

October 23, 2020

GIC Housing Finance Limited: Ratings reaffirmed for various debt programmes

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
Non-convertible Debenture Programme	550	550	[ICRA]AA+(Negative); Reaffirmed
Short-term Bank Lines	1,000	1,000	[ICRA]A1+; reaffirmed
Commercial Paper Programme	1,500	1,500	[ICRA]A1+; reaffirmed
Total	15,550	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 or the company). As on June 30, 2020, General Insurance Corporation of India (GIC-Re) and its erstwhile subsidiaries (The New India Insurance 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. Given the ownership, the strong board representation and sharing of brand name, ICRA expects GICHF to continue to receive managerial, operational and financial support from the promoters, as and when required. The ratings also factor in GICHF's track record 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, 2020).

The credit strengths are, however, offset by the continuing deterioration in the company's asset quality profile in FY2020 and Q1 FY2021 with an increase in the gross non-performing assets (GNPAs) and net NPAs (NNPAs) to 5.67% and 3.05%, respectively, as on June 30, 2020 (5.36% and 3.01%, respectively, as on March 31, 2020 and 4.75% and 2.43%, respectively, as on June 30, 2019). Moreover, the ratings are constrained by the moderate economic gearing level of 9.32 times as on March 31, 2020 and 9.71 times as on June 30, 2020 and the weak solvency indicator (Net NPA/Net worth) of 31.35% as on March 31, 2020 and 33.14% as on June 30, 2020.

ICRA has also taken note of the company's declining profitability and the interest rate risk on account of the fixed rate component of the lending product. GICHF's profitability moderated in FY2020 and continued to decline in Q1 FY2021 with profit after tax/average total assets (PAT/ATA) and return on average net worth of 0.35% and 3.62%, respectively, compared to 1.42% and 14.48%, respectively, in FY2019 (-1.70% and -18.04%, respectively, in Q1 FY2021). ICRA expects the moderation in the asset quality to further impact GICHF's earnings profile and consequently its internal capital generation. Therefore, in order to maintain adequate economic capitalisation levels, the company may need external capital and ICRA would monitor the progress on the same. Nevertheless, ICRA takes note of the Government of India's (GoI) thrust on the affordable housing segment, which augers well for GICHF given its focus on this segment.

The Negative outlook on the [ICRA]AA+ rating is on account of the weakening in the asset quality indicators (GNPAs and NNPAs of 5.67% and 3.05%, respectively, and solvency ratio of ~33% as on June 30, 2020) and the consequent moderation in the profitability in FY2020 and Q1 FY2021. The outlook may be revised to Stable if the company improves its asset quality indicators and its capitalisation and profitability profile.

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 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, 2020. 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 – GICHF has a good track record in the housing finance business. The company was incorporated in 1989 and operates across 21 states through 75 branches as on June 30, 2020 (75 as on March 31, 2019). GICHF's portfolio increased at a CAGR of ~13% over the past three years to Rs. 13,226 crore as on March 31, 2020. As on June 30, 2020, the portfolio stood at Rs. 13,285 crore. The company's loan book is fairly granular with individual home loans accounting for ~89%, followed by loans against property (LAP) at ~11% with 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. The salaried segment accounted for 74% of the portfolio as on March 31, 2020 with a ticket size of less than Rs. 25 lakh for ~73% of the loans. The company 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 with the top 20 exposures accounting for only 0.16% of the loan book as on March 31, 2020.

Credit challenges

Deterioration in asset quality indicators – GICHF's asset quality weakened in Q1 FY2021 with its gross and net NPAs increasing to 5.67% and 3.05%, respectively, as on June 30, 2020 (4.75% and 2.43%, respectively, as on June 30, 2019, and 5.36% and 3.01%, respectively, as on March 31, 2020). The reported asset quality is weaker than the average of the housing finance companies. The weakness in the asset quality also led to a deterioration in net NPA/net worth to ~33% as on June 30, 2020 from ~25% as on June 30, 2019 (31.35% as on March 31, 2020). Going forward, GICHF's ability to recover from the existing NPAs to improve its asset quality indicators will be important for its credit profile.

Moderate capitalisation indicators – Although the regulatory capitalisation level remains comfortable, GICHF's gearing is relatively high at 9.32 times as on March 31, 2020 (vis-à-vis 9.30 times as on March 31, 2019). For several years, the company's healthy internal capital generation was in line with its portfolio growth, thereby enabling it to maintain a stable gearing level without any external capital raising. As the moderation in the profitability profile could impact GICHF's internal capital generation, it 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, GICHF's ability to drive business growth while maintaining healthy capitalisation, asset quality, and profitability would remain a key rating sensitivity.

Decline in profitability in FY2020 and further moderation in Q1 FY2021 – GICHF's profitability moderated in FY2020 and continued to decline in Q1 FY2021 with PAT/ATA and return on average net worth of 0.35% and 3.62%, respectively, compared to 1.42% and 14.48%, respectively, in FY2019 (-1.70% and -18.04%, respectively, in Q1 FY2021). The moderation in the profitability resulted from a decline in the net interest margins (NIMs) to 2.31% in FY2020 from 2.96% in FY2019. GICHF's yield on average loans declined to 9.73% in FY2020 from 10.31% in FY2019 as the share of loans by value in the less-than-10%-rate bucket increased to 72% as on March 31, 2020 from 68% as on March 31, 2019. Further, the cost of funds increased marginally to 8.06% in FY2020 from 8.00% in FY2019 due to the reliance on floating rate bank loans, resulting in compressed lending spreads of 1.67% in FY2020 compared with 2.32% in FY2019. Operating expenses,

as a share of ATA, increased to 0.76% in FY2020 from 0.68% in FY2019. The credit costs also increased to 0.76% in FY2020 from 0.27% in FY2019 due to the deterioration in the asset quality.

GICHF reported a net profit of Rs. 46 crore in FY2020, resulting in a return of 0.35% of ATA and 3.62% of the average net worth as per Ind-AS. It reported a loss of Rs. 56 crore in Q1 FY2021 against a profit of Rs. 15 crore in Q1 FY2020 primarily due to the higher credit costs. The company made provisions of Rs. 135 crore in Q1 FY2021 as per the expected credit loss (ECL) model. The profitability was also impacted by the slowdown in portfolio growth and higher funding costs and is expected to remain under pressure in FY2021.

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, 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. GICHF's lending spread declined to 1.67% in FY2020 (2.32% in FY2019). Its profitability could get significantly impacted in case of rising interest rates.

Liquidity position: Adequate

GICHF's liquidity profile is adequate and supported by the availability of unutilised bank lines. The company raised commercial paper (CP) amounting to Rs. 7,150 crore and Rs. 2,250 crore in FY2020 and H1 FY2021, respectively, on a rollover basis. However, ICRA draws comfort from GICHF's strong relationships with several banks, sizeable undrawn sanctioned lines to the extent of Rs. 2,240 crore as on September 4, 2020, 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 triggers – ICRA could revise the outlook to Stable if the company improves its asset quality with the GNPA's declining below 2% on a sustained basis and with the capitalisation and profitability profile remaining comfortable. Significant capital raising by GICHF and a consequent improvement in its economic capitalisation levels could be a positive trigger.

Negative triggers – ICRA takes note of the breach in the rating triggers of the GNPA's (5%) and the solvency ratio (Net NPA/Net worth: 30%) and the subsequent corrective actions taken by the company's management. ICRA will closely monitor the developments in this regard and the company's ability to raise capital in a timely manner and recover losses from key NPA accounts would be a key monitorable. A reduction in the stake of GIC-Re and other public sector insurance companies in GICHF, a change in the expectation of support from the promoters or a deterioration in the credit profile of the promoters could also 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, 2020. GICHF's BoD constitutes nominee directors from each promoter group company. Given the ownership, strong board representation and sharing of 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 June 30, 2020 (75 as on March 31, 2019).

GICHF reported a net profit after tax of Rs. 46 crore (0.35% of ATA) and a return on average net worth of 3.62% in FY2020 against a profit after tax of Rs. 171.81 crore (1.42% of ATA) and a return on average net worth of 14.48% in FY2019. The total portfolio stood at Rs. 13,226 crore as on March 31, 2020 against Rs. 13,076 crore as on March 31, 2019. The company reported a CRAR of 16.99% and a gearing of 9.32 times as on March 31, 2020. It reported GNPA's and NNPA's of 5.37% and 3.01%, respectively, as on March 31, 2020 against 2.70% and 0.58%, respectively, as on March 31, 2019.

The company reported a loss of Rs. 77.69 crore in Q1 FY2021 versus a profit after tax (PAT) of Rs. 42.92 crore in Q1 FY2020. The asset quality profile deteriorated further with the gross and net NPAs increasing to 5.67% and 3.05%, respectively, as on June 30, 2020 from 5.36% and 3.01%, respectively, as on March 31, 2020. The capital adequacy ratio stood at 15.32% as of June 2020.

Key financial indicators (audited)

	FY2019	FY2020	Q1 FY2021
Net interest income	357	301	83
Profit before tax	247	112	(78)
Profit after tax	172	46	(56)
Portfolio*	13,076	13,226	13,285
Total assets	12,967	13,099	-
% Tier I	16.55%	16.99%	15.32%
% CRAR	16.55%	16.99%	15.32%
Gearing (times)	9.30	9.32	9.71
% Net profit/Average total assets	1.42%	0.35%	-
% Return on net worth	14.48%	3.62%	(18.04%)*
% Gross NPAs	2.70%	5.36%	5.67%
% Net NPAs	0.58%	3.01%	3.05%

Amount in Rs. crore; All ratios as per ICRA calculations; *Annualised; Source: Company data, ICRA research

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Rated Amount	Amount Outstanding as on September 30, 2020	Rating	FY2020	FY2019	FY2018		FY2017
					23-Oct-2020	30-Sep-2019	28-Aug-2018	23-Nov-2017	10-May-2017	24-Oct-2016
1	Long-term Bank Lines	Long Term	12,500.00	10,976.00	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[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+ (Negative)	[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+
4	Commercial Paper	Short Term	1,500.00	746.02	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

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	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	1,500	[ICRA]A1+

*-yet to be availed; Source: Company

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Supreeta Nijjar
+91 124 4545 324
supreetan@icraindia.com

Prateek Mittal
+91 33 71501132
prateek.mittal@icraindia.com

Sandeep Sharma
+91 22 6114 3472
Sandeep.sharma@icraindia.com

Jitesh Setia
+91 22 6114 3463
jitesh.setia@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
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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