

June 10, 2020

ICICI Home Finance Company Limited: Update on entity

Summary of rating action: Rating outstanding

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank limits ¹	15,000.00	15,000.00	[ICRA]AAA(stable); outstanding
Long-term bonds programme	8,548.50	8,548.50	[ICRA]AAA(stable); outstanding
Subordinated debt programme	665.70	665.70	[ICRA]AAA(stable); outstanding
Fixed deposit programme	-	-	MAAA(stable); outstanding
Issuer rating	-	-	[ICRA]AAA(stable); outstanding
Commercial paper programme	4,000.00	4,000.00	[ICRA]A1+; outstanding
Total	28,214.20	28,214.20	

Update

ICICI Home Finance Company Limited (ICICI HFC) has informed ICRA about a delay in payment of instalment on its two of its term loan facilities by 1 and 2 working days respectively. The payment on one term loan instalment (Rs 3.75 crore) which was due on May 27, 2020 and another instalment (Rs 2.5 crore) that was due on May 28, 2020 were made on May 29, 2020, after the same was brought to the notice of the company by the bank. ICRA notes that the delay in payment was because of difference in interpretation on the commencement of first repayment date and ICICI HFC was carrying liquidity of Rs.73.15 crore cash and Rs.1,110 crore of liquid mutual funds as on May 27, 2020 and Rs 22.88 crore cash and Rs 1,177 crore of liquid mutual funds as on May 28, 2020, which was sufficient to repay the required term loan instalments. The above event does not reflect the lack of ability or willingness of ICICI HFC to pay its debt obligations and accordingly has no impact on the ratings of the company.

ICICI HFC has also assured ICRA of steps being taken to strengthen its systems including expanding the scope of concurrent audits, increased surveillance by the monitoring teams as well as engaging with respective banks for avoiding such issues in the future.

The Rating rationale released during April 14, 2020 is given below:

Rationale

The ratings continue to derive strength from ICICI Home Finance Company Limited's (ICICI HFC) status as a wholly-owned subsidiary of ICICI Bank (ICICI) (rated [ICRA]AAA(Stable)/[ICRA]A1+) and an integral part of the group. ICRA further draws comfort from ICICI's intention to retain a majority shareholding in ICICI HFC. ICICI would also on need basis and subject to arms' length dealings and regulatory compliance, provide capital and funding to support the operations of ICICI HFC. ICRA expects the parent support to continue, and any material change in the expected support to the company or a change in the credit profile of the parent would be a key rating sensitivity. The ratings continue to factor in the strong funding profile with access to diversified funding sources. The profitability has

¹ Includes external commercial borrowings

been modest and ICICI HFC's ability to grow its portfolio will be critical for the utilisation of the expanded capacity and to drive an improvement in its profitability. However, considering the higher leverage, the company will have limited headroom for the on-balance sheet growth of assets and need to rely on asset sell-downs to grow its assets under management (AUM) and improve profitability. During FY2020, ICICI has participated in portfolio purchases from ICICI HFC. ICRA draws comfort from ability of the company to further assign its portfolio to investors, including its parent, to meet its growth plans and any funding requirements. ICRA takes note of the company's weak asset quality as reflected in the gross and net stage 3 of 5.2% and 3.1% respectively as on December 31, 2019 (5.4% and 3.3%, respectively, as on March 31, 2019) largely due to slippages in the construction finance book. Excluding construction finance, the gross and net stage 3 assets are estimated at 2.3% and 1.4% as on December 31, 2019. The company plans to grow its portfolio in the affordable housing and lower ticket size self-employed segments, which would help improve profitability. However, ICICI HFC's ability to maintain the asset quality in these relatively vulnerable segments would be critical.

Key rating drivers and their description

Credit strengths

Strong parentage and brand name; access to diversified sources of funding by virtue of being subsidiary of ICICI Bank - ICICI HFC is a wholly owned subsidiary of ICICI Bank and an integral part of the group. ICRA further draws comfort from ICICI's intention to retain a majority shareholding in ICICI HFC. ICICI would also on need basis and subject to arms' length dealings and regulatory compliance, provide capital and funding to support the operations of ICICI HFC. The company benefits from ICICI Bank's strong franchise, brand name and the representation of ICICI Bank's senior management on the Board of ICICI HFC.

ICICI HFC also enjoys good financial flexibility by virtue of being a wholly-owned subsidiary of ICICI Bank and has access to funds at competitive rates of interest. The company raising external commercial borrowings (ECBs) in FY2019, the share of bank borrowings including ECBs stood at 59% as on December 31, 2019 with funding from various large public sector and private banks. Apart from bank borrowings, the company has raised funding from bonds (12% of overall borrowings as on December 31, 2019) and from National Housing Board (NHB; 6%). The company has diversified its funding profile with an increase in share of fixed deposits to 17% as on December 31, 2019. As demonstrated by its funding mix from term loans and bonds, ICICI HFC is focused on medium-and-long-term liabilities with share of commercial papers being low at 6% of total liabilities as on December 31, 2019. The company has also raised sizeable funds by assignment of home loans and LAP portfolio in FY2020 to investors including its parent. ICRA draws comfort from ICICI HFC's ability to further assign its portfolio to investors, including its parent, to meet its growth plans and any funding requirements.

Credit challenges

Ability to securitise loan book critical for utilisation of expanded capacity and profitability given the high leverage – ICICI HFC's loan book has grown significantly in the last two years leading to increase in leverage and decline in capital cushions. It's net AUM stood as Rs. 15,862 crore as on December 31, 2019 as compared to Rs. 9,699 crore as on March 31, 2018. The high growth resulted into an increase in the gearing for the company to 8.9x as on December 31, 2019 as compared to 7.0x as on March 31, 2019 and 4.9 as on March 31, 2018. The company's Tier 1 and capital adequacy ratio stood at 13.70% and 14.43% respectively as on December 31, 2019 compared to

17.21% and 17.98% respectively as on March 31, 2019 (22.44% and 23.84% respectively as on March 31, 2018²). Given high leverage, the company would need to rely on asset sell-down to grow its loan portfolio. ICRA draws comfort from ability of the company to further assign its portfolio to investors, including its parent, to meet its growth plans and any funding requirements. ICICI would also on need basis and subject to arms' length dealings and regulatory compliance, provide capital and funding to support the operations of ICICI HFC.

Profitability likely to remain subdued – With the increase in gearing, the company's net interest margins declined to 2.3% as % of average managed assets (AMA) in 9MFY2020 from 2.6% in FY2019. Further, with the significant expansion in branches (140 branches opened in FY2019), the operating expenses as percentage of AMA increased to 1.8% (1.6% in FY2019). The cost to income ratio significantly deteriorated to ~71%. Consequently, the operating profitability of the company was subdued at 0.8% of AMA compared to 1.4% in FY2019. The credit costs remained elevated (1.3% of AMA in 9MFY2020 as compared to 0.9% in FY2019) as ICICI HFC increased its coverage on the delinquent construction finance book. Overall, the company reported a net loss of Rs. 64 crore in 9MFY2020 as compared to profit of Rs. 44 crore in FY2019. The profit in 9MFY2020 was also impacted by deferred tax asset (DTA) write-down of Rs. 22 crore. While the NIMs for the company are likely to be positively impacted by the increase in focus on self-employed and affordable housing segments, ICRA expects the company's profitability to remain subdued in FY2021 (PAT/AMA of less than 1%) on account of the elevated operating expenses. The ability to grow its portfolio thereby resulting into utilisation of existing capacity would be critical to help improve profitability and generate growth capital internally. However, considering the slowdown expected on account of Covid-19, the company's growth is likely to be limited thereby impacting the operating profitability.

Increase in share of high yielding self-employed segment - The company's assets quality as reflected in the gross and net Stage 3 assets was weak at 5.2% and 3.1% respectively as on December 31, 2019 (5.4% and 3.3% as on March 31, 2019). The asset quality was impacted by slippages in the construction finance book. Excluding construction finance, the gross and net stage 3 assets are estimated at 2.3% and 1.4% as on December 31, 2019. The net Stage 3/Tier 1 capital of the company was weak at 31% as on December 31, 2019. With more than 50% of its construction finance book being NPA and decline in share of this book, incremental slippages is expected to be limited though could be lumpy in nature.

ICICI HFC's AUM stood at Rs. 15,862 crore as on December 31, 2019 (Rs. 13,333 crore as on March 31, 2019) with the portfolio being dominated by home loans (59%), followed by LAP (37%) and construction finance (3%). While salaried accounted for 52% of home loan portfolio as on September 30, 2019, the company has been incrementally focussing on increasing its share of affordable home loans (ticket size of less than 20 lakh) and the self employed segment. Given the relatively riskier borrower profile of the low and assessed income segments, the asset quality indicators could exhibit more volatility and could be prone to event risks. However, the same is likely to support the yields for the company. ICICI HFC's ability to maintain asset quality while growing its book would remain a key factor for profitability.

² As per IGAAP

Liquidity position: Adequate

The company has positive cumulative mismatches in less than 1 year buckets (including sanctioned term loans) while negative in medium term buckets owing to long term nature of assets vis-à-vis its liabilities. The liquidity cushion stood at ~Rs. 2,624 crore as on March 29, 2020, comprising on-balance sheet liquidity (in the form of cash and cash equivalents and liquid mutual funds) of Rs. 949 crore and undrawn bank lines of Rs. 1,675 crore. The liquidity cushion is sufficient to meet the debt maturities which are due in the next three months. Moreover, ICICI HFC enjoys good financial flexibility by virtue of being a wholly-owned subsidiary of ICICI Bank.

Rating sensitivities

Positive triggers – Not Applicable

Negative triggers – Any material changes in the expected support by ICICI Bank to the company or a change in the credit profile of the parent or the company would be a key rating trigger. The ratings could be downgraded or put on negative outlook in case of a reduction in Tier 1 capital cushions of less than 2% over regulatory requirements on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Policy on Default Recognition ICRA's Credit Rating Methodology for Housing Finance Companies Impact of implicit support expected from parent or group on an entity's credit rating
Parent/Group Support	We expect ICICI HFC's parent, ICICI Bank Limited, to be willing to extend financial support to the company, if required.
Consolidation/Standalone	Standalone

About the company

Incorporated in 1999, ICICI HFC is a wholly-owned subsidiary of ICICI Bank. It is a housing finance company registered with the National Housing Bank (NHB). ICICI HFC's AUM stood at Rs. 15,862 crore as on December 31, 2019 (Rs. 13,333 crore as on March 31, 2019). ICICI HFC reported a net loss of Rs. 64 crore in 9MFY2020 as compared to profit of Rs. 44 crore in FY2019. The company's net worth stood at Rs. 1,640 crore with capital adequacy ratio of 14.43% as on December 31, 2019.

Key financial indicators

	FY2018	FY2019	9M FY2020
Total operating income	318	353	298
Profit after tax	106	44	-64
Net worth	1,705	1,683	1,640
Loan book (AUM)	9,699	13,333	15,862
Total assets	10,109	13,929	16,470
%Tier 1	22.4%	17.21%	13.7%
%CRAR	23.8%	17.98%	14.4%
Gearing	4.9	7.1	8.9
PAT/Average Managed Assets*	1.1%	0.4%	-0.6%
Return on equity*	6.4%	2.6%	-5.1%
% Gross Stage 3	7.5%	5.4%	5.2%
% Net Stage 3	4.9%	3.3%	3.1%

Amounts in Rs. Crore; All Ratios are as per ICRA Calculations

** Annualised*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No.	Instrument	Type	Rated Amount (Rs. crore)	Amount Outstanding ³ (Rs. crore)	Current Rating (FY2021)		Chronology of Rating History for the Past 3 Years				
					10-June 2020	14-Apr-20	FY2019	FY2018	FY2017		
1	Long-term Bonds Programme	Long Term	8,548.50	2,035.00	[ICRA] AAA(stable); outstanding	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)
2	Long Term Fund-based Bank Limits	Long Term	15,000	8,827.89 [^]	[ICRA] AAA(stable); outstanding	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)
4	Subordinated Debt Programme	Long Term	665.70	0 [^]	[ICRA] AAA(stable); outstanding	[ICRA] AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)
5	Issuer Rating	Long Term	-	-	[ICRA] AAA(stable); outstanding	[ICRA] AAA(stable)	[ICRA] AAA(stable)	[ICRA] AAA(stable)	IrAAA(stable)	IrAAA(stable)	IrAAA(stable)
6	Fixed Deposit Programme	Medium Term	-	-	MAAA(stable); outstanding	MAAA(stable)	MAAA(stable)	MAAA(stable)	MAAA(stable)	MAAA(stable)	MAAA(stable)
7	Commercial Paper Programme	Short Term	4,000.00	NA	[ICRA]A1+; outstanding	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Subordinated Debt Programme	Long Term	207.00	-	-	[ICRA] AAA(stable); withdrawn	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)
8	Long-term Bonds Programme	Long Term	1,600.00	-	-	[ICRA] AAA(stable); withdrawn	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)	[ICRA]AAA(stable)

[^] Balance yet to be issued

³ As on February 28, 2019
www.icra.in

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
INE071G08817	NCD	20-Jun-16	8.53	19-Jun-20	50.00	[ICRA]AAA(stable)
INE071G08825	NCD	21-Jul-16	8.36	21-Jul-20	50.00	[ICRA]AAA(stable)
INE071G08874	NCD	27-Jun-17	7.50	26-Jun-20	85.00	[ICRA]AAA(stable)
INE071G08890	NCD	30-Aug-17	7.36	28-Aug-20	180.00	[ICRA]AAA(stable)
INE071G08932	NCD	20-Mar-18	8.22	30-Apr-21	155.00	[ICRA]AAA(stable)
INE071G08932	NCD	20-Mar-18	8.22	27-May-21	210.00	[ICRA]AAA(stable)
INE071G08957	NCD	24-Dec-18	9.05	24-Dec-21	155.00	[ICRA]AAA(stable)
INE071G08965	NCD	12-Apr-19	8.25	22-Mar-21	105.00	[ICRA]AAA(stable)
INE071G08AA5	NCD	5-Dec-19	7.70	5-Dec-22	275.00	[ICRA]AAA(stable)
INE071G08AB3	NCD	5-Dec-19	8.00	5-Dec-24	120.00	[ICRA]AAA(stable)
INE071G08AB3	NCD	30-Jan-20	8.00	5-Dec-24	350.00	[ICRA]AAA(stable)
INE071G08AA5	NCD	12-Feb-20	7.70	5-Dec-22	300.00	[ICRA]AAA(stable)
NA	Long-term Bonds Programme [^]	NA	NA	NA	6,513.50	[ICRA]AAA(stable)
NA	Subordinated Debt Programme [^]	NA	NA	NA	665.70	[ICRA]AAA(stable)
NA	Commercial Paper	NA	NA	7-365 days	4,000.00	[ICRA]A1+
NA	Long Term Fund Based Bank Limits – Term Loan/CC	NA	NA	NA	8,827.89	[ICRA]AAA(stable)
NA	Long Term Fund Based Bank Limits – Unallocated	NA	NA	NA	6,172.11	[ICRA]AAA(stable)
NA	Medium Term Deposits	NA	NA	NA	NA	MAAA(stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA(stable)

[^]Yet to be placed

Source: Company data; Data as on March 15, 2020

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Anil Gupta

+91 124 4545 314

anilg@icraindia.com

Samiksha Karnavat

+91 22 6114 3471

samiksha.karnavat@icraindia.com

Aashay Choksey

+91 22 6114 3430

aashay.choksey@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

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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

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