

August 27, 2021

GIC Housing Finance Limited: Long-term rating revised to [ICRA]AA (Stable) from [ICRA]AA+ (Negative); short-term rating reaffirmed at [ICRA]A1+

Summary of rating action

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

*Instrument details are provided in Annexure-1;

Rationale

The rating revision for GIC Housing Finance Limited (GICHF) factors in the significant deterioration in the asset quality indicators and the consequent weakening of its solvency and profitability metrics. With the second wave of Covid-19 coming in April 2021, nation again witnessed a series of lockdown which impacted the cash flows of the borrowers. With restrictions in ground operations, the company was unable to collect from the borrowers who delayed in their payments, which ultimately, led to sudden increase in slippages. Consequently, the company reported gross non-performing assets (NPAs) of 11.40% as on June 30, 2021 (7.38% as on March 31, 2021). ICRA notes that the company had strengthened its underwriting processes in the last two years and the originations under the new framework has performed better than the earlier originations. ICRA has also 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.

The ratings continue to take significant support from the company's strong promoter profile. As on June 30, 2021, 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 other experienced directors, and the shared brand name. 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 March 31, 2021).

The ratings also factor in the relatively high gearing levels of 8.1 times as on June 30, 2021 (8.3 times as on March 31, 2021). ICRA has also taken note of the company's modest profitability and the interest rate risk on account of the fixed rate component of the lending product. The profitability metrics for GICHF weakened further in Q1 FY2022 due to increased credit costs with return on assets (RoA) of 0.09% on an annualised basis for the period (RoA of 0.8% in FY2021 and 0.35% in FY2020). ICRA expects the deterioration in the asset quality to further impact GICHF's earnings profile and consequently its internal

capital generation. At the same time, with relatively muted growth expectations, the company would not need growth capital in the short-term. Over the long-term, if the growth picks up, the company may need external capital to maintain adequate capitalisation levels. The 'Stable' outlook on the long-term rating reflects ICRA's expectation that GICHF will continue to benefit from the parentage and support would be forthcoming, if required. Overall, the ability of the company to improve the asset quality indicators from current weak levels and consequently report better profitability metrics, would be a key monitorable.

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 June 30, 2021. 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 June 30, 2021, the company was operating in 21 states through a network of 75 branches while managing a portfolio of Rs. 12,596 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 witnessed a Y-o-Y decline of 7% in FY2021 (AUM of Rs. 12,823 crore) and further degrowth of 3% (on an annualised basis) in Q1 FY2022 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 ~90% of the portfolio, followed by loans against property (LAP) at ~10% as on March 31, 2021 with no concentrated project finance exposures. Also, within individual borrowers, the company remains focused on salaried borrowers (74% of the portfolio as on March 31, 2021). 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.

Credit challenges

Further weakening of asset quality indicators – While the company reported an improvement in asset quality indicators in Q4FY2021 with gross NPAs% declining to 7.40% as on March 31, 2021 from 9.14% (on proforma basis) as on December 31, 2020 on account of focus towards recoveries in March 2021, however, owing to the lockdowns on account of the second wave of Covid in Q1FY2022, both borrower cashflows as well as company's ability to collect got impacted. Consequently, the gross NPA% deteriorated significantly to 11.4% as on June 30, 2021. The asset quality indicators are weaker than the peers and are expected to remain elevated over the short to medium term, given the sticky nature of such loans. With increased slippages the solvency indicator also deteriorated to 72.7% as on June 30, 2021. In the past, the company also had slippages in the developer 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 notes that the company had strengthened its underwriting processes in the last two years and the originations under the new framework has performed better than the earlier originations. ICRA has also noted 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 the company's solvency and profitability over the near term. 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 17.14% as on June 30, 2021, which was above the regulatory requirement (14% as on March 31, 2021), its gearing was relatively high at 8.07 times (8.27 times as on March

31, 2021). The regulatory capital adequacy is supported by the relatively lower risk weights on housing loans and the company has enough head room to raise Tier II Capital as all of the capital is currently in the form of Tier I Capital. 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. With the moderation in the profitability, the internal capital generation would be low. At the same time, with relatively muted growth expectations, the company would not need growth capital in the short-term. Over the long-term, if the growth picks up, the company may need external capital to maintain adequate capitalisation levels.

Moderation in profitability owing to elevated credit costs – The company NIMs improved to 3.07% as on March 31, 2021 as compared to 2.31% as on March 31, 2020. and remained weak in 9M FY2021. Though the credit costs increased to 1.44% as on March 31, 2021 from 0.76% as on March 31, 2020, with operating expenses remaining range around, with improvement in NIMs, the company's overall profitability improved as they reported a profit of Rs. 100 crore in FY2021 translating into RoA of 0.82% (Rs. 46 crore, 0.35% respectively in FY2020). However, due to decline in NIMs in Q1 FY2022 and increased credit costs resulting from significant slippages in asset quality, the profitability metrics again weakened as the company reported a profit of Rs. 2.8 crore translating into annualised RoA of 0.09%. 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 (72% of total borrowings as on March 31, 2021), 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 by rising interest rates.

Liquidity position: Adequate

As of July 08, 2021, the company is maintaining on-book liquidity of Rs. 207 crore against 3-month debt obligations of Rs. 1,740 crore (includes Rs. 750 crore of rollover CP). 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, sizeable undrawn sanctioned lines to the extent of Rs. 2,700 crore as on July 08, 2021. The company raised CP amounting to Rs. 7,300 crore and Rs. 4,500 crore in FY2020 and 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 to cushion its liquidity profile. The liquidity profile is also supported by the expectation of prepayments in the retail housing loan book.

Rating sensitivities

Positive factors – ICRA could upgrade the rating 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 – GIC's ratings are strongly underpinned by its parentage in the form of GIC-Re and other public sector insurance companies, which hold stake in GICHF. ICRA could revise the outlook to Negative or downgrade the ratings if there is a change in the expectation of support from the promoters or a deterioration in the credit profile of GIC Re. Further, the inability of the company to improve the asset quality indicators from current weak levels would be a credit negative.

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 March 31, 2021 (75 as on March 31, 2020).

In FY2021, the company reported a net profit after tax of Rs. 105 crore (0.82% of ATA) and a return on average net worth of 8.06% as against a profit after tax of Rs. 46 crore (0.35% of ATA) and a return on average net worth of 3.62% during FY2020. Total portfolio as on March 31, 2021 stood at Rs.12,823 crore as against Rs. 13,226 crore as on March 31, 2020. The company reported a CRAR of 17.63% and gearing of 8.27 times as on March 31, 2021. It reported GNPA and NNPA of 7.38% and 4.70% respectively as on March 31, 2020 as against and 5.37% and 3.01% respectively as on March 31, 2020.

During Q1 FY2022 the company reported a minimal profit of Rs. 3 crore owing to high credit costs incurred in Q1 FY2022 (Rs. 69 crore). Total portfolio as on June 30, 2021 stood at Rs. 12,596 crore. The company reported GNPA% of 11.40% and NNPA of 7.86% as on June 30, 2021.

Key financial indicators

GIC Housing Finance Limited	FY2020	FY2021	Q1 FY2022
	Ind-AS	Ind-AS	Ind-AS
Net interest income	301	396	86
Profit before tax	112	135	0.9
Profit after tax	46	105	2.8
Portfolio	13,226	12,823	12,596
% Tier I	16.9%	19.5%	17.1%
% CRAR	16.9%	19.5%	17.1%
Gearing (times)	9.3	8.3	8.1
% Net profit/Average total assets	0.4%	0.8%	0.1%
% Return on net worth	3.6%	8.1%	0.8%
% Gross NPAs	5.4%	7.4%	11.4%
% Net NPAs	3.0%	4.7%	7.9%
Net NPA/Net worth	31.4%	44.3%	72.7%

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 FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Aug 27, 2021	Apr 12, 2021	Oct 23, 2020	Sep 30, 2019	Aug 28, 2018	
1 Long-term Bank Lines – Fund Based/Non-fund Based	Long Term	12,500	10,976	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	
2 Non-convertible Debenture Programme	Long Term	1,550	495	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	
3 Short-term Bank Lines – Fund Based	Short Term	1,000.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Commercial Paper Programme	Short Term	1,500.00	745.60	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long-term Bank Lines-Fund Based/Non-fund based	Simple
Non-Convertible Debenture Programme	Very Simple
Short Term Bank Lines-Fund Based	Very Simple
Commercial Paper Programme	Very Simple

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 (Stable)
INE289B07040	Non-convertible Debenture	Mar 30, 2021	6.94%	Mar 30, 2023	195	[ICRA]AA (Stable)
Unallocated	Non-convertible Debenture	-	-	-	1,055	[ICRA]AA (Stable)
NA	Long-term Bank Lines	-	-	-	12,500	[ICRA]AA (Stable)
NA	Short-term Bank Lines	-	-	-	1,000	[ICRA]A1+
INE289B14HL4	Commercial Paper	June 17, 2021	-	Sep 3, 2021	150	[ICRA]A1+
INE289B14HJ8	Commercial Paper	June 24, 2021	-	Aug 13, 2021	100	[ICRA]A1+
INE289B14HM2	Commercial Paper	July 8, 2021	-	Sep 24, 2021	200	[ICRA]A1+
INE289B14HN0	Commercial Paper	Aug 12, 2021	-	Oct 28, 2021	200	[ICRA]A1+
INE289B14HO8	Commercial Paper	Aug 26, 2021	-	Nov 18, 2021	200	[ICRA]A1+
Unallocated	Commercial Paper	-	-	7-365 days	650	[ICRA]A1+

Source: Company

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

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Branches



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