

August 23, 2023

GIC Housing Finance Limited: Ratings reaffirmed; Rating assigned for Rs. 750 crore NCDs

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines – Fund based/Non-fund based	12,500	12,500	[ICRA]AA (Stable); reaffirmed
Non-convertible debenture programme	-	750	[ICRA]AA (Stable); assigned
Non-convertible debenture programme	830	830	[ICRA]AA (Stable); reaffirmed
Non-convertible debenture programme	720	-	[ICRA]AA (Stable); reaffirmed and simultaneously withdrawn
Short-term bank lines – Fund based	1,000	1,000	[ICRA]A1+; reaffirmed
Commercial paper programme	1,500	1,500	[ICRA]A1+; reaffirmed
Total	16,550	16,580	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor 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, 2023. 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. 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.

The ratings also factor in the gradual improvement in the asset quality indicators and solvency profile. GICHF's gross stage 3 assets improved to 4.4% as on March 31, 2023 (4.5% as on June 30, 2023) from 7.3% as on March 31, 2022 despite the decline in the scale of operations. The net stage 3 assets were lower at 3.0% as on March 31, 2023 (3.1% as on June 30, 2023; 4.3% as on March 31, 2022). Consequently, the solvency (Net stage 3 assets/Net worth) improved to 18.8% as on March 31, 2023 (18.3% as on June 30, 2023) from 32.7% as on March 31, 2022. ICRA expects the trend to continue with the gradual improvement in the asset quality indicators. Further, the capitalisation profile has been improving, aided by internal capital generation and moderation in the scale of operations. The company's gearing has been coming down and was reported at 5.4 times as on March 31, 2023 (5.2 times as on June 30, 2023) compared to 6.9 times as on March 31, 2022.

With the improvement in the asset quality indicators, GICHF's credit costs were low in FY2023 and it reported a net profit of Rs. 213 crore, translating into a return of 1.8% of average managed assets (AMA) and 13.3% of average net worth in FY2023 compared to Rs. 174 crore, 1.4% and 12.1%, respectively, in FY2022. In Q1 FY2024, the company reported a net profit of Rs. 32 crore (Rs. 52 crore in Q4 FY2023) compared to Rs. 39 crore in Q1 FY2023. ICRA expects pressure on the net interest margin in FY2024 owing to the increase in the cost of funds. GICHF's ability to manage the same while controlling the credit costs will remain important from a profitability perspective.

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. The company also witnessed decline in its AUM over last three years given the intense 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, GICHF's ability to grow its book while improving its profitability and asset quality will remain a key rating factor.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would be able to maintain a steady credit profile supported by its parentage, long track record and the granular nature of the loan portfolio. Further, ICRA expects support from the promoters to be forthcoming, if needed.

ICRA has reaffirmed and simultaneously withdrawn the rating on the Rs. 720-crore non-convertible debentures as the instruments have matured and no amount is outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

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, 2023. GICHF's board of directors comprised nominee directors from the promoter group, apart from independent directors. 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.

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, 2023, it was operating in 21 states through a network of 72 branches with assets under management (AUM) of Rs. 10,459 crore. GICHF's loan book is granular with individual home loans (including renovation loans) accounting for 91% of the portfolio, followed by loan against property (LAP) at 9% as on March 31, 2023. Also, within individual borrowers, the company remains focused on salaried borrowers (77% of the portfolio as on March 31, 2023). Given its presence primarily in retail housing loans and the granular nature of its portfolio, GICHF's credit concentration remains low.

Improving capitalisation and solvency profile – The company's capitalisation profile has been improving, supported by internal capital generation and the moderation in the scale of operations. The gearing has been coming down and was reported at 5.4 times as on March 31, 2023 (5.2 times as on June 30, 2023) compared to 6.9 times as on March 31, 2022. The capital adequacy ratio of 31.5% as on March 31, 2023 was well above the regulatory requirement of 15%. Further, with the improvement in the asset quality, the solvency profile improved to 18.8% as on March 31, 2023 (18.3% as on June 30, 2023) from 32.7% as on March 31, 2022. In ICRA's opinion, given GICHF's growth plans and internal capital generation, the capitalisation profile is expected to remain comfortable in the near-to-medium term. Over the long term, if the growth momentum increases, the company may need external capital to maintain comfortable capitalisation levels.

Credit challenges

Moderate asset quality indicators, albeit gradually improving – With the waning of the effects of the Covid-19 pandemic, continuous recovery efforts and the empanelment of external agencies to make recoveries from delinquent accounts, the company's asset quality indicators have been improving. Its gross stage 3 assets improved to 4.4% as on March 31, 2023 (4.5% as on June 30, 2023) from 7.3% as on March 31, 2022, despite the decline in the scale of operations. The net stage 3 assets were lower at 3.0% as on March 31, 2023 (3.1% as on June 30, 2023; 4.3% as on March 31, 2022). Nevertheless, the overall asset quality indicators remain moderate and GICHF's ability to arrest further slippages while recovering from delinquent loans will be a key monitorable. ICRA takes cognisance of the recovery efforts undertaken by the company and the ultimate credit costs are expected to be low, given the secured nature of the loans.

Moderate profitability indicators – GICHF reported a net profit of Rs. 213 crore in FY2023 compared to Rs. 174 crore in FY2022. The net interest margin compressed to 3.3% of AMA in FY2023 owing to the systemic increase in interest rates. The operating

expenses increased to 1.0% of AMA in FY2023 from 0.8% in FY2022 as the company continued to recruit and invest in its systems and processes. With the improvement in the asset quality indicators, the credit costs declined and were reported at 0.1% of AMA in FY2023 compared to 0.9% in FY2022. GICHF reported a return of 1.8% on AMA and 13.3% on average net worth in FY2023 compared to 1.4% and 12.1%, respectively, in FY2022. In Q1 FY2024, the company reported a net profit of Rs. 32 crore (Rs. 52 crore in Q4 FY2023) vis-à-vis Rs. 39 crore in Q1 FY2023. Despite the improvement in FY2023, the overall profitability remains moderate and ICRA expects pressure on the net interest margin, going forward. The company's ability to manage its margins while controlling its credit costs will remain important from a profitability perspective.

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 (72% of total borrowings as on June 30, 2023), 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, ~45% of its 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.

Environmental and social risks

Given the service-oriented business of the company, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, GICHF's exposure to environmentally sensitive segments remains low. Hence, indirect transition risks arising from changes in regulations or policies concerning the underlying assets are not material.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and could invite regulatory censure. GICHF has not faced such lapses over the years.

Liquidity position: Adequate

As on May 26, 2023, the company held Rs. 371 crore of cash and cash equivalents, bank deposits and liquid investments and its liquidity coverage ratio of 87% for the quarter ended March 31, 2023 was above the regulatory requirement. Additionally, it had sanctioned but unutilised funding lines of Rs. 1,260 crore as on May 26, 2023. GICHF's structural liquidity statement (SLS), as on March 31, 2023, had a positive cumulative mismatch in the up to six months bucket, factoring in the lines of credit committed by other institutions. Given the relatively longer tenure of its assets vis-à-vis liabilities, the company'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 support the company's liquidity profile.

Rating sensitivities

Positive factors – The rating could be upgraded or the outlook could be revised to Positive if the company is able to demonstrate meaningful growth in its scale of operations, while improving its overall asset quality and profitability profile and maintaining a prudent capitalisation profile.

Negative factors – GICHF's ratings are strongly underpinned by its parentage in the form of GIC-Re and other public sector insurance companies, which hold a stake in the company. 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, a deterioration in the capitalisation or asset quality indicators with the solvency ratio (Net stage 3/Net worth) increasing beyond 30% on a sustained basis would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings Rating Approach – 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, 2023. 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

GIC Housing Finance Limited 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 stakes in GIC HF and ceased to be promoters. As on June 30, 2023, the promoter group held a 42.41% stake in the company, with GIC-Re being the largest shareholder.

Key financial indicators (audited)

GIC Housing Finance Limited	FY2021	FY2022	FY2023
As per	Ind-AS	Ind-AS	Ind-AS
Total income	1,240	1,156	1,129
Profit after tax	106	174	213
Net worth	1,358	1,511	1,699
Gross assets under management	12,811	11,711	10,652
Total managed assets	12,641	11,929	10,920
Return on average managed assets	0.8%	1.4%	1.8%
Return on average net worth	8.1%	12.1%	13.3%
Gearing (reported; times)	8.3	6.9	5.4
Gross stage 3 assets	7.6%	7.3%	4.4%
Net stage 3 assets	4.8%	4.3%	3.0%
Solvency (Net stage 3 assets/Net worth)	44.6%	32.7%	18.8%
Capital to risk-weighted assets ratio	19.5%	25.7%	31.5%

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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jun 30, 2023* (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Aug 23, 2023	Aug 26, 2022	Aug 27, 2021	Apr 12, 2021	Oct 23, 2020
1	Long-term bank lines – Fund based/Non-fund based	Long term	12,500	7,670	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)
2	Non-convertible debenture programme	Long term	830	550	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)
3	Non-convertible debenture programme	Long term	720	-	[ICRA]AA (Stable); withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)
4	Non-convertible debenture programme	Long term	750	-	[ICRA]AA (Stable)	-	-	-	-
5	Short-term bank lines – Fund based	Short term	1,000	300	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial paper programme	Short term	1,500	350	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Source: Company, amount outstanding is as per IGAAAP

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank lines – Fund based/Non-fund based	Simple
Non-convertible debenture programme	Simple
Short-term bank lines – Fund based	Simple
Commercial paper programme	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: [Click Here](#)

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); withdrawn
INE289B07040	Non-convertible debenture	Mar 30, 2021	6.94%	Mar 30, 2023	195	[ICRA]AA (Stable); withdrawn
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); withdrawn
INE289B07073	Non-convertible debenture	Feb 27, 2023	8.70%	Nov 27, 2024	325	[ICRA]AA (Stable)
NA	Non-convertible debentures – Yet to be issued	-	-	-	280	[ICRA]AA (Stable)
NA	Non-convertible debentures – Yet to be issued	-	-	-	750	[ICRA]AA (Stable)
NA	Long-term bank facilities	Jul 2015 - Dec 2022	4.61% - 8.75%	Jul 2023 - Dec 2031	12,500	[ICRA]AA (Stable)
NA	Short-term bank facilities	Dec 2019 - Feb 2021	7.56% - 8.6%	Sep 2023 - Mar 2024	1,000	[ICRA]A1+
INE289B14IJ6	Commercial paper	Apr 11, 2023	7.95%	Jul 07, 2023	100	[ICRA]A1+
INE289B14IL2	Commercial paper	May 16, 2023	7.85%	Aug 11, 2023	100	[ICRA]A1+
INE289B14IM0	Commercial paper	Jun 15, 2023	7.65%	Aug 25, 2023	150	[ICRA]A1+
NA	Commercial paper – Yet to be issued	-	-	7-365 days	1,150	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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