

PERFORMANCE APPRAISAL OF LICHL WITH SPECIAL REFERENCE TO VARANASI AREA OFFICE

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Abstract: Everyone dreams of having a home. There was a time that one had to wait an entire lifetime to muster up the savings to afford one. Today, the ability to finance a home purchase has broken this barrier. At LIC Housing Finance, we believe that getting onto the property ladder doesn't have to be difficult. For 25 years, company have brought a range of innovative mortgage options, both for first time home buyers and for people who already own a home. Over the years, it have merely been a helpful catalyst for more than 16 lakh happy customers in making them proud homeowners.

The company crossed its first 25 years scored by a rich history of highly prolific and dynamic growth. It has consistently been a well-run retail housing finance company. After 25 years, we have a lot to show for it. Today, LICHL has proved to be a leader amongst its peers. With the strength of our business model allowing us to thrive, to build our market share and to deliver consistent long-term value to our stakeholders, it feel very confident about the future.

This paper explores the performance of LIC Housing Finance Limited with special reference to area office (Varanasi)

Key words : performance of LIC, consistently, finance industry, Luxembourg Stock

Introduction

India's housing finance industry comprises of banks and housing finance companies. Given India's rapid population growth, increasing urbanization and rising affordability the housing finance industry will continue to grow. However, given increasing competition in the sector from banks, Housing Companies which have access to low cost funds, better operational and credit cost control, better service quality will continue to grow.

LIC Housing Finance Ltd. is one of the largest Housing Finance company in India.

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Incorporated on 19th June 1989 under the Companies Act, 1956, the company was promoted by LIC of India and went public in the year 1994. The Company launched its maiden GDR issue in 2004. The Authorized Capital of the Company is ₹1500 Million (₹150 Crores) and its paid up Capital is ₹850 Millions (₹85 Crores). The Company is recognized by National Housing

Bank and listed on the National Stock Exchange (NSE) & Bombay Stock Exchange Limited (BSE) and its shares are traded only in Demat format. The GDR's are listed on the Luxembourg Stock Exchange.

The main objective of the Company is providing long term finance to individuals for purchase / construction / repair and renovation of new / existing flats / houses. The Company also provides finance on existing property for business / personal needs and gives loans to professionals for purchase / construction of Clinics / Nursing Homes / Diagnostic Centres / Office Space and also for purchase of equipments.

The Company possesses one of the industry's most extensive marketing network in India. Registered and Corporate Office at Mumbai, 7 Regional Offices, 13 Back Offices and 190 marketing units across India. In addition the company has appointed over 1241 Direct Sales Agents (DSAs), 6535 Home Loan Agents (HLAs) and 782 Customer Relationship Associates

(CRAs) to extend its marketing reach. Back Offices spread across the country conduct the credit appraisal and administrative functions.

The Company has set up a Representative Office in Dubai and Kuwait to cater to the Non-Resident Indians in the GLCC countries covering Bahrain, Dubai, Kuwait, Qatar and Saudi Arabia. Today the Company has a proud group of over 16,00,000 prudent house owners who have enjoyed the Company's financial assistance.

1.1. Vision

To be the best Housing Finance Company in the country.

1.2. Mission

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

1.3. Values

- (i) Fair and Transparent Business Practices.
- (ii) Transformation to a Knowledge Organisation.
- (iii) Higher Autonomy in Operations.
- (iv) Instilling a sense of Ownership amongst Employees

1.4. Composition

The Board of Directors presently comprises of nine members, of which seven are non-Executive Directors. The Chairman, Managing Director, Director & Chief Executive and six other non-Executive Directors are eminent persons with considerable experience in Housing and Financial Services, representing optimum mix of professionalism, knowledge and experience. All the non-Executive Directors except the Chairman are Independent Directors. The Independent Directors receive only sitting fees and do not have any other material pecuniary relationship or transaction with the Company, its promoters, management or its subsidiaries. In terms of the Listing Agreements only one third of the Board should be of Independent Directors. However, our Board comprises six Independent Directors out of total strength of nine Directors.

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1.5. Board Meetings

As required by statute, the Board meets at least once in a quarter to review quarterly financial results. The Board meeting is also convened as and when required depending on the urgency of the matter.

1.6. Responsibilities

The Board of Directors has responsibilities to protect the interest of the Company's shareholders over long term. The Board of Directors provide direction / guidance to the management, review performance and ensure ongoing compliances to protect long-term interest of the shareholders. Apart from its primary role of setting corporate goals and monitoring corporate performance, it directs and guides the activities of the Management towards the set goals and seeks accountability with a view to ensure that the corporate philosophy and mission viz., to provide secured housing finance at an affordable cost, maximizing shareholders' value with higher customer sensitivity, is accomplished. The Board members ensure that their other engagements and preoccupations do not affect their responsibilities as Directors of the Company.

The items placed at the meetings of the Board include the following:

- business plan, budgets (sanction & disbursement) and updates / reviews thereof;
- revenue and capital budgets and updates / reviews thereof;
- status of NPA and updates / reviews thereof;
- fund raising programme of the Company;
- status of swap trades / transactions;
- outstanding term loan / borrowings;
- risk management review;
- asset liability management updates / reviews thereof;
- the unaudited quarterly and the audited financial annual accounts of the Company on both stand alone and consolidated basis;
- internal control systems, compliance of all laws applicable to the Company including the

requirement of the Listing Agreement with the Stock Exchanges;

- proposal for joint venture;
- delegation of financial powers to the management;
- productivity linked incentive, recruitment etc;
- future plans and other decisions / changes of significant importance of price sensitive nature;
- status report on the implementation of decisions taken at the Board meetings;
- report on investor grievances, shareholding pattern and secretarial audit reports;
- Review of subsidiary companies performance. Significant changes in policies and internal controls. The Independent Directors take part in every deliberation of the Board to take informed decisions, offering unbiased, experienced and diverse perspectives to the Board. The Company benefits from their expertise in respective fields. The Board Members ensure that their other responsibilities do not affect their responsibilities as a Director of the Company.

1.7. Objectives of LICHFL

'To each one a home of his own' is the main objective of LICHFL. It renders liberal financial assistance to policy holders and others for purchase/construction of residential houses/flats. The following are the other objectives of LICHFL:

- To assist individuals by providing finance to construct /purchase residential house /flat .
- Assistance for second residential house/flat is also available.
- Assistance for extension/ renovation of residential unit.
- Loans to corporate bodies (public limited companies/public sector undertakings for staff quarters)
- Loans to corporate bodies (public limited companies/public sector undertakings) for onward lending to employees to construct/ purchase residential house flat on ownership basis (line of credit "to") and loans to individual

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employees of the company as guaranteed by the employer (line of credit 'through')

- Loans to corporate for office premises.
- Bridge loans to reputed developers/ builders for housing projects
- Loans to co-operative societies-loans to individual members of cooperative housing societies formed by employees of public sector undertakings, public limited companies with guarantee of the undertaking.
- Loans to public agencies like housing board etc. for residential housing projects.
- To provide loans to public sector/private sector employees to construct residential accommodation for their employees.
- To mobilize insurance linked long term savings from the public to deploy such funds in long-term finance in the housing sector.
- To facilitate approval of builders in advance and offer them construction finance to enhance customer servicing with a real estate market information.

2. Research Methodology

2.1. Objectives :

1. To explore the company profile and schemes of LIC Housing Finance Limited.
2. To evaluate the performance of Varanasi area office of the company.

2.2. Period of Study: The study is done for the last 10 financial years (2004-05 to 2013-14).

2.3. Source of Data: The study is based on data from primary and secondary sources in which I had used annual report of LIC Housing Finance Limited and various websites etc.

3. Varanasi Area Office

3.1. Establishment of Varanasi Area Office

The LICHFL's area office is situated at Kamachcha in Varanasi and was established to cater the home loans needs of people living in Varanasi, Jaunpur, Gorakhpur, Maharajganj and Deoria districts. But presently Varanasi area office comprises of Varanasi ,Jaunpur ,Ghazipur, Mirzapur, Mughalsarai. And for Gorakhpur ,Maharajganj, and Deoria a new area office was set up in Gorakhpur in 2009-

10. The Varanasi area office was started in 1994-95 with a business of Rs. 25 lakhs. The sanctioning procedure in Varanasi area office is same as LICHFL office Mumbai.

Sanctioning Procedure in LICHFL

It is classified into five important stages namely application stage, legal stage processing stage, sanctioning stage and disbursement stage. The LICHFL classifies the loan according to the purpose of loan as housing loan or loan for purchasing consumer durables before issuing application form to the consumer. There are many schemes under housing loans and other than housing loans.

(i) Application Stage

At the application stage, the applicants have to fill the required details. Applicant is a person who has a source of income, and co-applicant is a person who has a property in his/her name. All the particulars should be filled. The telephone numbers (office and residence) of the applicant should be taken. If not possible at least nearest contact number should be given.

Salary certificate with all details should be furnished. Income tax paper should be attested by a chartered accountant. Statement of accounts should be properly arranged. Proposed construction cost sheet approved by the authorized engineer should be submitted. The property value to the maximum of 85 per cent is considered for sanctioning loan. The inspection of property is arranged by area office. After the sanction of loan processing and administrative fees is to be immediately paid.

(ii) Legal stage

There are legal formalities to be carried out by the applicant. At the time of approval all documents should be submitted. All Xerox copy should be authenticated.

Paper required for sanction of loan are-
Specimen of Application Form

1. Application to be completed in all respects.
2. The signature of all applicants on application and photographs.

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3. Minimum fee of Rs. for loan amount below Rs lakhs or Rs for loan amount above Rs 25 lakhs.

4. Identity Proof such as PAN Card, Voter's ID Card or Passport.

5. Address Proof such as Ration Card, Electricity Bill, Telephone Bill, etc.

6. Bank Pass-book or statements for the last two years.

7. Power of Attorney, wherever applicable

8. Three months salary slip and latest years form 16 in case of salaried applicants.

9. Three years income tax returns along with profit and loss accounts and income, balance sheet and depreciation schedule in respect of self employed applicants.

10. Bank statement in original /attested for minimum 1 year of all accounts.

11. In case of rental income, proof of ownership or lease agreement, bank credits wherever applicable.

12. In case of take-over of loan, track record, along with list of document and closing dues to be given.

13. All documents submitted by the applicants should be self attested.

(iii) Processing stage

The LICHFL has three stages of appraisal of the loan applications submitted by the loanees. They are-

(a) Financial Appraisal- It consists of the cost assessment and its tie up. The quantum of the loan amount is based on the repayment capacity of the borrower. The duration and the amount of housing loans are determined after getting the financial appraisal.

(b) Technical Appraisal- The technical appraisal is carried out by a separate section of LICHFL to ascertain the nature of security suitable mortgage margin and marketability.

(c) Legal Appraisal- This is to ascertain whether the land on which the building is proposed to be constructed /purchased is free from all encumbrances of any nature and whether the borrower has valued title to the property to be mortgaged. The normal combinations allowed

for availing housing loans are husband and wife ,mother and son, father and son, and sister and brother. The normal age of the existing building for the purpose of purchase should not be more than 35 years (flats and houses) and not more than 40 years for home repairs.

(iv) Sanctioning Stage

After the above mentioned three appraisals loanees are classified into salaried (government public sector units, private sector) and self employed(business professionals).The counseling is done by the Area Manager/ Counseling Officer. The important aspects of like duly signed forms, attested photographs, reference details and details of agents are verified. If the counseling officer is not convinced with the income proof, submitted by the applicant, the financial investigation is undertaken. For a speedy disbursement of loan,1.5 per cent of loan amount is collected at the submission stage of application. The

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loanees are asked to take LIC policy upto 50 percent of the loan amount where the minimum ;loan amount is 5,00,000.The sanctioning power of housing loan differs according to the amount of loan applied by the loanee. The designation of authority with the sanctioning power in terms of housing terms of housing loan amount is shown in Table 1. After sanctioning the loan , the loan offer letter is sent to the loanee within a period of validity time i.e.90 days.

(v) Disbursement Stage

The loan amount is disbursed within a period of three months from the sanctioning date . Generally it is disbursed in two installments. The policy is assigned at the time of first installment. Fire insurance for the property is made at the time of the first installment. When the offer of loan lapses it can be revalidated as on date with approval of area Manager . Before the final disbursement all the requirements should be complied with.

Table.1. Sanctioning Authority

LOAN AMOUNT	SANTIONING AUTHORITY
Upto Rs. 15 Lakh	Assistant Manager
Upto Rs. 25 Lakhs	Deputy Manager
Upto Rs. 40 Lakhs	Manager
Upto Rs. 75 Lakhs	Manager (Operations)
Upto Rs. 300 Lakhs	Regional Manager
Upto Rs. 300 Lakhs	Corporate Office(GMs Committee comprising of 3 GMs/ AGMs with minimum quorum of 2 members
Upto Rs. 500 Lakhs	Corporate Office(MD and CEO on recommendations of committee of 3 GMs/ AGMs with minimum quorum of 2 members

Source : LICHFL ,Varanasi Area office

4.3. Operational Performance of LICHFL Varanasi Area Office

4.3.1. Loan Sanctioned and Disbursed in Varanasi Area Office

Table 2 represents loan amount sanctioned and disbursed from 2004 -05 to 2013-14 by LICHFL Varanasi Area Office. The amount of loan sanctioned increased from 31.70 crore in 2004-05 to `42.40 in 2005-06 and decreased in 2007-08 and again increased upto ` 160 in 2013-

14.Regarding year of year growth of loan amount sanctioned has been showing unsteady trend during the period of 10 years .(i.e. 2004 - 05 to 2013-14). The amount of loan sanctioned registered a cumulative growth of 4.04 times during the period under study. The amount of loan disbursed has shown a increasing trend except in 2006-07 and 2007-08. The amount of loan disbursed registered a cumulative growth of 4.06 times during the period under study

There was a significant industry change a number of commercial banks entered the business of housing finance incentives devised by lower interest rates, rising incomes, stable property prices, fiscal incentives and low nonperforming assets.

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Table 3 . Loan Sanctioned and Disbursed in Varanasi Area Office

(in crores)

Year	Sanctioned		Disbursed		% of Disbursed to Sanctioned
	Amount (₹)	Annual Growth(%)	Amount(₹)	Annual Growth(%)	
2004-05	31.70	46.08	29.60	39.62	93.37
2005-06	42.40	33.75	40.50	36.82	95.51
2006-07	38.60	(8.96)	38.00	(6.17)	98.44
2007-08	36.10	(6.47)	37.30	(1.84)	103.32
2008-09	51.50	42.65	42.50	13.94	82.52
2009-10	55.30	7.37	55.00	29.41	99.45
2010-11	76.60	38.51	77.50	40.90	101.17
2011-12	110.00	43.60	102.70	32.51	93.36
2012-13	150.00	36.36	140.00	36.31	93.33
2013-14	160.00	6.67	150.00	7.14	93.75
Total	752.2	-	713.10	-	-

Source : Varanasi Area Office

4.3.2. Number of loan Sanctioned and Disbursed in Varanasi area Office

The number of loan disbursed represents number of new applicants accepted by LICHFL for fresh housing finance. It includes all types of applicants .Even though there is tough competition and entry of scheduled commercial banks into the housing finance industry ,the LICHFL has its own network to mobilize its

customers .it mainly concentrate on household sector more than the corporate sector . In household sector ,the average loan size is minimized and also risk is spread out .This is the main reason for the LICHFL giving more importance to the household sector. The number of loans sanctioned, disbursed and average loan size is represented in Table 4.

Table 4 . Number of loan Sanctioned and Disbursed in Varanasi area Office

Year	Sanctioned		Disbursed		Average Loan Size
	Number	YOY Growth	Number	YOY Growth	
2004-05	540	-	500	-	5.92
2005-06	670	24.07	670	34.00	6.04
2006-07	600	(10.44)	610	(8.95)	6.22
2007-08	570	(5.00)	570	(6.56)	6.54
2008-09	740	29.82	650	14.03	6.54
2009-10	530	(28.37)	810	24.62	6.79
2010-11	690	30.18	960	18.52	8.07
2011-12	840	21.74	1010	5.21	10.16
2012-13	1220	45.23	1180	16.83	11.86
2013-14	1140	(6.55)	1140	(3.39)	13.15
Total	8,070	-	8640	-	-

Source : Varanasi Area Office

The number of home loans sanctioned by Varanasi area office had increased from 540 in 2004-05 to 600 in 2006-07 and then decreased to 570 in 2007-08 and then showed an increasing trend upto 1140 in 2013-14.The

number of home loans sanctioned depicts a cumulative rise of 1.15 times during the period under study. With respect to number of loan disbursed it has been fluctuating between 500 2003-04 to 1140 in 2013 -14. The number of

home loans disbursed depicts a cumulative rise of 1.11 times during the period under study.

4.3.3. Defaults

Defaults represent the debt which are not properly cleared by the loanees . The defaults are unavoidable in any finance industry, since

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the default amount accumulates the non performing assets in the companies ,therefore it is included in the study. The accumulation of of NPA's affect profitability of the company. Table 5. depicts number of defaults ,default amount and % growth

Table 5. Defaults

Year	Number of defaults	YOY growth	Default Amount (in Lakhs)	YOY Growth
2004-05	300	-	75	-
2005-06	250	(16.67)	65	13.33
2006-07	215	(14)	50	23.07
2007-08	200	(6.97)	40	20.00
2008-09	250	25	85	11.25
2009-10	226	(9.6)	59	30.5
2010-11	220	(2.65)	70	18.64
2011-12	210	(4.54)	65	7.1
2012-13	190	(10.52)	45	30.76
2013-14	150	(21.05)	44	2.22

Source : LICHFL , Varanasi Area Office

The default amount may be due to laonees carelessness or the staff of the company too. The default amount in LICHFL Varanasi area office was ` 75 lakh in 2004-05 which felled down to `40 lakh in 2007-08 and then increased

to `85 lakh in 2008-09 and afterwards shown decreasing trend . This is an indicator of efficiency of LICHFL Varanasi area office.

Table 6.Number of Personnel in Varanasi Area Office

Year	Number of Agents	Employees	Total	Growth in percentage
2004-05	18	4	22	15.78
2005-06	21	6	27	20.77
2006-07	26	5	31	14.81
2007-08	29	5	34	9.67
2008-09	42	5	47	38.23
2009-10	56	5	61	29.78
2010-11	70	5	75	22.95
2011-12	93	5	98	30.66
2012-13	106	5	111	13.26
2013-14	121	5	126	13.51

4.3.4. Number of Personnel in Varanasi Area Office

The number of personnel working in LICHFL,Varanasi area office is analysed to assess the service productivity in representative area .All companies try to do more business with less personnel. In other words ,there is an attempt to maximize the office productivity per employee. The staff working in LICHFL, Varanasi area office from 2004-05 to 2013-1 is

shown in Table 4.6.The number of personnel in LICHFL increased from 22 to 126 in 2013-14,and increase of about 6 times during 10 years. The number of employees are constant throughout the period except in the starting years whereas number of agents increased from 13 to 121 i.e. more than 8 times, it shows that people want to work as an agent in LICHFL

Conclusion

India is hopeful of transformative change and vibrant growth. Its favourable demographics and burgeoning Tier 2 and 3 cities and new urban centres along with evolving face of rural India are key drivers fuelling the growth of home ownership. In addition, low mortgage penetration; rural to urban migration and the creation of new townships and cities are also complementing this growth. Most significantly, India has the highest working age population in the world, which has strong desires and

expectations both as citizens and as consumers. The country's need for aspirational and affordable homes is going to be vast. In this milieu, all players in the sector will stand to gain. As one of the largest HFCs with deep penetrated presence across India, LIC Housing Finance is bound to benefit from this sector's vitality and growth. As Varanasi is becoming a Business and Education Hub in eastern Uttar Pradesh, the need of housing is increasing day by day. So LICHFL is going to gain much from it.

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