

September 30, 2019

GIC Housing Finance Limited: Ratings reaffirmed; Outlook revised to Negative from Stable, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines	12,500	12,500	[ICRA]AA+(Negative); Reaffirmed; Outlook revised to Negative from Stable
Non-convertible Debenture Programme	550	550	[ICRA]AA+(Negative); Reaffirmed; Outlook revised to Negative from Stable
Short-term Bank Lines	500	1,000	[ICRA]A1+; reaffirmed
Commercial Paper Programme	1,500	1,500	[ICRA]A1+; reaffirmed
Total	15,050	15,550	

*Instrument details are provided in Annexure-1

Rationale

The ratings take into account the strong promoter profile of GIC Housing Finance Limited (GICHF), 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.) owning 42.41% stake in the company as on June 30, 2019. Given the ownership, strong board re-representation and brand sharing, ICRA expects GICHF to continue to receive managerial, operational and financial support from promoters, as and when required.

The ratings also factor in GICHF's track record in housing finance business, granularity of loan book with low credit concentration risk, and focus on salaried borrower profile (72% of portfolio as on March 31, 2019). The ratings continue to factor in the company's adequate profitability indicators over the past few years although moderated in FY2019 and Q1FY2020 and the comfortable regulatory capitalisation (CRAR of 16.55% as on March 31, 2019, entirely in the form of Tier I capital), though the gearing was relatively high gearing at 9.30 times as on March 31, 2019. ICRA has also taken note of weakness in company's asset quality profile during Q1, FY20 with increase in gross and net NPA % to 4.75% and 2.43%, respectively, as on June 30, 2019 vs. 2.70% and 0.58%, respectively, as on March 31, 2019. ICRA will monitor the asset quality trend for the company. The credit strengths are, however, offset by the moderation in company's profitability during FY2019 and Q1FY2020, interest rate risk on account of fixed rate component of lending product, and the intense and increasing competition in the target lending segment. ICRA expects the moderation asset quality to impact the earnings profile of the company and consequently the company's internal capital generation. Therefore, in order maintain similar capitalization level company, the company may have to raise capital from promoters / external sources or its portfolio growth could get impacted. Nevertheless, ICRA takes note of the Government's thrust on the affordable housing segment which augurs well for GICHF given its focus on the segment.

The revision in outlook to negative from stable on account of weakening in asset quality indicators (GNPA and NPA of 4.75% and 2.43% and solvency ratio of ~25% as on June 30, 2019) and consequent moderation in profitability during FY2019 and Q1FY2020. The outlook may be revised to stable if the company improves its asset quality while maintaining comfortable capitalization and profitability profile.

Key rating drivers

Credit strengths

Strong promoters in the form of GIC-Re and its erstwhile subsidiaries; strong representation on board of directors - GIC-Re, together with its erstwhile subsidiaries (The New India Insurance 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, 2019. The board of directors of GIC Housing Finance Limited constitutes nominee directors from each promoter group company. Given the ownership, strong board re-presentation and brand sharing, ICRA expects GICHF to continue to receive managerial, operational and financial support from them, as and when required.

Established track record; focus on salaried home loan segment and granular nature of loan book - GICHF has good track record in housing finance business, it was incorporated in 1989, the company operates across 21 states through 75 branches as on March 31, 2019. GICHF's portfolio increased at a CAGR of ~18% over past three years to Rs. 13,076 crore¹ (I-GAAP) as on March 31, 2019. As on June 30, 2019 the portfolio stood at Rs. 13,178 crore (Ind-AS). The company's loan book is fairly granular with ~88% lending in the form of individual home loans, ~12% through retail loans against property (LAP) and no concentrated project finance exposures. Also, within individual borrowers, the company remains focussed on salaried borrowers which is expected to augur well for portfolio vulnerability, salaried segment accounted for 72% of the portfolio as on March 31, 2019 with ticket size of less than Rs. 25 lakh for ~75% of loans as on March 31, 2019. The company offers loans against property (LAP) loans mainly to its existing customers and against self-occupied residential property. The company remains conservative in lending to the self-employed segment and lends only against reported income. Given the company's presence primarily in retail housing loans and granular nature of portfolio, its credit concentration also remains low with top-20 exposures accounting for only 0.29% of loan book as on March 31, 2019.

Adequate regulatory capitalisation built entirely by Tier I; however, gearing remains high - The company reported a capital adequacy of 16.55% as on March 31, 2019, 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. While, the regulatory capitalization remains comfortable, the company's gearing is relatively high at 9.30 times as on March 31, 2019 as per Ind-AS (vis-à-vis 10.09 times as on March 31, 2018 as per I-GAAP). For several years, the company's healthy internal capital generation was in line with its portfolio growth and thus enabling it to maintain stable gearing level without any external capital raising. As the moderation in the profitability profile could impact GICHF's internal capital generation, the company 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, the company's ability to drive business growth while maintaining healthy capitalisation, asset quality, and profitability would remain a key rating sensitivity.

¹Portfolio stood at Rs. 12,747 as on March 31, 2019 as per Ind-AS

Credit challenges

Weakness in asset quality indicators - GICHF's asset quality weakened in Q1FY2020 with its gross and net NPAs increasing to 4.75% and 2.43% respectively as on June 30, 2019 (3.05% and 0.87% respectively as on June 30, 2018 and 2.70% and 0.58%, respectively, as on March 31, 2019). The reported asset quality is weaker than average of housing finance companies. Weakness in asset quality also led to deterioration in net NPA / net worth increasing to ~25% as on June 30, 2019 vs. 5.88% as on March 31, 2019 (9.75% as on June 30, 2018). Earlier, GICHF's asset quality witnessed marginal deterioration during FY2019 with gross NPAs at 2.70% as on March 31, 2019 compared to 2.43% as on March 31, 2018. However, the company maintained a healthy provision cover of ~80%, resulting in Net NPA of 0.58% as on March 31, 2019. Going forward, GICHF's ability to recover from existing NPAs to improve its asset quality indicators will be important for its credit profile.

Moderation in profitability levels – GICHF's profitability indicators moderated in FY2019 to PAT / ATA and return on average net worth of 1.42% and 14.48%, respectively, from 2.02% and 19.94%, respectively, in FY2018. The moderation in profitability reflected the decline in net interest margins (NIMs) to 2.96% during FY2019 from 3.83% during FY2018. GICHF's yield on average loans declined during FY2019 to 10.31% from 11.04% in FY2018 as the share of loans by value in the less than 10% rate bucket increased to 67% as on March 31, 2019 from 56% as on March 31, 2018. Further, the cost of funds increased to 8.00% during FY2019 from 7.82% during FY2018 due to reliance on floating rate bank loans, resulting in compressed lending spreads of 2.32% during FY2019 as compared with 3.21% in FY2018. Operating expenses as a share of average total assets have increased to 0.68% in FY2019 from 0.62% in FY2018. The company reported a net profit of Rs. 172 crore during FY2019 resulting in return of 1.42% of ATA and 14.48% of average net worth as per Ind-AS. GICHF's profitability levels have further moderated during Q1FY2020 with PAT declining to Rs. 14.94 crore as against Rs. 49.45 crore during Q1FY2019 primarily due to weakness in asset quality (increase in NPAs) which increased credit provision requirement as well as led to interest reversal. Profitability was also impacted by slowdown in portfolio growth and increase in funding cost in Q1FY2020. Going forward, the company's profitability is expected to remain under pressure during FY2020.

Higher interest rate risk on account of lending at fixed rate of interest for first 5 years - The company's funding mix is reliant on long term loans from banks which are floating in nature. However, the lending by GICHF is through a 61 month product which is at fixed rate for the stipulated initial 61 month period, followed by a floating rate thereafter. Thus, the limited range of products and variable nature of borrowings exposes the company to interest rate risk. GICHF's lending spread declined to 2.32% in FY2019 (3.21% in FY2018). The company's profitability could get significantly impacted in case of rising interest rate.

To protect margins while ensuring business growth in an extremely competitive environment - GICHF faces intense competition from banks and leading HFCs primarily while lending to the salaried borrower segment. Also, there has been an increase in the number of new entrants in the housing finance market, including HFCs promoted by existing NBFCs, new companies started by entrepreneurs and supported by private equity players. This has led to increased competition in the industry. The competitive intensity in the industry is expected to remain high over the medium term specifically while lending to the salaried borrower segment. GICHF's ability to maintain interest spreads and profitability indicators will be a key monitorable.

Liquidity Position: Adequate

GIC's liquidity profile is adequate supported by availability of unutilized bank lines and despite cumulative negative mismatches in up to one year bucket. GICHF had cumulative negative mismatches of Rs. 2,339 crore as on March 31, 2019 (- 18%² of total assets) in the up to one-year bucket – in line with the nature of its long tenure advances against relatively shorter tenure borrowings. Also, commercial paper borrowings of GICHFC accounted for about 11% of its total borrowings as on March 31, 2019. However, ICRA draws comfort from the company's strong relationships with several banks, sizeable undrawn sanctioned lines to the extent of Rs.2,720 crore as on September 3, 2019, granular nature of loan book and expectation of support from promoter companies in case of exigencies to cushion its liquidity profile. The liquidity profile is also supported by expectation of pre-payments in retail housing loan book.

Rating sensitivities

Positive triggers - ICRA could revise the outlook to stable if the company improves its asset quality with Gross NPAs reducing below 2% on a sustained basis and capitalization and profitability profile remains comfortable. Significant capital raising by GICHF and consequent significant reduction in gearing levels could be a positive trigger.

Negative triggers - Negative pressure on GICHF's rating could arise if there is a deterioration in asset quality with Gross NPAs remaining above 5% or solvency level remaining above 30%. Reduction in stake of GIC and other public-sector insurance companies in GICHF, change in expectation of support from them or deterioration in credit profile of promoters could warrant a rating downgrade.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	GIC-Re, together with its erstwhile subsidiaries (The New India Insurance 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, 2019. The board of directors of GIC Housing Finance Limited constitutes nominee directors from each promoter group company. Given the ownership, strong board re-presentation and brand sharing, ICRA expects GICHF to continue to receive managerial, operational and financial support from them, 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 (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 company's corporate office is in Mumbai and it had a nationwide network of 75 branches as on March 31, 2019. In FY2019, the company reported a net profit after tax of Rs. 171.81 crore (1.42% of ATA) and a return on average net worth of 14.48% as against a profit after tax of Rs. 205.64 crore (2.02% of ATA) and a return on average net worth of 19.94% during FY2018. Total portfolio as on March 31, 2019 stood at Rs.13,076 crore as against Rs. 11,235 crore as on March 31, 2018. The company reported a CRAR of

² Excluding contingent liabilities, committed lines of credit, interest receivable and interest payable

16.55% (tier-1 capital of 16.55%) and gearing of 9.30 times as on March 31, 2019. It reported GNPA and NNPA of 2.70% and 0.58% respectively as on March 31, 2019 as against 2.43% and 0.21% respectively as on March 31, 2018.

During Q1FY20, the company reported PAT of Rs.14.94 crore vs. PAT of Rs. 49.45 crore in Q1FY19. Asset quality profile deteriorated with Gross and Net NPAs increasing to 4.75% and 2.43% as on June 30, 2019 from 2.70% and 0.58% as on March 31, 2019.

Key financial indicators - GIC Housing Finance Limited (audited)

	FY 2018	FY 2019
Net interest income	390	357
Profit before tax	274	247
Profit after tax	206	172
Portfolio*	11,235	13,076
Total assets	11,147	12,967
% Tier I	16.17%	16.55%
% CRAR	16.17%	16.55%
Gearing (times)	8.93	9.30
% Net profit/Average total assets	2.02%	1.42%
% Return on net worth	19.94%	14.48%
% Gross NPAs	2.43%	2.70%
% Net NPAs	0.21%	0.58%
Net NPA/Net worth	2.11%	5.88%

Amount in Rs. crore; All ratios as per ICRA calculations; As per I-GAAP

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 (FY2020)				Chronology of rating history for the Past 3 Years					
		Type	Rated amount (Rs. crore)	Amount Outstanding as on June 30, 2019 (Rs. crore)	Rating	FY2019	FY2018		FY2017	FY2016	
					30-September 2019	28-Aug-2018	23-Nov-2017	10-May-2017	24-Oct-2016	20-Jul-2016	11-Feb-2016
1	Long-term Bank Lines	Long Term	12,500.00	10,519.85	[ICRA]AA+ (negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
2	Non-convertible Debenture Programme	Long Term	550.00	0.00	[ICRA]AA+ (negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
3	Short-term Bank Lines	Short Term	1,000.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	1,500.00	1,224.32	[ICRA]A1+	[ICRA]A1+	[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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Bank Lines	-	-	-	12,500	[ICRA]AA+(negative)
NA	Non-convertible Debenture*	-	-	-	550	[ICRA]AA+(negative)
NA	Short-term Bank Lines	-	-	-	1,000 (enhanced from Rs. 500 crore)	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	1,500	[ICRA]A1+

*Unutilised

Source: Company data

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Supreet Nijjar

+91 124 4545 324

supreetan@icraindia.com

Jitesh Setia

+91 22 6114 3463

jitesh.setia@icraindia.com

Puneet Maheshwari

+91 22 6114 3471

puneet.maheshwari@icraindia.com

Sandeep Sharma

+91 22 6114 3472

sandeep.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents