loans to NRIs.

- 'Apna Office’ scheme - loans to professionals for having their own office premises.
- Loans against rental income. Here the applicant should own a commercial property, which is let out for residential/commercial use to PSUs, government undertakings, banks, financial institutions or reputed corporate.
- Loans to corporate employees (CEHL). This scheme is intended to employees of PSUs, public/private limited companies with over 50 employees.

- “Griha Suraksha” scheme offers decreasing life cover under LIC’s “Group Mortgage Redemption Assurance scheme” to LICHFL customers to cover outstanding loans.
- Scheme for pensionable employees. This scheme is offered to government employees eligible for pension and the loan term is extended beyond retirement up to 15 years or 70 years of age whichever is less.
Loans for consumer durables. Under this scheme, loan is offered to existing or new loanees for purchase of consumer durables.

Apart from individual loan schemes, the company also lends to builders and corporate, which are:

- Loans to builders for construction of residential housing projects
- Direct corporate loans for staff quarters. LICHFL provides finance to corporate bodies for the purpose of building/purchase of staff quarters for housing their employees.
- Line of credit ‘To’ the company for their house building schemes.
- Line of Credit ‘Through’ to individual employees as recommended by the company.

**LICHFL’s New Products**

During the year 2004-05 the company introduced a new product – “Flexi Scheme”, where in the borrowers have to pay a fixed rate of interest for the first 5 years. After that the borrowers are given the option to exercise either to continue with the fixed rate or convert it to floating rate loans, at the then prevailing rate of interest. Under the scheme, LICHFL is offering loans to individuals at a fixed rate of eight per cent for a 20-year loan. Corporate clients can avail a 20-year loan at a fixed rate of 7.75 per cent. Apart from this, in 2005-06 the company introduced the ‘New Griha Lakshmi Scheme’ under which loans are disbursed against liquid securities such as LIC policies,
NSC, KVPs, fixed deposit etc. acceptable to the company. This enables customers to avail of higher loans or with defective titles. Another new scheme introduced during the same period was ‘Fixed-3 ROI on core Business’ scheme under which the ROI remain fixed for three years following which the prevailing floating rate become applicable. The Corporate Employees Housing Loan Scheme was also introduced with a concession in ROI. During 2006-07, the company had introduced new ‘Griha Jestha’ for senior citizens for buying unit of LICHFL Care Homes Limited.

In 2007-08, the Company had introduced new scheme to cater to the demand of different kinds of customers namely the “Reverse Mortgage for Senior Citizens”. During 2009-10 the concept of a life insurance linked mortgage product was first introduced in the country by LIC Housing Finance. ‘Fix-O-Floaty’ -the scheme which offers fixed interest rate for three years and floating thereafter has caught the attention of market and withstood the pricing competition unlist by other market players incorporating market sentiments and offering flexibility to the customer was a huge success.

The tenure of the loan, security requirements, amount of loan, rate of interest (depends on customer rating), documents required, loan margin and other conditions vary according to the nature of loan scheme and type of customers (resident Indians/NRIs, professionals/non professionals). The rate of interest on all loans is calculated on monthly rest basis. The loan margin is usually kept at 15 percent of the mortgaged property and the maximum period of the loan is 20 years (15 years for NRIs). The installments can be paid in
Equated Monthly Installments which includes both principal and interest. A summary of the different loan schemes are given in Table 4.25.

Table 4.25

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Loan products</th>
<th>Maximum term (years)</th>
<th>Loan amount (Rs. lakhs)</th>
<th>Loan limit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loan for new houses</td>
<td>20</td>
<td>1-100</td>
<td>85% of property cost</td>
</tr>
<tr>
<td>2</td>
<td>Loans for repairs and renovations</td>
<td>20</td>
<td>1-100</td>
<td>85% of property cost</td>
</tr>
<tr>
<td>3</td>
<td>Loan to NRI’s</td>
<td>10</td>
<td>5-100</td>
<td>85% of property cost</td>
</tr>
<tr>
<td>4</td>
<td>Mortgage loan on existing house property-Griha Vikas</td>
<td>15</td>
<td>2-50</td>
<td>60% of property value</td>
</tr>
<tr>
<td>5</td>
<td>Loan to professionals - Apna Office</td>
<td>10</td>
<td>10-50</td>
<td>85% of property cost</td>
</tr>
<tr>
<td>6</td>
<td>Loan for purchase of plots or sites</td>
<td>10</td>
<td>1-100</td>
<td>85% of property cost</td>
</tr>
<tr>
<td>7</td>
<td>Loan against liquid securities</td>
<td>20</td>
<td></td>
<td>95% of face value/surrender value</td>
</tr>
<tr>
<td>8</td>
<td>Griha Suraksha</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Scheme for pensionable employees (aged 50 years &amp; above)</td>
<td>15 or 70 years of age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Loans to corporate employees (CEHL)</td>
<td></td>
<td></td>
<td>Low interest if EMI is paid through salary deduction Waving of upfront fee by 0.50%</td>
</tr>
<tr>
<td>11</td>
<td>Other schemes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Loan against securitization of rentals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Loan to builders &amp; corporates for construction of housing projects or staff quarters</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports, LICHFL, 2005-06

Credit Appraisal Process

A loanee has to submit the filled in application form to the company. Loan offer is made after discussion is made with the applicant and preliminary inspection of the property is done. On acceptance of the loan offer and conditions, the applicant has to pay a certain percentage (usually one percent
of the amount sanctioned subject to a maximum of Rs.5,000) as processing fee. This fee is towards costs incidental to the processing of the application. Thereafter, the original title deeds are to be submitted. After verification and acceptance of the title deeds necessary documentation are made. Generally, life insurance cover equal to the loan amount, on the loanee’s life, running for the full term of loan repayment period would be requested, but not compulsory. If existing policies are there, these can be assigned to LICHFL, and for the balance uncovered part of the loan, fresh insurance can be taken. Then, the loan is released and cheque may be issued towards the first or first and final installment.

4.5 Role of HDFC and LICHFL in the Housing Finance Sector of Kerala – a Comparison

For examining the role of two specialized HFIs in the housing finance sector of Kerala -HDFC and LICHFL, the trend in number of houses financed by both institutions over the years and their relative share in the total number of houses financed by various agencies in Kerala during the same span were observed. Only 6 years covering the period from 1997-98 to 2004-05 were used, as the data relating to HDFC in subsequent years were not available from the sources used for this purpose,— Economic Review reports and office of Housing Commissioner of Kerala. The results were summarized in Table 4.26.
<table>
<thead>
<tr>
<th>Years</th>
<th>HDFC</th>
<th>LICHFL</th>
<th>Total by various agencies</th>
<th>Share in Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of units</td>
<td>Growth (%)</td>
<td>No. of units</td>
<td>Growth (%)</td>
</tr>
<tr>
<td>1997-98</td>
<td>5000</td>
<td>-</td>
<td>1176</td>
<td>-</td>
</tr>
<tr>
<td>1998-99</td>
<td>4575</td>
<td>(-)08.5</td>
<td>1105</td>
<td>(-)06.03</td>
</tr>
<tr>
<td>1999-00</td>
<td>2470</td>
<td>(-)46.01</td>
<td>3268</td>
<td>195.74</td>
</tr>
<tr>
<td>2000-01</td>
<td>2944</td>
<td>19.19</td>
<td>2682</td>
<td>(-)17.93</td>
</tr>
<tr>
<td>2001-02</td>
<td>3009</td>
<td>02.54</td>
<td>2350</td>
<td>(-)12.38</td>
</tr>
<tr>
<td>2002-03</td>
<td>4880</td>
<td>62.18</td>
<td>3000</td>
<td>27.66</td>
</tr>
<tr>
<td>2003-04</td>
<td>5474</td>
<td>12.17</td>
<td>4169</td>
<td>38.97</td>
</tr>
</tbody>
</table>

Source: Compiled from Economic Review, Government of Kerala, various issues.

The rate of growth in number of units financed by both HDFC and LICHFL and also by the entire agencies in Kerala was showing a fluctuating trend during the period 1997-98 to 2003-04. In 1998-99, when HDFC and LICHFL registered a negative growth in number of units financed, the growth was positive as far as total case is concerned. In 1999 -2000, HDFC again recorded a negative growth, but the rate of growth in LICHFL (195.74) was really amazing. The total number of units financed by various agencies also made more than 50 percent growth in this respect. During the next four years...
growth observed in HDFC was much positive and it financed 4880 houses in 2002-03 which was more than 62.18 percent of its previous business of 3009 houses. But, the performance of LICHFL was found negative like the total situation in the years 2000-01 and 2001-02. In 2002-03, LICHFL regained its previous momentum and went ahead in 2003-04 also in achieving the growth in number of house units financed. But, in the same year when all the agencies were taken together, it is disappointing, as they failed to bring in more number of house owners in the state than they have done in the past.

On considering the relative market share of selected HFIs in number of houses financed by various agencies of Kerala, the market share of LICHFL rose from 1.19 percent in 1997-98 to 3.13 percent by 2003-04, that was also by achieving consecutive growth in each year. But share of HDFC which was more than 5 percent during the early years fell into less than 2 percent by 1999-2000. But later, it was able to consolidate its position better and by 2003-04, the relative share in total number of houses financed reached more than 4 percent. All of these statistics reinstated the fact that HDFC and LICHFL has considerable role in the housing finance sector of Kerala.
REFERENCES

4. Ibid, p.140.
8. Ibid, pp. 41.
9. Ibid, P.42.
10. Ibid, P.41.
11. Ibid, p.47.
12. Ibid, p.46.
24. Ibid.


41. Ibid,p.17.

42. Ibid.

43. Ibid,p.3.