May 27, 2022

ICICI Home Finance Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bonds programme	7,558.50	7,558.50	[ICRA]AAA(Stable); reaffirmed
Long-term bonds programme	365.00	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Subordinated debt programme	665.70	665.70	[ICRA]AAA(Stable); reaffirmed
Fund-based bank limits	15,000	15,000	[ICRA]AAA(Stable); reaffirmed
Fixed deposit programme	-	-	[ICRA]AAA(Stable); reaffirmed
Commercial paper programme	4,000	4,000	[ICRA]A1+; reaffirmed
Issuer rating	-	-	[ICRA]AAA(Stable); reaffirmed
Total	**27,589.20**	**27,224.20**	

**Instrument details are provided in Annexure-1*

Rationale

ICICI Home Finance Company Limited (ICICI HFC) is a wholly-owned subsidiary of ICICI Bank (ICICI; rated [ICRA]AAA(Stable)/[ICRA]A1+) and it remains an integral part of the Group. ICRA draws comfort from ICICI's current ownership and its intention to retain majority share in ICICI HFC and support the company in its capital requirements, although the same will remain contingent on regulatory approvals.

Following the onset of the Covid-19 pandemic, the overall portfolio, comprising a high share of self-employed and loan against property (LAP) book, witnessed a sharp deterioration with the gross stage 3[1] and net stage 3 assets increasing to 6.65% and 5.19%, respectively, as on March 31, 2021. With the gradual easing of restrictions and increased recovery efforts, the headline asset quality metrics improved to 5.78% and 4.30%, respectively, as on March 31, 2022 but continued to remain weak. Improved recoveries from the stage 3 book as well as meaningful backward flows from the stage 2 book moderated the credit costs vis-à-vis the previous year. This, coupled with lower funding costs, supported the improvement in the profitability in FY2022. With improved internal accruals, reliance on asset sell-downs also to maintain the leverage levels also declined. Notwithstanding the above-mentioned positives, the asset quality remains a monitorable with elevated levels of overdue loans. The solvency profile (net stage 3/Tier-I) remained weak at ~39% as on March 31, 2022.

Going forward, ICICI HFC is expected to remain dependent on ICICI for capital to support stronger on-book growth while it works towards improving the asset quality, which will be a key driver of its internal capital generation. ICICI HFC continues to rely on asset sell-downs to maintain its business volumes and manage the leverage level while growing its assets under management (AUM) amid subdued internal capital generation. The Stable outlook is driven by the expectation that ICICI will continue to support ICICI HFC, although and any material change in the expected support or a change in the credit profile of the parent would be a key rating sensitivity.

ICRA has withdrawn the rating assigned to the Rs. 365-crore long-term bonds programme as these bonds have been fully redeemed and no amount is outstanding against the rated instrument. The rating was withdrawn in accordance with ICRA's policy on withdrawal and suspension (click here for the policy).

[1] As on March 31, 2022, ICICI HFC had aligned the reporting of the asset quality numbers under IND-AS and in accordance with the RBI circular dated November 12, 2021

Key rating drivers and their description

Credit strengths

Strong parentage with shared brand name; access to diversified sources of funding by virtue of being a subsidiary of ICICI – ICICI HFC is a wholly-owned subsidiary of ICICI and an integral part of the Group. ICRA draws further comfort from ICICI's intention to retain majority shareholding in the company. ICICI has stated its intent to provide capital support for the operations of ICICI HFC, if required, though the same is subject to regulatory approvals and on an arm's length basis. The company benefits from ICICI's strong franchise, brand name and the representation of ICICI's senior management on its board.

ICICI HFC also enjoys good financial flexibility by virtue of being a wholly-owned subsidiary of ICICI. It has access to funds at competitive rates of interest and the ability to diversify its resource profile. The company has, in recent years, increased funding from deposits and refinance from National Housing Board (NHB) in addition to raising subordinated bonds. The favourable change in the resource mix has driven a moderation in the overall cost of funds for the company. ICRA draws comfort from ICICI HFC's ability to further assign its portfolio to investors, including its parent on an arm's length basis, to meet its growth plans and any funding requirements.

Credit challenges

Weak asset quality and solvency levels – ICICI HFC's AUM[2] stood at Rs. 17,865 crore as on March 31, 2022, up by 5% from Rs. 16,973 crore as on March 31, 2021. While the on-book portfolio is dominated by home loans at 72% as on March 31, 2022 (64% as on March 31, 2021), the share of LAP has been declining gradually and stood at 26% (34% as on March 31, 2021) with construction finance accounting for the balance. Further, the share of the on-book portfolio represented by self-employed customers in the home loan and LAP segments stood at ~56% and ~86%, respectively, as on March 31, 2022. Considering the growing focus on increasing the share of affordable home loans (ticket size of less than Rs. 20 lakh) and the self-employed segment, the share of the marginal and relatively vulnerable segments remains high for the company.

Given the relatively riskier borrower profile of the low and assessed income segments, the impact of Covid-19 has remained relatively higher for the company as reflected in the high slippages seen over FY2021-FY2022. However, with the gradual easing of restrictions and revival in economic activity, ICICI HFC was able to intensify recovery efforts, which, in turn, drove high recoveries in FY2022. As a result, the gross and net stage 3 assets moderated to 5.78% and 4.30%, respectively, as on March 31, 2022 from 6.65% and 5.19%, respectively, as on March 31, 2021. However, despite the relative improvement, the overall solvency profile remains weak with net stage 3/Tier-I weakening to ~39% as on March 31, 2022 (48% as on March 31, 2021). Driven by restructuring under Covid relief measures, the entire restructured book also remained elevated at 5.9% of the on-book portfolio. A major part of the restructured book had exited the moratorium in Q4 FY2022 and is classified under stage 2. As a result, the gross and net stage 2 assets remained elevated at 7.41% and 6.79%, respectively, as on March 31, 2022 (7.52% and 6.96%, respectively, as on March 31, 2021) and net stage 2/Tier-I remained high at ~62% as on March 31, 2022 (~64% as on March 31, 2021). Given the high share of the net stage 3 and net stage 2 assets to total capital, the ability to ensure strong recoverability will be key for a sustained improvement in the asset quality metrics as well as internal accruals.

Profitability remains suboptimal – The net interest margins (NIMs), as a percentage of the average managed assets (AMA), expanded to 3.3% in FY2022 from 2.4% in FY2021 driven by the drop in the cost of interest-bearing funds, which, in turn, was on the back of the changing liability mix as well as the increased focus on higher-yielding segments. This, in turn, prevented a steeper moderation in the overall yields amid the low interest rate regime. The steady normalisation of business activities, including elevated collections and manpower-related expenses in FY2022, led to an increase in the operating cost/AMA to 1.7% from 1.41% in FY2021. Despite this, the operating profit/AMA was relatively better at 2.0% in FY2022 (1.66% in FY2021) and was also supported by the higher spreads on portfolio sell-downs. Furthermore, despite the weak asset quality levels, a

[2] *On-balance sheet loan book at Rs. 14,499 crore and portfolio sell-down at Rs. 3,366 crore as on March 31, 2022 against Rs. 13,758 crore and Rs. 3,215 crore, respectively, as on March 31, 2021*

surge was seen in recoveries in FY2022, which helped bring down the net credit costs to 0.9% of AMA in FY2022 (1.48% in FY2021). The combination of these factors helped drive an improvement in the profit after tax (PAT)/AMA to 0.9% in FY2022 from 0.12% in FY2021. However, the overall profitability remains suboptimal and the ability to improve the same from these levels remains dependent on the company's ability to improve the asset quality levels on a sustained basis.

Ability to securitise loan book critical for utilisation of expanded capacity and profitability, given the high leverage – While the overall AUM growth was moderate at 5% in FY2022, capital accretion remained sub-optimal. In order to improve the business volumes and AUM while managing the leverage, ICICI HFC undertook portfolio sales of Rs.1,224 crore in FY2022 (~Rs. 5,200 crore over FY2020-FY2022). This also supported an improvement in its Tier-I capital ratio to an extent, which stood at 16.95% as on March 31, 2022 compared to 15.92% as on March 31, 2021 and 13.74% as on March 31, 2020, driven by the reduction in the risk-weighted assets (down by ~8% over FY2020-2022). Given the high leverage, the asset sell-down volumes are expected to continue and will be driven by the level of internal capital generation as well as the need to grow the disbursement volumes and AUM. ICRA draws comfort from the company's ability to further assign its portfolio to investors, including its parent, to meet its growth plans and any funding requirements.

Liquidity position: Adequate

The company has positive cumulative mismatches in the less-than-1-year buckets (including sanctioned term loans) while the same is negative in the medium-term buckets owing to the long-term nature of the assets vis-à-vis the liabilities. The liquidity cushion stood at ~Rs. 2,654 crore as on May 1, 2022, comprising on-balance sheet liquidity (in the form of cash and cash equivalents and liquid mutual funds) of Rs. 529 crore and undrawn sanctioned lines of Rs. 2,125 crore. This 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.

Rating sensitivities

Positive factors – Not applicable as the ratings for all the instruments are at the highest possible level

Negative factors – Any material change in the expected support from ICICI or a change in its credit profile would be a key rating trigger. The ratings could be downgraded or assigned a Negative outlook in case of a reduction in the Tier-I capital cushions to less than 2% above the regulatory requirements on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies Impact of Implicit Support Expected from Parent or Group on an Entity's Credit Rating ICRA's Policy on Withdrawal of Credit Ratings
Parent/Group Support	ICICI has stated its intent to support ICICI HFC for its capital requirements. ICRA expects that ICICI will extend financial support to ICICI HFC, as required, given that ICICI HFC is an integral part of the ICICI Group. ICICI and ICICI HFC also share a common name, which, in ICRA's opinion, would persuade ICICI to provide financial support to ICICI HFC to protect its reputation from the consequences of a Group entity's distress.
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 NHB. ICICI HFC's AUM stood at Rs. 17,865 crore as on March 31, 2022 (Rs. 16,973 crore as on March 31, 2021). ICICI HFC reported a total comprehensive income of Rs. 317 crore in FY2022 compared to total comprehensive income of Rs. 117 crore in FY2021.

Key financial indicators (standalone)

ICICI Home Finance Company Limited	Unit	FY2021	FY2022
Total operating income	Rs. crore	1,614	1,592
Profit after tax	Rs. crore	22	164
Net worth	Rs. crore	1,787	2,105
Loan book (AUM)	Rs. crore	16,973	17,865
Tier-I	%	15.92%	16.95%
CRAR	%	20.94%	21.90%
Managed gearing#	Times	9.37	8.08
Gearing (Gross borrowings / Net worth)	Times	7.57	6.48
PAT/Average managed assets	%	0.1%	0.9%
Return on equity	%	1.25%	8.44%
Gross stage 3	%	6.65%	5.78%
Net stage 3	%	5.19%	4.30%

 # Managed gearing = (Gross borrowings + Assigned book outstanding)/Net worth

Source: *ICICI HFC, ICRA Research; All ratios in the rationale and the table are as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

S No	Name of Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	May 27, 2022	FY2022	FY2021		FY2019	
						May 28, 2021	Jun 10, 2020	Apr 14, 2020	Mar 20, 2019	Jan 11, 2019
1	Long-term Bonds Programme	Long Term	7,558.50	3,953.00	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Long-term Bonds Programme	Long Term	365.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Long-term Fund-based Bank Limits	Long Term	15,000	6,827.40	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Subordinated Debt Programme	Long Term	665.70	419.20	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable); reaffirmed	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	Fixed Deposits Programme	Long Term#	-	-	[ICRA]AAA (Stable); reaffirmed	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
7	Commercial Paper Programme	Short Term	4,000	350.00	[ICRA]A1+; reaffirmed	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^ Balance yet to be placed; As on May 19, 2022
 # Migration from medium term to long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bonds programme	Very Simple
Subordinated debt programme	Moderately Complex
Fund-based bank limits	Simple
Fixed deposit programme	Very 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: www.icra.in

Change in medium-term rating to long-term rating for fixed deposit programme

In compliance with the circular issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 for standardising the rating scales used by credit rating agencies, ICRA has discontinued the medium-term rating scale which was being used to assign ratings to the fixed deposit programmes of entities. Accordingly, ICRA has migrated the rating currently outstanding for the fixed deposits programme of ICICI HFC from the medium-term rating scale to the long-term rating scale. The medium-term rating scale of ICRA was a 14-point scale, while the long-term rating scale is a 20-point scale.

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs crore)	Current Rating and Outlook
INE071G07314	NCD	March 20, 2018	8.22	May 27, 2021	210.00	[ICRA]AAA(stable) reaffirmed and withdrawn
INE071G07272	NCD	December 24, 2018	9.10	December 24, 2021	155.00	[ICRA]AAA(stable) reaffirmed and withdrawn
INE071G07280	NCD	December 5, 2019	7.70	December 5, 2022	275.00	[ICRA]AAA(Stable)
INE071G07298	NCD	December 5, 2019	8.00	December 5, 2024	120.00	[ICRA]AAA(Stable)
INE071G07298$	NCD	January 30, 2020	8.00	December 5, 2024	350.00	[ICRA]AAA(Stable)
INE071G07280$	NCD	February 12, 2020	7.70	December 5, 2022	300.00	[ICRA]AAA(Stable)
INE071G07231	NCD	April 28, 2020	7.40	April 28, 2023	100.00	[ICRA]AAA(Stable)
INE071G07256	NCD	April 28, 2020	7.60	April 28, 2025	120.00	[ICRA]AAA(Stable)
INE071G07249	NCD	May 19, 2020	7.20	September 19, 2022	275.00	[ICRA]AAA(Stable)
INE071G07322	NCD	May 26, 2020	7.45	July 5, 2024	200.00	[ICRA]AAA(Stable)
INE071G07330	NCD	May 26, 2020	8.00	May 24, 2030	5.00	[ICRA]AAA(Stable)
INE071G07389	NCD	October 19, 2020	6.18	October 18, 2024	100.00	[ICRA]AAA(Stable)
INE071G07405	NCD	November 20, 2020	6.18	May 20, 2025	150.00	[ICRA]AAA(Stable)
INE071G07397	NCD	November 20, 2020	7.07	November 20, 2030	10.00	[ICRA]AAA(Stable)
INE071G07488	NCD	March 3, 2022	5.85	March 1, 2024	425.00	[ICRA]AAA(Stable)
INE071G07447$	NCD	December 3, 2021	6.27	September 28, 2026	10.00	[ICRA]AAA(Stable)
INE071G07439	NCD	December 3, 2021	7.25	August 12, 2031	85.00	[ICRA]AAA(Stable)
INE071G07462	NCD	December 23, 2021	6.55	December 23, 2026	535.00	[ICRA]AAA(Stable)
INE071G07470	NCD	December 23, 2021	6.12	June 23, 2025	150.00	[ICRA]AAA(Stable)
INE071G07454	NCD	September 28, 2021	3-M Tbill+1.27	September 27, 2024	175.00	[ICRA]AAA(Stable)
INE071G07447	NCD	September 28, 2021	6.27	September 28, 2026	10.00	[ICRA]AAA(Stable)
IN8071G07439	NCD	November 2, 2021	7.25	August 12, 2031	146.00	[ICRA]AAA(Stable)
INE071G07439	NCD	August 12, 2021	7.25	August 12, 2031	12.00	[ICRA]AAA(Stable)
INE071G07421	NCD	August 12, 2021	5.10	August 11, 2023	250.00	[ICRA]AAA(Stable)
INE071G07413	NCD	July 20, 2021	5.89	July 19, 2024	150.00	[ICRA]AAA(Stable)
NA	Long-term Bonds Programme^	NA	NA	NA	3,605.50	[ICRA]AAA(Stable)
INE071G08AH0	Subordinated Debt Programme	June 10, 2020	8.02	June 10, 2030	50.00	[ICRA]AAA(Stable)
INE071G08AH0$	Subordinated Debt Programme	June 26, 2020	8.02	June 10, 2030	45.50	[ICRA]AAA(Stable)
INE071G08AI8	Subordinated Debt Programme	November 10, 2020	7.50	November 8, 2030	64.00	[ICRA]AAA(Stable)
INE071G08AI8$	Subordinated Debt Programme	December 10, 2020	7.50	November 8, 2030	107.00	[ICRA]AAA(Stable)
INE071G08AJ6	Subordinated Debt Programme	December 10, 2020	7.65	December 10, 2035	20.00	[ICRA]AAA(Stable)
INE071G08AJ6$	Subordinated Debt Programme	January 11, 2021	7.65	December 10, 2035	25.00	[ICRA]AAA(Stable)
INE071G08AI8$	Subordinated Debt Programme	January 11, 2021	7.50	November 8, 2030	25.00	[ICRA]AAA(Stable)
INE071G08AK4	Subordinated Debt Programme	February 23, 2021	7.40	February 21, 2031	25.00	[ICRA]AAA(Stable)
INE071G08AL2	Subordinated Debt Programme	February 23, 2021	7.50	August 23, 2033	17.70	[ICRA]AAA(Stable)
INE071G08AJ6$	Subordinated Debt Programme	February 23, 2021	7.65	December 10, 2035	40.00	[ICRA]AAA(Stable)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs crore)	Current Rating and Outlook
NA	Subordinated Debt Programme^	NA	NA	NA	246.50	[ICRA]AAA(Stable)
NA	Commercial Paper^	NA	NA	7-365 days	3,650.00	[ICRA]A1+
INE071G14DW1	Commercial Paper	April 18, 2022	4.17%	7-365 days	200.00	[ICRA]A1+
INE071G14DV3	Commercial Paper	February 25, 2022	4.67%	7-365 days	150.00	[ICRA]A1+
NA	Long-term Fund-based Bank Limits – - Term Loan/CC	May 30, 2017	NA	October 1, 2030	6,827.40	[ICRA]AAA(Stable)
NA	Long-term Fund-based Bank Limits – Unallocated	NA	NA	NA	8,172.60#	[ICRA]AAA(Stable)
NA	Fixed deposit programme	NA	NA	NA	NA	[ICRA]AAA(Stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AAA(Stable)

Source: *ICICI HFC; ^ Yet to be placed; # As on May 19, 2022,$-further issuances under existing ISINs*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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.

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