

# Annual Report 2009-2010



**LIC HOUSING FINANCE LTD.**



With you, for your dream home.

# Contents

|   |    |
|---|----|
| Corporate information                     | 1  |
| Corporate Identity                        | 3  |
| Message from the Chairman                 | 6  |
| Message from Director and Chief Executive | 9  |
| Management Discussion and Analysis        | 11 |
| Directors' Report                         | 17 |
| Report on Corporate Governance            | 21 |
| Financial Section                         | 35 |

## Corporate Information

### BOARD OF DIRECTORS

|                       |                              |
|-----------------------|------------------------------|
| T. S. Vijayan         | : Chairman                   |
| D. K. Mehrotra        | : Managing Director          |
| Y. B. Desai           | : Director                   |
| Dhananjay Mungale     | : Director                   |
| S. Ravi               | : Director                   |
| K. Narasimha Murthy   | : Director                   |
| B. N. Shukla          | : Director                   |
| A. S. Narayanamoorthy | : Director                   |
| R. R. Nair            | : Director & Chief Executive |

### GENERAL MANAGER (TAXATION) & COMPANY SECRETARY

Nitin K. Jage

### SENIOR EXECUTIVES

|                           |                           |
|---------------------------|---------------------------|
| Shri V. Chandrasekaran    | : General Manager         |
| Smt. S. Renuka            | : General Manager         |
| Shri Surinder Mohan       | : General Manager         |
| Smt. Anjubala Purushottam | : General Manager         |
| Shri T. Basu              | : General Manager         |
| Shri M.R. Ankolekar       | : General Manager         |
| Shri G. D. Joshi          | : Associate Chief Manager |

### REGIONAL MANAGERS

|                     |                      |
|---------------------|----------------------|
| R. Chaturvedi       | Central Region       |
| Mahendra Kumar      | Northern Region      |
| Sanjaya Rastogi     | Western Region       |
| P. R. Shankara Raju | Southern Region      |
| P. B. Roy           | Eastern Region       |
| Vincent Saldanha    | South Central Region |

### AUDITORS

#### Joint Statutory Auditors:

M/s. Chokshi & Chokshi

M/s. Shah Gupta & Co.

### BANKERS

Andhra Bank

Axis Bank Ltd.

Corporation Bank

HDFC Bank Ltd.

State Bank of India

Union Bank of India

### REGISTERED & CORPORATE OFFICE

Bombay Life Building, 2nd Floor,

45/47, Veer Nariman Road,

Mumbai - 400 001.

Phones : 2204 0006, 2204 9799 & 2204 9919

Fax : 2204 9839.

email : lichfl@bom2.vsnl.net.in

website: www.lichhousing.com.

### REGISTRAR & SHARE TRANSFER AGENT

Sharex Dynamic (India) Pvt. Ltd.

17/B, Dena Bank Building, 2nd Floor,

Horniman Circle,

Fort, Mumbai - 400 001.

Phones : 22702485, 22641376.

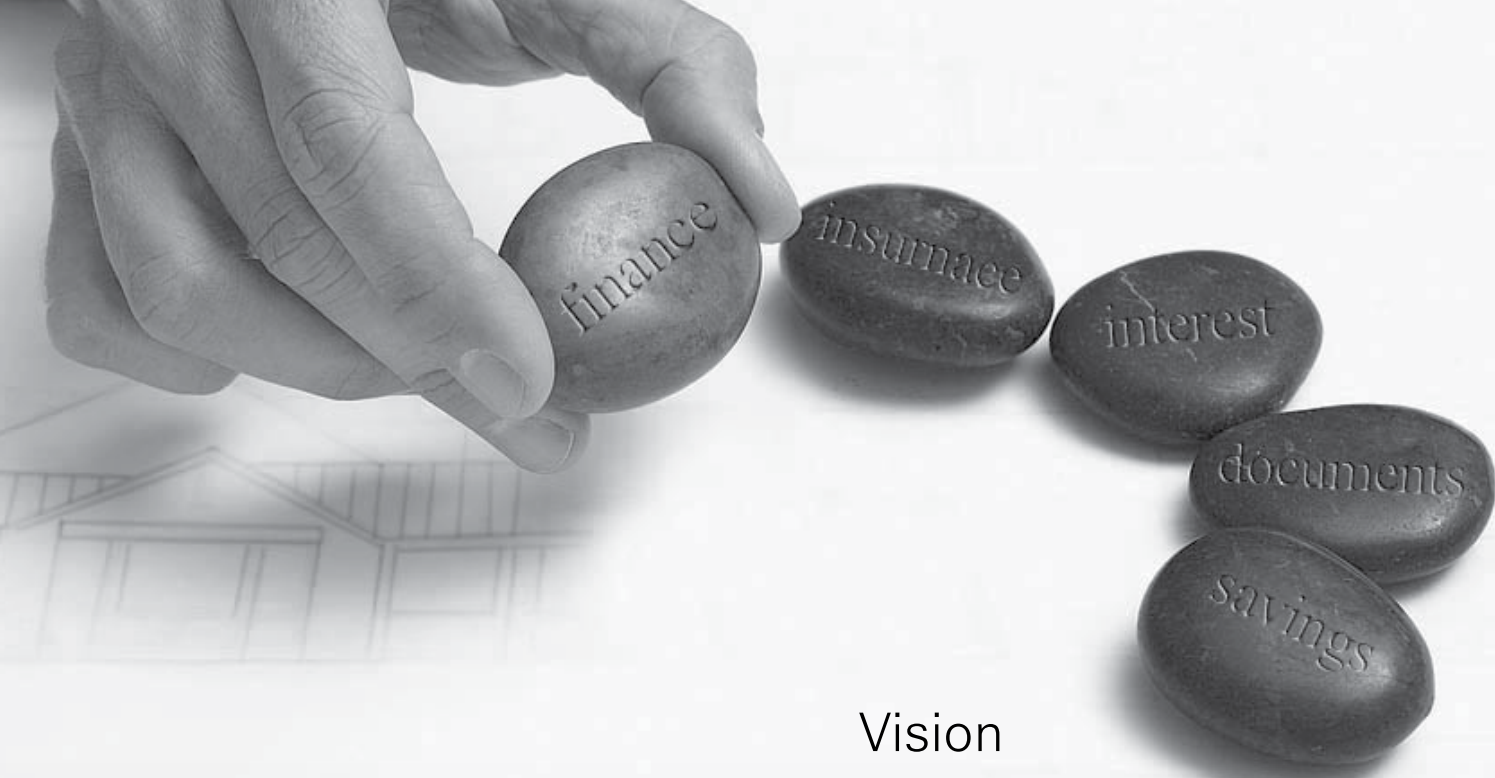
Fax : 22641349.

email: sd\_india@rediffmail.com.



## Profile & Progress..... At A Glance.....

- ❖ Provides loans for homes, construction activities, corporate housing schemes.
- ❖ Around 89% of the loan portfolio derived from the retail segment and the rest from large corporate clients.
- ❖ Rated 'AAA' by CRISIL for the 9th consecutive time in 2009-10; maiden Fixed Deposit scheme received an FAAA/stable rating by CRISIL.
- ❖ Promoted by world's premier financial institution, LIC of India, incorporated as Company in June 1989.
- ❖ Registered & Corporate Office at Mumbai with 6 Regional Offices, 13 Back Offices, 158 Marketing Offices and 3 Customer Service Points.
- ❖ Apart from wide marketing network comprising Direct Selling Agents (DSAs), Home Loan Agents (HLAs) and Customer Relationship Associates (CRAs), a wholly owned subsidiary also started distributing the Company's product.
- ❖ Representative overseas presence in Dubai and Kuwait.
- ❖ Listed on the Bombay Stock Exchange Limited, National Stock Exchange of India Limited and was the first Indian housing finance company to be listed overseas i.e., on Luxembourg Stock Exchange.
- ❖ Has been a profit making and dividend paying Company since 1990 – its first year of operation.
- ❖ The concept of a life insurance linked mortgage product was first introduced in the country by LIC Housing Finance.
- ❖ LIC Housing Finance was a participant in the pilot issue of mortgage backed securities launched in August 2000 by National Housing Bank.
- ❖ 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.
- ❖ '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.
- ❖ Competitive Advantage for LIC Housing Finance lies in
  - Strong parentage and Brand Recall,
  - Transparent systems and procedure &
  - Competitive Interest Rates
- ❖ More than 10 lakh satisfied customers across the country since inception.
- ❖ Reported 69.51 percent increase in disbursements in 2009-10.
- ❖ Reduced net NPA to a record low of 0.12 percent in 2009-10.
- ❖ Enhanced PAT 24.56 percent to Rs.662.18 crore in 2009-10.
- ❖ Recommended increased dividend over previous year i.e., from 130 percent to 150 percent.



## Vision

To be the best housing finance  
company in the country.

## Mission

Provide secured housing finance  
at an affordable cost, maximizing  
shareholders' value with higher  
customer sensitivity.

# Values

## **Transformation to a knowledge organisation**

The Company is committed to the growing use and sharing of knowledge as a driver of business success. All decisions are based on merit and a respect for sound Judgement.

## **Sense of ownership**

At the Company, we believe that superior performance comes from a feeling of ownership. And ownership comes from aggressive delegation and empowerment.

## **Quality and autonomy in Operations**

The Company is committed to an aggressive delegation in decision-making whereby relevant initiatives can be taken closest to the customer.

## **Fair and transparent business practices**

Ethics and transparency form the basis of the business of LIC Housing Finance. On the macro-level, the Company complies with all the laws of the lands in which it operates, on the micro-level the Company respects the dignity of every individual.



## Message from the Chairman

*My Dear Shareowners and Friends,*

*I take great pleasure in presenting before you the performance of LIC Housing Finance Limited for the year 2009-10. The year has been of excellent business growth and repeat of still better success story of charting road map of further reduction of NPA levels as compared to previous year.*



## Macroeconomic Perspective:

### Global Economy:

The global economy continues to recover backed by ongoing policy support and improving financial market conditions. The recovery process is led by Emerging Market Economies (EMEs), especially those in Asia, as growth remains weak in advanced economies. The global economy continues to face several challenges such as high levels of unemployment, which are close to 10 percent in the US and the Euro area. Despite signs of renewed activity in manufacturing and initial improvement in retail sales, the prospects of economic recovery in Europe are clouded by the acute fiscal strains in some countries. Core measures of inflation in major advanced economies are still moderating as the output gap persists and unemployment remains high.

### Domestic Economy:

The Reserve Bank of India had projected the real GDP growth for 2009-10 at 7.5 percent. The advanced estimates released by the Central Statistical Organisation (CSO) in early February, 2010 placed the real GDP growth during 2009-10 at 7.2 percent. The final real GDP growth for 2009-10 may settle between 7.2 and 7.5 percent.

The uptrend in industrial activity continues. The index of industrial production (IIP) recorded a growth of 17.6 percent in December 2009, 16.7 percent in January 2010 and 15.1 percent in February 2010. The recovery has also become more broad-based with 14 out of 17 industry groups recording accelerated growth during April 2009 – February 2010. The sharp pick-up in the growth of the capital goods sector, in double digits since September 2009, points to the revival of investment activity. After a continuous decline for eleven months, imports expanded by 2.6 percent in November 2009, 32.4 percent in December 2009, 35.5 percent in January 2010 and 66.4 percent in February 2010. The acceleration in non-oil imports since November 2009 further evidences recovery in domestic demand. After contracting for twelve straight months, exports have turned around since October 2009 reflecting revival of external demand.

Various lead indicators of service sector activity also suggest increased economic activity. On the whole, the economic recovery, which began around the second quarter of 2009-10, has since shown sustained improvement.

(source: RBI's monetary policy statement for the year 2010-11)

## Indian Housing Finance scenario:

The decrease in property prices and uncertainty over growth in income levels, on the back of economic slowdown in the second half of the previous year led to some slackness in housing finance disbursements in the year 2008-09. However, with the gradual recovery in economic conditions, the demand for housing finance improved in 2009-10. Further, reduction in the interest rates during the second half of 2009-10 also pepped up demand for housing finance.

Over the last few years, the share of housing finance companies (HFC) has been increasing in the housing finance segment, mainly due to their cautious approach in credit underwriting, perception of better customer service, and increasing focus on urban centres which have higher average ticket size. The HFCs are expected to further raise their share in total disbursements, despite the introduction of teaser loan rates by banks. HFCs too have reduced interest rates to meet competitive pressures from banks. The launch of lower interest rate schemes on home loans by public sector banks has led other private banks and HFCs to follow suit. Hence, yields are estimated to have fallen by around 50 basis points in 2009-10. At the same time, cost of funds has also reduced because of abundant liquidity in the system. As a result, gross spreads and net margins across player groups are expected to fall by 15 – 20 basis points in the current financial year.

CRISIL Research has observed that the asset quality of banks in the housing finance segment has been deteriorating significantly in the past 2-3 years, as against HFCs, who have been able to maintain their asset quality. During 2003-04 to 2007-08, the banking sector, especially private sector banks, had aggressively increased home loan lending by adopting higher loan to value ratio and instalment to income ratio thereby allowing customers to borrow more than their repayment capacity based on their income level, which resulted in higher NPA in the said segment.

Due to the recent downturn, these weak loans began to show up in terms of poor asset quality as the borrowers were not able to pay their monthly instalments. In addition to the dilution of underwriting standards, seasoning of the portfolio after a period of rapid growth had played an important role in increasing the level of banks' NPAs. Hence, gross NPAs of banks in the housing loan segment increased significantly during 2007-08 and 2008-09.

Banks have already started tightening their credit standards, and their NPA levels are expected to witness moderation as the proportion of fresh loans generated with tighter underwriting standards gradually increases. On the other hand, HFCs have been cautious in their credit approach by adopting lower

loan to value ratio and instalment to income ratio, resulting in considerable lower NPA levels.

### **LIC Housing's stride in progress:**

#### **Performance:**

Interest income from housing loans increased 19.47 percent from Rs.2,747.65 crore in 2008-09 to Rs.3,282.66 crore in 2009-10.

The net interest income grew by 21.33 percent from Rs.731.04 crore in 2008-09 to Rs.886.94 crore in 2009-10.

Profit after tax surged 24.56 percent from Rs.531.62 crore in 2008-09 to Rs.662.18 crore in 2009-10.

#### **Operations:**

Funds mobilized grew 51.98 percent from Rs.11,188.33 crore in 2008-09 to Rs.17,004.35 crore in 2009-10.

Sanctions (Ind.+Proj.) increased 65.55 percent from Rs.10,898.47 crore in 2008-09 to Rs.18,043.17 crore in 2009-10.

Disbursements (Ind.+Proj.) grew 69.51 percent from Rs.8,762.01 crore in 2008-09 to Rs.14,852.92 crore in 2009-10.

Loan portfolio grew 37.58 percent from Rs.27,679.28 crore in 2008-09 to Rs.38,081.38 crore in 2009-10.

#### **Margins:**

Net interest margin declined by 25 basis points from 2.95 percent in 2008-09 to 2.70 percent in 2009-10.

Return on equity reduced by 425 basis points from 23.80 percent in 2008-09 to 19.55 percent in 2009-10 on account of 65.95 percent growth in equity holders' fund due to increase in capital and retained profit for the year 2009-10.

Net profit margin improved by 77 basis points from 18.31 percent in 2008-09 to 19.08 percent in 2009-10.

#### **Asset Quality:**

Gross NPA declined by 38 basis points from 1.07 percent in 2008-09 to 0.69 percent in 2009-10.

Net NPA levels declined by 9 basis points from 0.21 percent in 2008-09 to 0.12 percent in 2009-10.

#### **Shareholder Value:**

Earning per share grew 17.36 percent from Rs.62.59 in 2008-09 to Rs.73.46 in 2009-10.

Book value strengthened from Rs.263.04 in 2008-09 to Rs.356.85 in 2009-10.

It is worth mentioning here that your company through untiring efforts and proactive action has not only ensured consolidation of the gains achieved in the past years, but also ensured further growth and increased profitability. The company would continue its efforts to reduce NPAs further. Your Company has surpassed all the expectations and managed to beat the industry growth rate. It is on trails for achieving still greater heights. It is commendable that even in difficult, competitive environment, all the employees have teamed up, performed well extraordinarily and lived upto their commitment for growth of the company.

LIC Housing Finance Limited 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 Company would like to remain focused on all areas that are likely to impact, favourably, the customers, the stakeholders, the employees and above all the society. The Company's vision, values and philosophy has brought us together this far making this journey extremely rewarding for each one of us. Our progress lies in our capabilities and commitment to stay on the course of a challenging strategic path. In this unfolding era of new opportunities, I look forward to your active support and good wishes to make the coming year, a year of still greater achievements and success.

Thank you,

**T. S. Vijayan**  
*Chairman*

28<sup>th</sup> April, 2010