

## GIC Housing Finance Limited

August 28, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines	10,000	12,500	[ICRA]AA+(Stable); reaffirmed
Non-convertible Debenture Programme	550	550	[ICRA]AA+(Stable); reaffirmed
Short-term Bank Lines	500	500	[ICRA]A1+; reaffirmed
Commercial Paper Programme	1,500	1,500	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>12,550</b>	<b>15,050</b>	

### Rating action

ICRA has reaffirmed the rating of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs. 12,500-crore (enhanced from Rs. 10,000 crore) non-convertible debenture (NCD) programme of GIC Housing Finance Limited (GICHF)<sup>1</sup>. ICRA has also reaffirmed the long-term rating of [ICRA]AA+ for the Rs. 550-crore NCD programme and [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500-crore short-term bank lines and Rs. 1,500-crore commercial paper programme.

### Rationale

The ratings take into account the strong support for GICHF from its promoter, General Insurance Corporation of India (GIC-Re), which together with its erstwhile subsidiaries (The New India Insurance Company Ltd., United India Insurance Company Ltd., The Oriental Insurance Company Ltd. and National Insurance Company Ltd.) held a 42% stake in the company as on June 30, 2018. Given the ownership and brand sharing, ICRA views GICHF as being strategically important for GIC and expects the company to continue to receive managerial, operational and financial support from the parent.

The ratings also factor in GICHF's moderate scale of operations, being a mid-sized player in the competitive housing finance market. The ratings continue to factor in GICHF's sustained focus on the relatively low-risk salaried individual segment (constituting ~70% of the portfolio as on March 31, 2018). The ratings also consider the company's adequate capitalisation profile (CRAR of 16.78% as on March 31, 2018) and gearing of 10.09 times as on March 31, 2018 and stable profitability indicators (return on average assets of 1.78% and return on average equity of 20.17% for FY2018), supported by its low operating expenses and ability to raise funds at competitive rates. ICRA expects the company's capitalisation to remain adequate over the medium term given that it plans to grow in line with internal capital generation. ICRA also expects the promoters to provide funding support to GICHF as and when required. The credit strengths are, however, partly offset by the company's moderate asset quality indicators and the intense and increasing competition in the housing finance segment. Nevertheless, ICRA takes note of the Government's thrust on the affordable housing segment which augers well for GICHF given its focus on the segment.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's [website](http://www.icra.in) or other ICRA rating publications

## Outlook: Stable

In ICRA's opinion, GICHF will continue to report steady growth and healthy profitability indicators, given its focus on the lower-risk salaried home loan segment and good credit underwriting norms. The outlook may be revised to Negative if there is a significant deterioration in the company's asset quality or solvency indicators.

## Key rating drivers

### Credit strengths

**Strong parentage; promoted by GIC-Re, its erstwhile subsidiaries and other leading financial institutions** – GIC-Re, together with its erstwhile subsidiaries (The New India Insurance Company Ltd., United India Insurance Company Ltd., The Oriental Insurance Company Ltd. and National Insurance Company Ltd.) held a 42% stake in the company as on June 30, 2018. Given the ownership and brand sharing, ICRA views GICHF as being strategically important for its promoters and expects it to continue to receive managerial, operational and financial support from them.

**Good credit appraisal policies; conservative lending norms** – GICHF has prudent credit appraisal norms. It remains focussed on the salaried segment and its average ticket size for FY2018 was around Rs. 12-16 lakh. The company offers loans against property (LAP) mainly to its existing customers and against self-occupied residential property. It remains conservative in lending to the self-employed segment and lends only against reported income. The company remains focussed on the salaried individual segment with its advances to this segment accounting for 70% of the portfolio as on March 31, 2018.

**Good profitability indicators** – Despite increasing competition, GICHF has been able to consistently report good profitability indicators. Though the yield on average loans declined slightly during FY2018 to 10.70% from 11.38% in FY2017 with incremental loans being disbursed at lower rates, this was compensated by a decline in the cost of funds by 95 bps resulting in improved lending spreads of 2.88% during FY2018 compared to 2.61% in FY2017. The company's net interest margins (NIMs) also improved to 3.72% during FY2018 from 3.58% during FY2017. Operating expenses, as a share of average total assets, declined to 0.79% in FY2018 from 0.84% in FY2017 as the company scaled up operations. The company reported a net profit of Rs. 184 crore during FY2018, indicating an annualised return of 1.78% of average total assets (ATA) and 20.17% of average net worth compared to 1.70% and 18.82%, respectively, during FY2017.

**Adequate capitalisation levels built entirely by Tier I** - The company reported capital adequacy of 16.78% as on March 31, 2018, entirely in the form of Tier I capital. Given its adequate Tier I position, GICHF has enough headroom to raise Tier II capital to support portfolio growth. The company's gearing levels were moderate at 10.09 times as on March 31, 2018 (vis-à-vis 9.83 times as on March 31, 2017). Given the company's strong internal capital generation, it is likely to be able to fund the targeted growth. Further, given its strong parentage, raising capital would not be a constraint going forward.

### Credit challenges

**To protect margins while ensuring business growth in an extremely competitive environment** - There has been an increase in the number of new entrants in the housing finance market, including housing finance companies (HFCs) promoted by existing non-banking finance companies (NBFCs), new companies started by entrepreneurs and supported by private equity players. This has led to increased competition in the industry across segments with the players operating in the traditional home loan and LAP segments as well as the affordable segment. The competitive intensity in the industry is expected to remain high over the medium term. GICHF's ability to maintain interest spreads and profitability indicators will be a key monitorable.

**Ability to maintain asset quality indicators** - GICHF's asset quality witnessed marginal deterioration during FY2018 with gross NPAs at 2.43% compared to 2.38% as on March 31, 2017. However, the company has provided for most of the delinquent assets, resulting in NNPA being reported at 0.21% as on March 31, 2018 (0.30% as on March 31, 2017). Going forward, GICHF's ability to improve its asset quality indicators will be important for its credit profile

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Rating Methodology for Housing Finance Companies](#)

## 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 (NIC), The New India Assurance Company Limited (NIA), The Oriental Insurance Company Limited (OIC) and United India Insurance Company Limited (UIA) along with UTI, ICICI, IFCI, HDFC and SBI, all of them contributing to the initial share capital. The Mumbai-based company's nationwide network comprised 70 branches as on March 31, 2018. In FY2018, the company reported a profit after tax of Rs. 184.44 crore (1.78% of ATA) and a return on average net worth of 20.17% against a profit after tax of Rs. 147.73 crore (1.70% of ATA) and a return on average net worth of 18.82% during FY2017.

## Key financial indicators (Audited)

	FY 2017	FY 2018
Net interest income	312	386
Profit before tax	227	272
Profit after tax	148	184
Portfolio	9,277	11,235
Total assets	9,404	11,355
% Tier 1	16.60%	16.78%
% CRAR	16.60%	16.78%
Gearing	9.83	10.09
% Net profit/Average total assets	1.70%	1.78%
% Return on net worth	18.82%	20.17%
% Gross NPAs	2.38%	2.43%
% Net NPAs	0.30%	0.21%
Net NPA/Net worth	3.16%	2.26%

Amount in Rs. Crore; All ratios as per ICRA calculations

Source: Company data; ICRA research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of rating history for the past 3 years				
	Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	August 2018	FY2018 November 2017	May 2017	FY2017 October 2016	FY2016 February 2016	
1 Long-term Bank Lines	Long Term	12,500.00	9421.88	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	
2 Non-convertible debenture Programme	Long Term	550.00	-	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	
3 Short-term Bank Lines	Short Term	500.00	50.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Commercial Paper	Short Term	1,500.00	-	[ICRA]A1+	[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](http://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
	Long Term Bank Lines	-	-	-	12,500	[ICRA]AA+(stable)
	Non-convertible debenture*	-	-	-	550	[ICRA]AA+(stable)
	Short Term Bank Lines	-	-	-	500	[ICRA]A1+
	Commercial Paper	-	-	7-365 days	1,500	[ICRA]A1+

\*Unutilised

Source: Company data

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## About ICRA Limited:

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For more information, visit [www.icra.in](http://www.icra.in)

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