ICICI Home Finance Company Limited Revised

January 11, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bonds programme	5,148.5	5,148.5	[ICRA]AAA(stable) reaffirmed
Subordinated debt programme	872.70	872.70	[ICRA]AAA(stable) reaffirmed
Long term Fund-based bank limits[1]	9,000	9,000	[ICRA]AAA(stable) reaffirmed
Fixed deposit programme	-	-	MAAA(stable) reaffirmed
Commercial paper programme	4,000	4,000	[ICRA]A1+ reaffirmed
Issuer rating	-	-	[ICRA]AAA(stable) reaffirmed
Long-term bonds programme	6,851.5	-	[ICRA]AAA(stable) withdrawn
Subordinated debt programme	127.3	-	[ICRA]AAA(stable) withdrawn
Total	**26,000.00**	**19,021.20**	

**Instrument details in Annexure 1*

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 (rated [ICRA]AAA(Stable)/[ICRA]A1+). ICRA expects the parent to support the company, going forward as well, and any material change in the expected support or a change in the credit profile of the parent would be a key rating sensitivity. The ratings continue to factor in the healthy capitalisation levels (CRAR of 21.4% as on September 30, 2018), comfortable liquidity profile and diversified funding base. The ability of the company to maintain profitability and asset quality with growth in the portfolio, given the competitive environment, would be important from a credit perspective.

Outlook: Stable

The Stable outlook takes into account the strong parentage of ICICI Bank coupled with the company's healthy capitalisation and liquidity profile and diversified funding base. The outlook may be revised to Negative if there is any material change in the support expected from the parent or a significant deterioration in ICICI HFC's asset quality or solvency indicators.

Key rating drivers

Credit strengths

Strong parentage and brand name – ICICI HFC is a wholly-owned subsidiary of ICICI Bank. 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. The company enjoys strong financial and operational support from the parent. Any dilution in the expected support or a change in the credit profile of its parent would be a key rating sensitivity.

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[1] *Includes external commercial borrowings*

Loan book dominated by relatively safer home loans – ICICI HFC's loan book stood at Rs. 10,409 crore as on September 30, 2018 with the portfolio being dominated by home loans (58%), followed by loan against property (35%) and construction finance (6%). The loan book growth has been slow in the last 18 months with the rundown in the construction finance segment due to asset quality concerns. With the proportion of the construction finance segment decreasing, the proportion of home loans and loan against property has increased. ICICI HFC has started diversifying into retail consumer loans, loan against shares, etc. While diversity of the book is likely to improve, ability to maintain the asset quality indicators in the new segments will be critical going forward.

Diverse borrowing profile with healthy liquidity position – ICICI HFC 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 main source of funds for ICICI HFC has been the bonds market (53% as on March 31, 2018), followed by the banking system (41%) and commercial papers (4%). With the company raising external commercial borrowings (ECBs), the share of bank borrowings increased to 59% as on September 30, 2018. As demonstrated by its funding mix from term loans and bonds, ICICI HFC is focused on medium-and-long-term liabilities. The lower proportion of commercial paper borrowings and adequate overdraft facilities from various banks provide further liquidity comfort.

Comfortable capitalisation indicators with moderate gearing levels – ICICI HFC is adequately capitalised with additional comfort derived from expected continued support from its parent. The company's capital adequacy ratio was comfortable at 21.40% as on September 30, 2018 compared to 23.84% as on March 31, 2018 and 26.96% as on March 31, 2017. Its gearing stood at a moderate level of 5.64 times as on September 30, 2018 (5.17 times as on March 31, 2018 and 4.77 times as on March 31, 2017). The current capitalisation is comfortable for meeting ICICI HFC's growth plans in the near to medium term.

Credit challenges

Weak asset quality on account of slippages in construction finance book – The asset quality of ICICI HFC deteriorated in FY2018 on account of slippages in the construction finance book. The GNPAs and NNPAs were reported at 3.44% and 2.15%, respectively, as on March 31, 2018 compared to 1.73% and 0.75%, respectively, as on March 31, 2017. The same moderated marginally in H1 FY2019 to 3.41% and 1.79%, respectively, as of September 30, 2018. As per IND AS, the company's Stage 3 assets stood at 7.30% as on September 30, 2018. The higher Stage 3 assets were partly on account of security receipts of 2% being classified as Stage 3 assets under IND AS. The incremental asset quality is expected to remain in control with the decline in the construction finance portfolio. The ability of the company to make recoveries from the already slipped accounts and maintain the asset quality will remain a key rating sensitivity.

Moderate profitability indicators with increased credit costs and higher operating expenses – ICICI HFC's profitability remained moderate with PAT/ATA of 0.46% in H1 FY2019 compared to 0.65% in FY2018 and 1.95% in FY2017 (RoE of 3.05% in H1 FY2019 compared to 3.99% and 11.69% in FY2018 and FY2017, respectively). The company's credit costs remained elevated in both FY2018 and H1 FY2019 because of slippages in the construction finance portfolio and transition to IND AS. Further, the operating expenses have increased with the company expanding into newer product lines. ICICI HFC's margins are expected to be impacted in FY2019 with the recent increase in the cost of funds. With the significant expansion in branches, the company's profitability is expected to improve only after FY2020. The ability to grow its portfolio while maintaining the asset quality would remain a key factor for profitability.

Liquidity position

The liquidity cushion stood at ~Rs. 1,254 crore as on December 31, 2018, comprising on-balance sheet liquidity (in the form of cash and cash equivalents and liquid mutual funds) of Rs. 212 crore and undrawn bank lines/unutilised OD of Rs. 1,042 crore. The liquidity cushion and the expected inflow from advances are sufficient to meet the debt maturities which are due in the next six months. However, with the planned disbursements, the company would need to tie up funding lines. ICICI HFC further enjoys good financial flexibility by virtue of being a wholly-owned subsidiary of ICICI Bank.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA's Credit Rating Methodology for Non-Banking Finance Companies] [ICRA's Approach for Rating Commercial Papers]
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. The company is registered with the National Housing Bank (NHB). Its loan book increased to 9,691 crore as on March 31, 2018 (as compared to Rs. 9,010 crore as on March 31, 2017). ICICI HFC reported a net profit of Rs. 64 crore on a total income of Rs. 964 crore in FY2018, against a net profit of Rs. 183 crore on a total income of Rs. 1,066 crore for FY2017. The company's net worth stood at Rs. 1,613 crore as on March 31, 2018.

Recent Results

The company reported a net profit of Rs. 26 crore in H1 FY2019 on a total income of Rs. 525 crore (as per Ind AS). The net worth stood at Rs. 1,638 crore as on September 30, 2018 with a loan book of Rs. 10,409 crore. The capital adequacy was comfortable at 21.4% as on September 30, 2018.

Key financial indicators (audited for FY2017 and FY2018; unaudited for H1 FY2019)

	FY2017	FY2018	H1 FY2019^
Net interest income	309	289	167
Profit after tax	183	64	25
Net worth	1,607	1,613	1,638
Loan book (AUM)	9,010	9,691	10,409
Total assets	9,404	10,227	11,225
%Tier 1	24.61%	22.44%	20.62%
%CRAR	26.96%	**23.84%**	**21.39%**
Gearing	4.70	5.17	5.64
PAT/ATA*	1.95%	0.65%	0.46%
Return on equity*	11.69%	3.99%	3.05%
% Gross NPA	1.73%	3.44%	7.30%
% Net NPA	0.75%	2.15%	4.62%

Amounts in Rs. Crore; All Ratios are as per ICRA Calculations
^ As per IND AS
** Annualised*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No.	Instrument	Current Rating (FY2019) Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Jan 2019	Chronology of Rating History for the Past 3 Years: FY2018 Dec 2017	FY2017 Dec 2016	FY2016 Nov 2015
1	Long-term Bonds Programme	Long Term	5,148.50	2,485.00	[ICRA]AAA (stable); reaffirmed	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
2	Subordinated Debt Programme	Long Term	872.70	207.00	[ICRA]AAA (stable); reaffirmed	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Long Term Fund-based Bank Limits	Long Term	9,000.00	6,884.64	[ICRA]AAA (stable); reaffirmed	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
4	Issuer Rating	Long Term	-		[ICRA]AAA (stable); reaffirmed	IrAAA (stable)	IrAAA (stable)	IrAAA (stable)
5	Fixed Deposit Programme	Medium Term	-		MAAA (stable); reaffirmed	MAAA (stable)	MAAA (stable)	MAAA (stable)
6	Commercial Paper Programme	Short Term	4,000.00		[ICRA]A1+; reaffirmed	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Long-term Bonds Programme	Long Term	6,851.50	-	[ICRA]AAA (stable); withdrawn	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
8	Subordinated Debt Programme	Long Term	127.30	-	[ICRA]AAA (stable); withdrawn	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE071G07033	NCD	18/Mar/09	10.75	18/Mar/19	300.00	[ICRA]AAA(stable)
INE071G08197	Sub Debt	24/Apr/09	9.75	24/Apr/19	207.00	[ICRA]AAA(stable)
INE071G08262	NCD	25/Nov/09	9.29	25/Nov/19	99.00	[ICRA]AAA(stable)
INE071G07041	NCD	25/Nov/09	9.29	25/Nov/19	400.00	[ICRA]AAA(stable)
INE071G08627	NCD	24/Jun/15	8.69	15/Mar/19	350.00	[ICRA]AAA(stable)
INE071G08767	NCD	23/Mar/16	8.77	15/Apr/19	26.00	[ICRA]AAA(stable)
INE071G08775	NCD	23/Mar/16	8.77	15/May/19	75.00	[ICRA]AAA(stable)
INE071G08783	NCD	23/Mar/16	8.77	23/May/19	50.00	[ICRA]AAA(stable)
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)
INE071G08908	NCD	01/Feb/18	8.00	25/Jun/19	100.00	[ICRA]AAA(stable)
INE071G08916	NCD	12/Feb/18	8.05	12/Aug/19	150.00	[ICRA]AAA(stable)
INE071G08924	NCD	26/Feb/18	8.10	26/Feb/20	50.00	[ICRA]AAA(stable)
INE071G08932	NCD	20/Mar/18	8.2165	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)
NA	Long-term Bonds Programme^	NA	NA	NA	2,663.50	[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	6,884.64	[ICRA]AAA(stable)
NA	Long Term Fund Based Bank Limits – Unallocated	NA	NA	NA	2,115.37	[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 December 31, 2018

Corrigendum

Rationale dated January 11, 2019 has been revised with changes as below:

The amount of Subordinated Debt Programme withdrawn has been revised to Rs. 127.30 crore from Rs. 172.3 crore in the table on Page 1 of the rationale. Also, the total for previous rated amount has been revised to Rs. 26,000.00 crore from Rs. 26,045.00 crore earlier.

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