May 25, 2023

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	6,608.50	6,608.50	[ICRA]AAA (Stable); reaffirmed
Long-term bonds	950.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Subordinated debt	665.70	665.70	[ICRA]AAA (Stable); reaffirmed
Fund-based bank limits	15,000	15,000	[ICRA]AAA (Stable); reaffirmed
Fixed deposit	-	-	[ICRA]AAA (Stable); reaffirmed
Commercial paper	4,000	4,000	[ICRA]A1+; reaffirmed
Issuer rating	-	-	[ICRA]AAA (Stable); reaffirmed
Total	**27,224.20**	**26,274.20**	

**Instrument details are provided in Annexure I*

Rationale

ICICI Home Finance Company Limited (ICICI HFC) is a wholly-owned subsidiary of ICICI Bank (ICICI; rated [ICRA]AAA (Stable)/[ICRA]A1+) and remains an integral part of the Group. ICRA draws comfort from ICICI's ownership and its intention to retain a majority share in ICICI HFC and support the company in its capital requirements, which was demonstrated by an infusion in FY2023.

Following the onset of the Covid-19 pandemic, the overall portfolio, comprising a high share of the self-employed and loan against property (LAP) book, witnessed a sharp deterioration in the gross and net stage 3[1] assets. However, with the gradual easing of the impact of the pandemic and increased recovery efforts, the headline asset quality metrics and the solvency profile (net stage 3/Tier-I) improved steadily. Moreover, gross fresh addition to non-performing advances (NPAs) declined in FY2023, compared to the higher levels seen in previous years, along with meaningful recoveries from the stage 3 book. This led to the credit costs remaining flat in FY2023. Coupled with higher interest spreads, this supported the improvement in the profitability levels in FY2023. Notwithstanding the above-mentioned positives, the overdue book remains relatively elevated and the impact of any material weakening of macroeconomic factors on customers/vulnerable borrowers will remain a monitorable.

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. It continues to rely on asset sell-downs to maintain its business volumes and manage the leverage while growing its assets under management (AUM). The Stable outlook is driven by the expectation that ICICI will continue to support ICICI HFC. 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 reaffirmed and withdrawn the rating assigned to the Rs. 950-crore long-term bonds programme as these bonds have been fully redeemed and no amount is outstanding against the same. 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 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 this is subject to regulatory approvals and would be on arm's length basis. In this regard, the same was demonstrated in FY2023, when ICICI infused capital of Rs. 250 crore. 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 its overall cost of funds. 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

Impact of material weakening of macroeconomic factors a monitorable – ICICI HFC's AUM[2] stood at Rs. 22,044 crore as on March 31, 2023, up by 23% from Rs. 17,865 crore as on March 31, 2022. While the on-book portfolio is dominated by home loans at 72% as on December 31, 2022 (72% as on March 31, 2022), the share of LAP has been declining gradually and stood at 26% (26% as on March 31, 2022) 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 ~54% and ~83%, respectively, as on March 31, 2023. 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 comparatively 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 during FY2021-FY2022. However, with the gradual easing of the impact of the pandemic, ICICI HFC was able to intensify recovery efforts, which drove high recoveries in FY2022 and FY2023. As a result, the gross and net stage 3 assets moderated to 3.14% and 2.03%, respectively, as on March 31, 2023 from 5.78% and 4.30%, respectively, as on March 31, 2022. Accordingly, the overall solvency profile witnessed a relative improvement with net stage 3/Tier-I at ~17% as on March 31, 2023 (39% as on March 31, 2022).

Driven by restructuring under Covid relief measures, the entire restructured book also remained elevated at 3.6% of the on-book portfolio as on March 31, 2023, although this has gradually moderated from 5.9% as on March 31, 2022, partly driven by slippages from the restructured book. 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 5.34% and 4.87%, respectively, as on March 31, 2023 (7.41% and 6.79%, respectively, as on March 31, 2022) and net stage 2/Tier-I remained high at ~40% as on March 31, 2023 (~62% as on March 31, 2022) despite the capital infusion during the year. Given the high share of the net stage 3 and net stage 2 assets in total capital, the ability to ensure strong recoverability will be key.

Profitability improves, though sustainability remains a monitorable – The net interest margins (NIMs), as a percentage of the average managed assets (AMA), expanded to 4.0% in FY2023 from 3.1% in FY2022 on the back of higher spreads. However, as the overall cost of borrowings is likely to increase in relation to the levels seen in the last two years, the lending margins could

[2] On-balance sheet loan book at Rs. 17,544 crore and portfolio sell-down at Rs. 4,501 crore as on March 31, 2023 against Rs. 14,499 and Rs. 3,763 crore, respectively, as on March 31, 2022

witness some pressure in the interim. This apart, with the normalisation of business activity and pickup in growth momentum, the operating cost/AMA rose to 2.0% in FY2023 from 1.7% in FY2022 and is likely to remain at a higher level in relation to the levels during the pandemic. Nonetheless, operating profit/AMA was relatively better at 2.6% in FY2023 (2.0% in FY2022) and was also supported by the higher spreads on portfolio sell-downs. Furthermore, net credit costs moderated to 0.8% of AMA in FY2023 from 0.9% in FY2022, driven by lower slippages and strong recoveries. The combination of these factors helped drive an improvement in the profit after tax (PAT)/AMA to 1.4% in FY2023 from 0.9% in FY2022. However, the ability to sustain the improvement in the profitability levels will also remain dependent on the company's ability to maintain spreads and ensure that the asset quality remains at better levels.

Capital infusion lowers leverage, although securitisation critical for utilisation of expanded capacity and profitability – While the overall AUM growth was strong at 23% in FY2023, the resource profile was supported by improving internal accruals, direct assignment and the Rs. 250-crore capital infusion by ICICI. In order to improve the business volumes and AUM while managing the leverage, ICICI HFC undertook portfolio sales of Rs. 2,404 crore in FY2023 (~Rs. 5,200 crore over FY2020-FY2022). This also supported the improvement in its Tier-I capital ratio to an extent, which stood at 19.20% as on March 31, 2023 compared to 16.95% as on March 31, 2022. As these factors led to a lower leverage, the company is expected to push growth, which is likely to lead to an increase in the leverage from the current level. Going forward, the asset sell-down volumes are expected to continue to increase 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. 3,169 crore as on April 24, 2023, comprising on-balance sheet liquidity (in the form of cash and cash equivalents and liquid mutual funds) of Rs. 519 crore and undrawn sanctioned lines of Rs. 2,650 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 Rating Methodology for Non-banking Finance Companies Impact of Implicit Support Expected from Parent or Group on an Entity's Credit Rating 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, as 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. 22,044 crore as on March 31, 2023 (Rs. 17,865 crore as on March 31, 2022). ICICI HFC reported a total comprehensive income of Rs. 468 crore in FY2023 compared to Rs. 317 crore in FY2022.

Key financial indicators (standalone)

ICICI Home Finance Company Limited	FY2022	FY2023
Total operating income	1,592	1,951
Profit after tax	164	302
Net worth	2,105	2,807
Loan book (AUM)	17,865	22,044
Tier-I	16.95%	19.20%
CRAR	21.90%	23.47%
Managed gearing# (times)	8.27	7.26
Gearing (Gross borrowings / Net worth; times)	6.48	5.65
PAT/Average managed assets	0.85%	1.40%
Return on equity	8.44%	12.29%
Gross stage 3	5.78%	3.14%
Net stage 3	4.31%	2.03%

 # 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

Amount in Rs. crore

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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of May 17, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	FY2022	FY2021	
					May 25, 2023	May 27, 2022	May 28, 2021	Jun 10, 2020	Apr 14, 2020
1	**Long-term bonds**	Long term	6,608.50	4,518.00^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	**Long-term bonds**	Long term	950.00	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	**Long-term fund-based bank limits**	Long term	15,000.00	7,908.55$	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	**Subordinated debt**	Long term	665.70	419.20^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	**Issuer rating**	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6	**Fixed deposits**	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
7	**Commercial paper**	Short term	4,000.00	875.00^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^ Balance yet to be placed; $ Including undrawn limits of Rs. 2,650 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bonds	Very Simple
Subordinated debt	Moderately Complex
Fund-based bank limits	Simple
Fixed deposit	Very Simple
Commercial paper	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE071G07280	**Long-term bonds**	Dec-05-2019	7.70%	Dec-05-2022	275.00	[ICRA]AAA (Stable); withdrawn
INE071G07298	**Long-term bonds**	Dec-05-2019	8.00%	Dec-05-2024	120.00	[ICRA]AAA (Stable)
INE071G07298	**Long-term bonds**	Jan-30-2020	8.00%	Dec-05-2024	350.00	[ICRA]AAA (Stable)
INE071G07280	**Long-term bonds**	Feb-12-2020	7.70%	Dec-05-2022	300.00	[ICRA]AAA (Stable); withdrawn
INE071G07231	**Long-term bonds**	Apr-28-2020	7.40%	Apr-28-2023	100.00	[ICRA]AAA (Stable); withdrawn
INE071G07256	**Long-term bonds**	Apr-28-2020	7.60%	Apr-28-2025	120.00	[ICRA]AAA (Stable)
INE071G07249	**Long-term bonds**	May-19-2020	7.20%	Sep-19-2022	275.00	[ICRA]AAA (Stable); withdrawn
INE071G07322	**Long-term bonds**	May-26-2020	7.45%	Jul-05-2024	200.00	[ICRA]AAA (Stable)
INE071G07330	**Long-term bonds**	May-26-2020	8.00%	May-24-2030	5.00	[ICRA]AAA (Stable)
INE071G07389	**Long-term bonds**	Oct-19-2020	6.18%	Oct-18-2024	100.00	[ICRA]AAA (Stable)
INE071G07405	**Long-term bonds**	Nov-20-2020	6.18%	May-20-2025	150.00	[ICRA]AAA (Stable)
INE071G07397	**Long-term bonds**	Nov-20-2020	7.07%	Nov-20-2030	10.00	[ICRA]AAA (Stable)
INE071G07488	**Long-term bonds**	Mar-03-2022	5.85%	Mar-01-2024	425.00	[ICRA]AAA (Stable)
INE071G07447	**Long-term bonds**	Dec-03-2021	6.27%	Sep-28-2026	10.00	[ICRA]AAA (Stable)
INE071G07439	**Long-term bonds**	Dec-03-2021	7.25%	Aug-12-2031	85.00	[ICRA]AAA (Stable)
INE071G07462	**Long-term bonds**	Dec-23-2021	6.55%	Dec-23-2026	535.00	[ICRA]AAA (Stable)
INE071G07470	**Long-term bonds**	Dec-23-2021	6.12%	Jun-23-2025	150.00	[ICRA]AAA (Stable)
INE071G07454	**Long-term bonds**	Sep-28-2021	3-M T-bill + 1.27%	Sep-27-2024	175.00	[ICRA]AAA (Stable)
INE071G07447	**Long-term bonds**	Sep-28-2021	6.27%	Sep-28-2026	10.00	[ICRA]AAA (Stable)
IN8071G07439	**Long-term bonds**	Nov-02-2021	7.25%	Aug-12-2031	146.00	[ICRA]AAA (Stable)
INE071G07439	**Long-term bonds**	Aug-12-2021	7.25%	Aug-12-2031	12.00	[ICRA]AAA (Stable)
INE071G07421	**Long-term bonds**	Aug-12-2021	5.10%	Aug-11-2023	250.00	[ICRA]AAA (Stable)
INE071G07413	**Long-term bonds**	Jul-20-2021	5.89%	Jul-19-2024	150.00	[ICRA]AAA (Stable)
INE071G07512	**Long-term bonds**	Sep-05-2022	7.24%	Sep-05-2024	125.00	[ICRA]AAA (Stable)
INE071G07561	**Long-term bonds**	Nov-24-2022	7.95%	Nov-24-2025	450.00	[ICRA]AAA (Stable)
INE071G07579	**Long-term bonds**	Jan-27-2023	7.88%	Jan-27-2028	300.00	[ICRA]AAA (Stable)
INE071G07595	**Long-term bonds**	Apr-27-2023	7.90%	Dec-27-2024	260.00	[ICRA]AAA (Stable)
INE071G07603	**Long-term bonds**	May-12-2023	7.85%	May-12-2028	315.00	[ICRA]AAA (Stable)
INE071G07587	**Long-term bonds**	Mar-29-2023	8.00%	Jun-28-2024	65.00	[ICRA]AAA (Stable)
Unplaced	**Long-term bonds**	NA	NA	NA	2,090.50	[ICRA]AAA (Stable)
INE071G08AH0	**Subordinated debt**	Jun-10-2020	8.02%	Jun-10-2030	50.00	[ICRA]AAA (Stable)
INE071G08AH0	**Subordinated debt**	Jun-26-2020	8.02%	Jun-10-2030	45.50	[ICRA]AAA (Stable)
INE071G08AI8	**Subordinated debt**	Nov-10-2020	7.50%	Nov-08-2030	64.00	[ICRA]AAA (Stable)
INE071G08AI8	**Subordinated debt**	Dec-10-2020	7.50%	Nov-08-2030	107.00	[ICRA]AAA (Stable)
INE071G08AJ6	**Subordinated debt**	Dec-10-2020	7.65%	Dec-10-2035	20.00	[ICRA]AAA (Stable)
INE071G08AJ6	**Subordinated debt**	Jan-11-2021	7.65%	Dec-10-2035	25.00	[ICRA]AAA (Stable)

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE071G08AI8	**Subordinated debt**	Jan-11-2021	7.50%	Nov-08-2030	25.00	[ICRA]AAA (Stable)
INE071G08AK4	**Subordinated debt**	Feb-23-2021	7.40%	Feb-21-2031	25.00	[ICRA]AAA (Stable)
INE071G08AL2	**Subordinated debt**	Feb-23-2021	7.50%	Aug-23-2033	17.70	[ICRA]AAA (Stable)
INE071G08AJ6	**Subordinated debt**	Feb-23-2021	7.65%	Dec-10-2035	40.00	[ICRA]AAA (Stable)
Unplaced	**Subordinated debt**	NA	NA	NA	246.50	[ICRA]AAA (Stable)
INE071G14EQ1	**Commercial paper**	Apr-06-2023	7.25%	Jun-27-2023	175.00	[ICRA]A1+
INE071G14EP3	**Commercial paper**	Mar-23-2023	7.62%	Jun-22-2023	350.00	[ICRA]A1+
INE071G14EO6	**Commercial paper**	Mar-21-2023	7.55%	Jun-19-2023	100.00	[ICRA]A1+
INE071G14EN8	**Commercial paper**	Mar-14-2023	7.83%	Jun-13-2023	200.00	[ICRA]A1+
INE071G14EN8	**Commercial paper**	Mar-16-2023	7.83%	Jun-13-2023	50.00	[ICRA]A1+
Unplaced	**Commercial paper**	NA	NA	NA	3,125.00	[ICRA]A1+
NA	**Long-term fund-based bank limits – Term Loan/CC**	November 30, 2018	NA	March 20, 2038	7,908.55	[ICRA]AAA (Stable)
Unutilised	**Long-term fund-based bank limits - Unallocated**	NA	NA	NA	7,091.45#	[ICRA]AAA (Stable)
NA	**Fixed deposit**	NA	NA	NA	NA	[ICRA]AAA (Stable)
NA	**Issuer rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: ICICI HFC; # As on May 17, 2023

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

Annexure II: List of entities considered for limited consolidated analysis

Company Name	ICICI HFC Ownership	Consolidation Approach
NA	NA	NA

Source: ICICI HFC

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