

April 12, 2021

GIC Housing Finance Limited: [ICRA]AA+ (Negative) assigned to fresh NCD programme; earlier ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	0	1,000	[ICRA]AA+ (Negative); assigned
Long-term Bank Lines – Fund Based/Non-fund Based	12,500	12,500	[ICRA]AA+ (Negative); reaffirmed
Non-convertible Debenture Programme	550	550	[ICRA]AA+ (Negative); reaffirmed
Short-term Bank Lines – Fund Based	1,000	1,000	[ICRA]A1+; reaffirmed
Commercial Paper Programme	1,500	1,500	[ICRA]A1+; reaffirmed
Total	15,550	16,550	

*Instrument details are provided in Annexure-1;

Rationale

The ratings for GIC Housing Finance Limited (GICHF) are underpinned by its strong promoter profile. As on December 31, 2020, General Insurance Corporation of India (GIC-Re) and its erstwhile subsidiaries (The New India Assurance Company Limited, United India Insurance Company Limited, The Oriental Insurance Company Limited and National Insurance Company Limited) had a 42.41% stake in the company. ICRA expects GICHF to continue to receive managerial, operational and financial support from the promoters, as and when required, given the ownership, the strong board representation comprising nominee directors from each promoter group company and, and the shared brand name. ICRA has taken note of the expected deterioration in the asset quality indicators and the consequent weakening of the solvency and profitability metrics for the company for the period ending March 31, 2021. While the company reported gross non-performing assets (NPAs) of 5.49% as on December 31, 2020 (5.39% as on March 31, 2020) due to the abeyance granted by the Honourable Supreme Court, the share of the 90+ days past due (dpd) portfolio increased significantly to 9.11% as on December 31, 2020 from 5.39% as on March 31, 2020, reflecting the asset quality pressures. This 90+ dpd also included restructured loans under the resolution framework for Covid-19-related stress (~0.5% as on December 31, 2020). With the subsequent clarity on NPA classification, a significant proportion of the 90+dpd is likely to be classified as NPA by the end of March 2021. ICRA has taken note of the steps being taken by the management to recover from these accounts and expects that the ultimate losses on these accounts would be low, given the secured nature of these loans. Nevertheless, asset quality related challenges would exert pressure on GICHF's solvency and profitability over the near term and the asset quality indicators are likely to remain weaker than peers. The ratings also factor in GICHF's track record of more than 30 years in the housing finance business, the granularity of its loan book with low credit concentration risk, and its focus on the salaried borrower profile (74% of the portfolio as on December 31, 2020).

The ratings are constrained by the relatively high gearing levels of 8.99 times as on December 31, 2020 (9.32 times as on March 31, 2020). ICRA has also taken note of the company's declining profitability and the interest rate risk on account of the fixed rate component of the lending product. Though the company's net interest margins (NIMs) improved in the current cycle due to the floating nature of its liabilities and the fixed nature of its lending products, the profitability might get impacted in a rising interest rate scenario. GICHF's profitability moderated in FY2020 and continued to decline in 9M FY2021 on account of elevated credit costs with profit after tax/average total assets (PAT/ATA) and return on average net worth of 0.26% and 2.71%, respectively in 9M FY2021 compared to 0.35% and 3.62%, respectively, in FY2020 (1.42% and 14.48%, respectively, in FY2019). ICRA expects the deterioration in the asset quality to further impact GICHF's earnings profile and consequently its internal

capital generation. Therefore, the company may need external capital to maintain adequate capitalisation levels and ICRA would monitor the progress on the same.

The negative outlook on the [ICRA]AA+ rating reflects ICRA's expectation of the continued pressure on the company's solvency and profitability metrics. The ability of the company to report significant recoveries from the delinquent accounts and also control fresh slippages would be a key monitorable. The outlook may be revised to 'Stable' if the company is able to report improvement in its asset quality indicators and its capitalisation and profitability profile on a sustained basis.

Key rating drivers and their description

Credit strengths

Strong promoters in the form of GIC-Re and its erstwhile subsidiaries; strong representation on BoD – GIC-Re, together with its erstwhile subsidiaries (The New India Assurance Company Limited, United India Insurance Company Limited, The Oriental Insurance Company Limited and National Insurance Company Limited) held a 42.41% stake in the company as on December 31, 2020. GICHF's board of directors (BoD) constitutes nominee directors from each promoter group company. Given the ownership, strong board representation and brand sharing, ICRA expects GICHF to continue to receive managerial, operational and financial support from the promoters, as and when required.

Established track record, focus on salaried home loan segment and granular nature of loan book – Incorporated in 1989, GICHF has a long track record in the housing finance business. As on December 31, 2020, the company was operating in 21 states through a network of 75 branches while managing a portfolio of Rs. 13,108 crore. While the company had been increasing its portfolio at a compound annual growth rate (CAGR) of ~13% over the past three years, the portfolio declined in 9M FY2021 to Rs. 13,108 crore as on December 31, 2020 from Rs. 13,226 crore as on March 31, 2020 due to the slowdown in disbursements on account of the Covid-19 pandemic.

GICHF's loan book is granular with individual home loans accounting for ~89% of the portfolio, followed by loans against property (LAP) at ~11% as on December 31, 2020 with no concentrated project finance exposures. Also, within individual borrowers, the company remains focused on salaried borrowers (74% of the portfolio as on December 31, 2020), which is expected to augur well for portfolio vulnerability. GICHF offers LAP mainly to its existing customers and against self-occupied residential properties. It remains conservative in lending to the self-employed segment and provides loans only against reported income. Given its presence primarily in retail housing loans and the granular nature of its portfolio, GICHF's credit concentration remains low with the top 20 exposures accounting for only 0.23% of the loan book as on December 31, 2020 (0.16% as on March 31, 2020).

Credit challenges

Weak asset quality indicators – While the company reported gross NPAs of 5.49% as on December 31, 2020 (5.39% as on March 31, 2020) due to the abeyance granted by the Honourable Supreme Court, the share of the 90+dpd portfolio increased significantly to 9.14% as on December 31, 2020 from 5.39% as on March 31, 2020, reflecting the asset quality pressures. This 90+ dpd also included restructured loans under the resolution framework for Covid-19-related stress (~0.5% as on December 31, 2020). With the subsequent clarity on NPA classification, a significant proportion of the 90+dpd is likely to be classified as NPA by the end of March 2021. ICRA has taken note of the steps being taken by the management to recover from these accounts and expects that the ultimate losses on these accounts would be low, given the secured nature of these loans. Nevertheless, asset quality related challenges would exert pressure on GICHF's solvency and profitability over the near term and the asset quality indicators are likely to remain weaker than peers. With GICHF making additional provisioning during the period, the reported net NPAs improved marginally to 2.69% as on December 31, 2020 (3.01% as on March 31, 2020). As a result, the reported net NPA/net worth improved marginally to 27.6% as on December 31, 2020 (31.4% as on March 31, 2020), albeit remains high. On a proforma basis, the solvency ratio would have been significantly higher at 68% after taking into consideration the current level of provisioning. In the past, the company also had slippages in the loan book under the

subvention scheme and while some resolution was expected on those accounts, the recovery got delayed due to the challenging operating environment. ICRA has taken note of the steps being taken by the management to recover from delinquent accounts and expects that the ultimate losses on these accounts would be low, given the secured nature of these loans. Nevertheless, asset quality related challenges would exert pressure on GICHF's solvency and profitability over the near term and the asset quality indicators are likely to remain weaker than peers. Going forward, GICHF's ability to recover from the existing NPAs and delinquent accounts to improve its asset quality indicators will be important for its credit profile.

High gearing levels – Although the company's reported capital adequacy ratio of 16.45% as on December 31, 2020 was above the regulatory requirement (13% as on March 31, 2020), its gearing was relatively high at 8.99 times (9.32 times as on March 31, 2020). The regulatory capital adequacy is supported by the relatively lower risk weights on housing loans. For several years, the company's internal capital generation was in line with its portfolio growth, thereby enabling it to maintain a stable gearing level without any external capital raising. As the moderation in the profitability profile could impact GICHF's internal capital generation, it may have to raise capital from the promoters/external sources to maintain a similar capitalisation level or its portfolio growth could get impacted. Going forward, GICHF's ability to drive business growth while maintaining healthy capitalisation, asset quality, and profitability would remain a key monitorable.

Moderation in profitability owing to elevated credit costs – GICHF's profitability moderated in FY2020 and remained subdued in 9M FY2021. Due to a decline in the interest rates, the company's cost of borrowings came down in 9M FY2021, resulting in an improvement in its NIMs to 3.01% in 9M FY2021 from 2.31% in FY2020. The operating expenses remained at a similar level during this period. With the improvement in NIMs, GICHF's operating profit increased to 2.35% as on December 31, 2020 from 1.63% as on March 31, 2020. However, the credit costs increased to 2.09% in 9M FY2021 from 0.76% in FY2020 due to the higher provisions made by the company for Covid-19. Hence, GICHF's profitability moderated as it reported a PAT of Rs. 26 crore in 9M FY2021, translating into a return of 0.26% of ATA and 2.71% of the average net worth, compared to Rs. 46 crore, 0.35% and 3.62%, respectively, in FY2020 (Rs. 172 crore, 1.42% and 14.48%, respectively, in FY2019). Going forward, elevated credit costs is likely to keep the overall profitability muted and ability of the company to recover from the delinquent accounts and control fresh slippages would be imperative to improve the return indicators.

Higher interest rate risk on account of lending at fixed rate of interest for first 5 years – The company's funding mix mainly comprises long-term loans from banks (84% of total borrowings as on December 31, 2020), which are floating in nature. However, GICHF provides loans through a 61-month product, which is at a fixed rate for the stipulated initial 61-month period, with a floating rate thereafter. Thus, the limited range of products and the variable nature of borrowings expose the company to interest rate risks. Its profitability could get significantly impacted in a rising interest rate scenario.

Liquidity position: Adequate

As of February 12, 2021, the company had on-book liquidity of Rs. 115 crore against 3-month scheduled debt obligations of Rs. 1,541 crore. However, GICHF's liquidity profile is adequate and supported by the availability of unutilised bank lines. ICRA draws comfort from GICHF's strong relationships with several banks and sizeable undrawn sanctioned lines to the extent of Rs. 1,730 crore as on February 12, 2021. The company raised commercial paper amounting to Rs. 7,300 crore and Rs. 3,450 crore in FY2020 and 9M FY2021, respectively, on a rollover basis. The granular nature of its loan book and the expectation of support from the promoter companies in case of exigencies provide cushion to its liquidity profile. The liquidity profile is also supported by the expectation of prepayments in the retail housing loan book.

Rating sensitivities

Positive factors – Given a negative outlook, the rating upgrade in near future is unlikely. However, ICRA could revise the outlook to stable from negative if the company improves its asset quality with the solvency ratio (Net NPA/ Net worth) declining below 30% on a sustained basis while maintaining sufficient cushion on its capitalisation levels above the regulatory requirements.

Negative factors – A change in the expectation of support from the promoters or a deterioration in the credit profile of GIC- Re could warrant a rating downgrade. Also, given its relatively weak asset quality indicators compared to peers, GICHF's ability

to raise capital in a timely manner to maintain prudent solvency levels and recover from key NPA accounts would be a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	GIC-Re, together with its erstwhile subsidiaries (The New India Assurance Company Limited, United India Insurance Company Limited, The Oriental Insurance Company Limited and National Insurance Company Limited) held a 42.41% stake in the company as on December 31, 2020. GICHF's BoD constitutes nominee directors from each promoter group company. Given the ownership, strong board representation and shared brand name, ICRA expects GICHF to continue to receive managerial, operational and financial support from the promoters, as and when required.
Consolidation/Standalone	Standalone

About the company

GIC Housing Finance Limited (GICHF) was promoted in December 1989 by General Insurance Corporation of India and its erstwhile subsidiaries, namely National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited along with UTI, ICICI, IFCI, HDFC and SBI, with all of them contributing to the initial share capital. The company's corporate office is in Mumbai and it had a nationwide network of 75 branches as on December 31, 2020 (75 as on March 31, 2019).

GICHF reported a profit after tax (PAT) of Rs. 46 crore (0.35% of ATA) and a return on average net worth of 3.62% in FY2020 against a PAT of Rs. 171.81 crore (1.42% of ATA) and a return on average net worth of 14.48% in FY2019. The total portfolio stood at Rs. 13,226 crore as on March 31, 2020 against Rs. 13,076 crore as on March 31, 2019. The company reported a CRAR of 16.99% and a gearing of 9.32 times as on March 31, 2020. It reported GNPA's and NNPA's of 5.39% and 3.01%, respectively, as on March 31, 2020 against and 2.70% and 0.56%, respectively, as on March 31, 2019.

GICHF reported a net profit of Rs. 26 crore in 9M FY2021 versus a PAT of Rs. 46 crore in FY2020. The asset quality profile deteriorated with the company reporting gross and net NPA's of 5.49% and 2.69%, respectively, a 90+ dpd of 9.14% and net NPA/net worth of 27.57% as on December 31, 2020 (5.39%, 3.01%, 5.39% and 31.35%, respectively, as on March 31, 2020). The capital adequacy ratio stood at 16.45% as on December 31, 2020. The company's gross portfolio stood at Rs. 13,108 crore as on December 31, 2020 with individual home loans forming 89% of the overall loan book.

Key financial indicators

GIC Housing Finance Limited	FY2019	FY2020	9M FY2021
	Ind-AS	Ind-AS	Ind-AS
Net interest income	357	301	295
Profit before tax	247	112	20
Profit after tax	172	46	26
Portfolio	13,076	13,226	13,108
% Tier I	16.55%	16.99%	16.45%
% CRAR	16.55%	16.99%	16.45%
Gearing (times)	9.30	9.32	8.99
% Net profit/Average total assets	1.42%	0.35%	0.26%
% Return on net worth	14.48%	3.62%	2.71%
% Gross NPAs	2.70%	5.39%	5.49%
% Net NPAs	0.56%	3.01%	2.69%
Net NPA/Net worth	5.88%	31.35%	27.57%

Source: Company, ICRA research; All ratios as per ICRA calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Apr 12, 2021	Oct 23, 2020	Sep 30, 2019	Aug 28, 2018	
1 Non-convertible Debenture Programme	Long Term	1,000	-	[ICRA]AA+ (Negative)	-	-	-	
2 Long-term Bank Lines – Fund Based/Non-fund Based	Long Term	12,500	10,976	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	
3 Non-convertible Debenture Programme	Long Term	550	300	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	
4 Short-term Bank Lines – Fund Based	Short Term	1,000.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5 Commercial Paper Programme	Short Term	1,500.00	745.60	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE289B07032	Non-convertible Debenture	Feb 22, 2021	6.94%	Feb 22, 2023	300	[ICRA]AA+ (Negative)
INE289B07040	Non-convertible Debenture	Mar 30, 2021	6.94%	Mar 30, 2023	195	[ICRA]AA+ (Negative)
NA	Non-convertible Debenture	Yet to be placed	-	-	1,055	[ICRA]AA+ (Negative)
NA	Long-term Bank Lines	-	-	-	12,500	[ICRA]AA+ (Negative)
NA	Short-term Bank Lines	-	-	-	1,000	[ICRA]A1+
INE289B14GX1	Commercial Paper	Dec 29, 2020	-	Mar 5, 2021	200	[ICRA]A1+
INE289B14GY9	Commercial Paper	Jan 14, 2021	-	Mar 19, 2021	100	[ICRA]A1+
INE289B14GZ6	Commercial Paper	Jan 21, 2021	-	Mar 26, 2021	200	[ICRA]A1+
INE289B14HA7	Commercial Paper	Feb 04, 2021	-	Apr 9, 2021	150	[ICRA]A1+
INE289B14HB5	Commercial Paper	Feb 11, 2021	-	Apr 29, 2021	100	[ICRA]A1+
NA	Commercial Paper	Yet to be placed	-	7-365 days	750	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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