

GRUH Finance Limited

Instrument	Amount (In Rs. Crore)	Rating Action (September 2016)
Long-term debt programme	1,850	[ICRA]AAA (Stable); Reaffirmed
Subordinated debt programme	150	[ICRA]AAA (Stable); Reaffirmed
Fixed deposits programme	-	MAAA (Stable)/Reaffirmed
Short-term debt Programme	4,450	[ICRA]A1+/Reaffirmed

ICRA has reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 1,850 crore long term debt and Rs. 150 crore subordinated debt programmes of GRUH Finance Limited (Gruh)[†]. ICRA has also reaffirmed the rating of MAAA (pronounced M triple A) for the fixed deposit and [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 4,450 crore short-term debt programmes of Gruh. The outlook on the long-term and medium-term ratings is Stable.

The reaffirmation of ratings factors in the company's strong franchise and brand image in the western part of India, especially in Gujarat and Maharashtra; its steady growth in business volumes (27% CAGR in disbursements over the last four years), healthy profitability (average ROE of 32% over the last four years) and good asset quality through business cycles (gross NPAs of 0.56% as on June 30, 2016) despite lending to the lower income segment. The ratings also factor in Gruh's strong parentage, with HDFC Limited (rated [ICRA]AAA (stable), MAAA (stable), and [ICRA]A1+) holding a 58% stake in the company, its good financial flexibility and strong ability to raise capital.

Gruh has recorded a steady growth of 27% CAGR in disbursements during FY2012-FY2016, and had a portfolio outstanding of Rs. 11,543 crore as on June 30, 2016. The company's portfolio comprises primarily of housing loans (92.3% as on June 30, 2016) with a small proportion of non-housing loans (3.6%) and builder loans (4.1%). Gruh focuses largely on the small ticket affordable housing segment, with average ticket size of around Rs. 9 lakh. Its borrower segment is largely constituted by the economically weaker sections and lower middle income categories. A majority of the company's portfolio (around 65% as on June 30, 2016) is towards salaried borrowers and business professionals with tax returns. Although its borrower segment is vulnerable to economic shocks, the company has a long track record and in-depth understanding of this segment, as reflected in its comfortable asset quality (Gross NPA% of 0.56% as on June 30, 2016). A large proportion of Gruh's target segment would be eligible for subsidies under the Pradhan Mantri Awas Yojana, and therefore the growth opportunities for the company in this segment remain good. The company's operations are largely concentrated in Gujarat and Maharashtra, which together accounted for around 71% of its portfolio as on March 31, 2016. At the same time, in order to improve the diversity, the company has forayed into other states, and expects to reduce the geographic concentration going forward. . Going forward, ICRA expects the company to continue to expand its portfolio while maintaining good asset quality, profitability and prudent capitalization levels

Gruh enjoys adequate financial flexibility with access to diverse funding sources and adequate un-availed bank lines and cash balances to manage asset liability mismatches. However, Gruh's reliance on short-term funds – while resulting in lower cost of funds – results in relatively higher ALM gaps. ICRA takes comfort from the management's stated policy of maintaining adequate un-availed bank lines and cash balances to manage mismatches. Gruh also carries an interest rate risk in a declining interest rate scenario, with 68% of its borrowings as on June 30, 2016 being at fixed rates vis-à-vis only 8.5% of its assets. However, the risk is mitigated to an extent by the reset clauses in its fixed rate liabilities, the relatively short tenure of such liabilities as compared to the assets and their relatively competitive rates of interest.

The company's regulatory capital adequacy (16.73% as on June 30, 2016) is supported by the relatively lower risk weights prescribed by the National Housing Bank for smaller ticket loans, which constitute a large proportion of Gruh's portfolio. However, the company's gearing at 12.4 times as on March 31, 2016 is relatively high, notwithstanding its ability to raise equity and the high level of support from the parent.

[†] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

Company Profile

GRUH Finance Limited (Gruh) is an established housing finance company with a loan portfolio of Rs.11,543 crore as on June 30, 2016 (Rs. 11,115 crore as on March 31, 2016). HDFC Limited is the largest shareholder in Gruh with a stake of 58.59% as on June 30, 2016. While Gruh operates as an independent entity, HDFC's shareholding and presence on its Board of Directors, translates into strong management and strategic support for the company. The company's corporate office is located in Ahmedabad, Gujarat and it had a distribution network of 179 retail offices across ten states as on June 30, 2016.

Recent Results

Gruh reported a net profit of Rs. 243.58 crore on an asset base of Rs. 11,443 crore in FY2016 against a net profit of Rs. 203.80 crore on an asset base of Rs. 9,182 crore in FY2015. The company reported a net profit of Rs. 60.2 crore in Q1FY2017 as compared to a net profit of Rs. 50.3 crore in Q1FY2016. Gruh reported gross NPAs of 0.56%, net NPAs of 0.27% and a regulatory capital adequacy of 16.73% as on June 30, 2016.

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