August 26, 2022

GIC Housing Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	1,550	1,550	[ICRA]AA (Stable); reaffirmed
Long-term bank facilities	12,500	12,500	[ICRA]AA (Stable); reaffirmed
Short-term bank facilities	1,000	1,000	[ICRA]A1+; reaffirmed
Commercial paper	1,500	1,500	[ICRA]A1+; reaffirmed
Total	**16,550**	**16,550**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation factors in GIC Housing Finance Limited's (GICHF) promoter profile with General Insurance Corporation of India (GIC-Re) 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, holding a 42.41% stake in the company as on June 30, 2022. Given the ownership, strong board representation and brand sharing, ICRA expects GICHF to continue receiving managerial, operational and financial support from the promoters, as and when required. The ratings also factor in the long track record of operations of more than 30 years, focus on salaried home loans and the granular nature of the loan book. Further, the company's capitalisation profile has been improving aided by internal capital generation and moderation in the scale of operations. GICHF's gearing has been declining and was reported at 6.5 times as on June 30, 2022 (6.8 times as on March 31, 2022) compared to 8.3 times as on March 31, 2021.

The ratings also factor in the weak asset quality indicators, though the same improved in the previous year. The company reported gross stage 3 assets of 7.5% as on June 30, 2022 (7.4% as on March 31, 2022) compared to 11.2% as on June 30, 2021 (7.7% as on March 31, 2021). There is a reduction in gross stage 3 assets to Rs. 865 crore as on June 30, 2022 (Rs. 861 crore as on March 31, 2022) from Rs. 1,404 crore as on June 30, 2021. ICRA takes cognisance of the recovery efforts undertaken by the company. The ultimate credit costs are expected to be low, given the secured nature of the loans. Nevertheless, the asset quality indicators remain weak and the company's ability to arrest further slippages, while recovering from delinquent loans, will be a key monitorable. With weak asset quality indicators, the company's credit costs remain elevated, thereby affecting its profitability. GICHF reported a net profit of Rs. 174 crore in FY2022, translating into a return of 1.4% of average managed assets (AMA) and 12.1% of average net worth in FY2022, compared to Rs. 106 crore, 0.8% and 8.1%, respectively, in FY2021. In Q1 FY2023, the company reported a net profit of Rs. 39 crore (Rs. 49 crore in Q4 FY2022) compared to Rs. 3 crore in Q1 FY2022.

The ratings also take into account the interest rate risk arising out of the higher share of fixed rate loan assets vis-à-vis borrowings. GICHF faces competition from banks and leading housing finance companies (HFCs), primarily while lending to the salaried borrower segment. The competition in the industry is expected to remain high over the medium term, specifically in the salaried borrower segment. In ICRA's view, the company's ability to grow its book while improving its profitability, asset quality and solvency profile will remain a key rating factor.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would continue benefiting from its parentage, long track record and the granular nature of its loan portfolio. Further, ICRA expects support from the promoters to be forthcoming, if required.

Key rating drivers and their description

Credit strengths

Expectation of support from promoters, GIC-Re and its erstwhile subsidiaries – 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, 2022. GICHF's board of directors comprises nominee directors from the promoter group, apart from independent directors. Given the ownership, strong board representation and brand sharing, ICRA expects GICHF to continue receiving 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, 2022, the company was operating in 21 states through a network of 80 branches (including 5 satellite offices) with assets under management (AUM) of Rs. 11,478 crore. GICHF's loan book is granular with individual home loans (including renovation loans) accounting for 90% of the portfolio, followed by loan against property (LAP) at 10% as on March 31, 2022. Also, within individual borrowers, the company remains focused on salaried borrowers (76% of the portfolio as on March 31, 2022). Given its presence primarily in retail housing loans and the granular nature of its portfolio, GICHF's credit concentration remains low.

Improving capitalisation profile – The company's capitalisation profile has improved supported by internal capital generation and the decline in the scale of operations. The gearing has been declining and was reported at 6.5 times as on June 30, 2022 (6.8 times as on March 31, 2022) compared to 8.3 times as on March 31, 2021. The capital adequacy ratio of 25.7% as on March 31, 2022 was well above the regulatory requirement of 15%. In ICRA's opinion, the capitalisation profile is expected to remain adequate in the near-to-medium term, given the company's growth plans and internal capital generation. Over the long term, GICHF may need external capital to maintain adequate capitalisation levels if the growth momentum increases.

Credit challenges

Weak, albeit gradually improving, asset quality indicators – The asset quality indicators deteriorated significantly in FY2020 and FY2021. With the second wave of the Covid-19 pandemic in Q1 FY2022, the trend continued with the gross stage 3 assets increasing to a peak of 11.2% as on June 30, 2021 (7.7% as on March 31, 2021). With continuous recovery efforts and the empanelment of external agencies for recoveries from delinquent accounts, the gross stage 3 assets moderated to 7.5% as on June 30, 2022 (7.4% as on March 31, 2022). The net stage 3 assets were lower at 4.4% as on June 30, 2022 (4.4% as on March 31, 2022; 7.8% as on June 30, 2021).

With delinquencies remaining elevated, GICHF's solvency profile remains subdued with net stage 3 assets representing 31% of the net worth as on June 30, 2022 (33% as on March 31, 2022; 70% as on June 30, 2021). ICRA takes cognisance of the recovery efforts undertaken by the company. The ultimate credit costs are expected to be low, given the secured nature of the loans. Nevertheless, the asset quality indicators remain weak and the company's ability to arrest further slippages while recovering from the delinquent loans will be a key monitorable.

Moderate profitability indicators[1] – GICHF's profitability remains moderate primarily due to elevated credit costs. While the yield on average gross loans declined to 9.3% in FY2022 from 9.4% in FY2021, with the systemic softening of interest rates, the cost of average interest-bearing funds declined to 6.5% in FY2022 from 7.2% in FY2021. With the decline in the cost of average interest-bearing funds outpacing the decline in yields, the net interest margins improved to 3.4% of AMA in FY2022 from 3.0% in FY2021. Operating expenses increased to 0.8% of AMA in FY2022 from 0.7% in FY2021 with the decline in operational efficiency and increase in employee and administrative expenses during the year. Credit costs remained elevated with weak asset quality indicators and were reported at 0.9% of AMA in FY2022, though the same declined from 1.4% in FY2021. The company reported a net profit of Rs. 174 crore in FY2022, translating into a return of 1.4% of AMA and 12.1% of average net

[1] *All ratios as per ICRA's calculations*

worth in FY2022 compared to Rs. 106 crore, 0.8% and 8.1%, respectively, in FY2021. In Q1 FY2023, the company reported a net profit of Rs. 39 crore (Rs. 49 crore in Q4 FY2022) compared to Rs. 3 crore in Q1 FY2022.

Higher interest rate risk on account of relatively higher fixed interest rate portfolio – The company's funding mix mainly comprises long-term loans from banks (75% of total borrowings as on June 30, 2022), which are floating in nature. However, GICHF used to provide loans through a 61-month product, which were at a fixed rate for the stipulated initial 61-month period, with a floating rate thereafter. Consequently, ~60% of the company's portfolio as on date remains on a fixed interest rate basis. Thus, with a higher share of fixed rate loans vis-à-vis borrowings, the company remains exposed to interest rate risk, especially in a rising interest rate scenario.

Liquidity position: Adequate

As on July 21, 2022, the company held Rs. 701 crore of cash and cash equivalents, bank deposits and liquid investments against scheduled debt obligations of Rs. 2,119 crore till December 31, 2022 and expected inflow from collections of Rs. 1,500 crore during the same period. The structural liquidity statement (SLS), as on March 31, 2022, had a positive cumulative mismatch of Rs. 101 crore in the up to six months bucket and Rs. 4 crore in the up to one year bucket, factoring in the lines of credit committed by other institutions. Given the relatively longer tenure of its assets vis-à-vis liabilities, GICHF's ability to roll over its borrowings will remain a key rating monitorable. The granular nature of the loan book and the expectation of support from the promoter companies in case of exigencies also aid the company's liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company improves its asset quality with the solvency ratio (Net stage 3 assets/Net worth) declining below 30% on a sustained basis while maintaining sufficient cushion on its capitalisation levels above the regulatory requirements.

Negative factors – The company's ratings are strongly underpinned by its parentage in the form of GIC-Re and other public sector insurance companies. 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 company's inability to improve the asset quality indicators from the current levels would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Implicit Support From Parent or Group
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 June 30, 2022. Given the ownership, strong board representation and shared brand name, ICRA expects GICHF to continue receiving managerial, operational and financial support from the promoters, as and when required.
Consolidation/Standalone	Standalone

About the company

GICHF was founded in 1989 by GIC-Re and its erstwhile subsidiaries, National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited, and United India Insurance Company Limited, together with Unit Trust of India (UTI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Finance Corporation of India (IFCI), Housing Development Finance Corporation (HDFC) and State Bank of India (SBI), all of which contributed to the initial share capital. Later on, HDFC, SBI, ICICI, UTI, and IFCI sold their holding in GICHF and ceased to be promoters. As on March 31, 2022, the promoter group held a 42.41% stake in the company, with GIC-Re being the largest shareholder.

In FY2022, the company reported a profit after tax of Rs. 174 crore on a total reported asset base of Rs. 11,929 crore against Rs. 106 crore and Rs. 12,641 crore, respectively, in FY2021. In Q1 FY2023, the company reported a net profit of Rs. 39 crore (Rs. 49 crore in Q4 FY2022) compared to Rs. 3 crore in Q1 FY2022.

Key financial indicators (audited)

GIC Housing Finance Limited	FY2021	FY2022
As per	Ind-AS	Ind-AS
Total income	1,240	1,156
Profit after tax	106	174
Net worth	1,358	1,511
Gross managed portfolio	12,811	11,711
Total assets	12,641	11,929
Total managed assets	13,113	12,434
Return on average managed assets	0.8%	1.4%
Return on average net worth	8.1%	12.1%
Gearing (gross; times)	8.3	6.8
Gross stage 3 assets	7.7%	7.4%
Net stage 3 assets	4.9%	4.4%
Net stage 3 assets / Net worth	44.6%	32.7%
CRAR	19.5%	25.7%

Total managed assets = Total assets + Impairment allowance; Source: Company, ICRA Research; All ratios as per ICRA's 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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022* (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Aug 26, 2022	Aug 27, 2021	Apr 12, 2021	Oct 23, 2020	Sep 30, 2019
1	Long-term bank lines – Fund based/Non-fund based	Long term	12,500	8,773	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)
2	Non-convertible debenture programme	Long term	1,550	945	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)
3	Short-term bank lines – Fund based	Short term	1,000	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial paper programme	Short term	1,500	350	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**Source: Company*

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term bank facilities	Simple
Non-convertible debentures	Simple
Short-term bank facilities	Simple

Commercial paper	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	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)
INE289B07057	Non-convertible debenture	Mar 21, 2022	3-month T-Bill + 300 bps	Oct 20, 2023	225	[ICRA]AA (Stable)
INE289B07065	Non-convertible debenture	Mar 28, 2022	7.03% - 8.25%	Jun 07, 2023	225	[ICRA]AA (Stable)
NA	Non-convertible debentures – Yet to be issued	-	-	-	605	[ICRA]AA (Stable)
NA	Long-term bank facilities	-	-	-	12,500	[ICRA]AA (Stable)
NA	Short-term bank facilities	-	-	-	1,000	[ICRA]A1+
INE289B14HX9	Commercial paper	Feb 17, 2022	5.4%	Aug 26, 2022	150	[ICRA]A1+
INE289B14HY7	Commercial paper	May 26, 2022	5.6%	Aug 05, 2022	100	[ICRA]A1+
INE289B14HZ4	Commercial paper	Jun 16, 2022	5.5%	Sep 15, 2022	100	[ICRA]A1+
NA	Commercial paper – Yet to be issued	-	-	7-365 days	1,150	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for limited consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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