

May 03, 2017

GRUH Finance Limited

Summary of Rated Instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term debt programme	500	[ICRA]AAA(stable); assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]AAA(stable) (pronounced ICRA triple A) for the Rs. 500 crore long-term debt programme of GRUH Finance Limited (GRUH)¹.

ICRA has a rating outstanding of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 2,612 crore long-term debt and Rs. 35 crore subordinated debt programme of GRUH. ICRA also has a rating outstanding of [ICRA]A1+(pronounced ICRA A one plus) for the Rs. 5,500 crore short term debt programme of GRUH. ICRA also has a rating outstanding of MAAA (pronounced M triple A) for the fixed deposits programme of GRUH. The outlook on the long-term and medium-term ratings is stable.

Rationale

The rating factors in GRUH's strong parentage, with HDFC Limited (rated [ICRA]AAA (stable), MAAA (stable), and [ICRA]A1+) holding a 59% stake in the company as on March 31, 2017, its good financial flexibility .. The rating also 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 (17% CAGR in disbursements over the last four years), healthy profitability (average RoE of ~30% over the last four years) and good asset quality through business cycles (gross NPAs of 0.31% as on March 31, 2017) despite lending to the lower income segment.

ICRA takes note of the mismatches in its ALM profile in the short term buckets as on September 30, 2016 and higher reliance of GRUH on short term debt instruments. However, the risk is partly mitigated by the company's policy of maintaining adequate unutilized bank lines as a liquidity buffer which can be drawn against the large proportion of portfolio eligible for priority sector funding

Key rating drivers

Credit strengths

- Demonstrated track record of healthy growth, profitability, and good asset quality notwithstanding the risky borrower profile
- Strong parentage, imparting overall strategic supervision and support in terms of funding and capital
- Good growth opportunities in the affordable housing segment with the Government of India's focus on Housing for All by 2022
- Sound franchise and brand image in rural parts of western India (Gujarat and Maharashtra), which helps in expanding the home loan portfolio and mobilising deposits
- Flexibility to raise funds at competitive rates compared to other NBFCs operating in the segment

¹ For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

Credit weaknesses

- Moderate economic capitalisation indicators, given that the pace of growth is higher than internal capitalisation; however ability to recapitalize remains high in light of the strong parentage and good market standing
- Relatively high ALM gaps; however, adequate un-availed bank lines and cash balances result in a comfortable liquidity profile
- Ability to maintain asset quality in light of the relatively high share of lending to self-employed borrowers with volatile income streams
- Being an HFC, lacks diversity in portfolio and earnings, in order to comply with regulatory requirements

Description of key rating drivers:

GRUH has recorded a steady growth of 17% CAGR in disbursements during FY2013-FY2017, and had a portfolio outstanding of Rs. 13,244 crore as on March 31, 2017. The company's portfolio comprises primarily of housing loans (92.5% as on March 31, 2017) with a small proportion of non-housing loans (3.0%) and builder loans (4.5%). 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 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 0.31%² as on March 31, 2017). 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. 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 54% of its borrowings as on March 31, 2017 being at fixed rates vis-à-vis only ~10% of its advances which are at fixed rates. 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 (18.32% as on March 31, 2017) 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 10.8 times as on March 31, 2017 is relatively high, notwithstanding its ability to raise equity and the high level of support from the parent.

During FY2017, GRUH's net interest income (NII) increased by ~22% to Rs. 595.06 crore with a healthy growth of 19% in the loan book. The company was able to borrow at competitive rates as indicated by a decline in cost of funds during FY2017 to ~8.3%. With stable operating costs and contained credit costs the company reported good profitability indicators (RoA remained flat at 2.37% in FY2017 as compared

² Without accounting for RBI dispensation

to 2.36% in FY2016; RoE declined marginally in FY2017 to 30.45% as compared to 31.49% in FY2016). ICRA expects the company to report stable profitability indicators going forward as well

Analytical approach

The ratings for GRUH derive significant support from its parentage and any change in the support could warrant a rating change for the company.

Links to applicable criteria

[Rating Methodology for Housing Finance Companies](#)

[ICRA's Approach for Rating Commercial Papers](#)

About the company

GRUH Finance Limited (GRUH) is an established housing finance company with a loan portfolio of Rs.13,244 crore as on March 31, 2017 (Rs. 11,115 crore as on March 31, 2016). HDFC Limited is the largest shareholder in GRUH with a stake of 58.55% as on March 31, 2017. 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 185 retail offices across 11 states as on March 31, 2017.

Recent results

GRUH reported a net profit of Rs. 296.65 crore on an asset base of Rs. 13,586 crore in FY2017 against a net profit of Rs. 243.58 crore on an asset base of Rs. 11,443 crore in FY2016. The company reported gross NPAs of 0.31%, net NPAs of 0.00% and a regulatory capital adequacy of 18.32% as on March 31, 2017.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable **Rating history for last three years:**

Table:

Sr. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years										
		Type	Rated amount (Rs. crore)	May 2017	FY2017					FY2016		FY2015			
					Mar 2017	Dec 2016	Nov 2016	Sep 2016	Aug 2016	Nov 2015	Aug 2015	Mar 2015	Dec 2014	Nov 2014	Jul 2014
1	Non-Convertible Debentures	Long Term	500.00	[ICRA] AAA (stable)	-	-	-	-	-	-	-	-	-	-	-
2	Non-Convertible Debentures	Long Term	2,612.00	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	Upgraded [ICRA] AAA (stable)	[ICRA] AA+ (positive)	[ICRA] AA+ (positive)	[ICRA] AA+ (stable)	[ICRA] AA+ (stable)
3	Subordinated Debt	Long Term	35	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[ICRA] AAA (stable)	Upgraded [ICRA] AAA (stable)	[ICRA] AA+ (positive)	[ICRA] AA+ (positive)	[ICRA] AA+ (stable)	[ICRA] AA+ (stable)
4	Short Term Debt	Short Term	5,500	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
5	Fixed Deposits	Medium Term	-	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (stable)	MAAA (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

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non-convertible debentures	NA	NA	NA	725.0^	[ICRA]AAA(stable)
Non-convertible debentures	02-03-15	9.15%	12-04-18	150.0	[ICRA]AAA(stable)
Non-convertible debentures	04-03-15	9.07%	08-06-18	150.0	[ICRA]AAA(stable)
Non-convertible debentures	05-03-15	9.05%	15-03-18	100.0	[ICRA]AAA(stable)
Non-convertible debentures	09-11-15	8.39%	01-11-18	47.0	[ICRA]AAA(stable)
Non-convertible debentures	01-07-16	8.40%	01-01-18	250.0	[ICRA]AAA(stable)
Non-convertible debentures	17-11-16	7.57%	17-11-19	500.0	[ICRA]AAA(stable)
Non-convertible debentures	21-03-17	7.58%	20-03-20	500.0	[ICRA]AAA(stable)
Non-convertible debentures	24-03-17	7.68%	23-03-20	690.0	[ICRA]AAA(stable)
Subordinated debt	22-03-13	9.75%	22-03-23	10.0	[ICRA]AAA(stable)
Subordinated debt	25-03-13	9.75%	25-03-23	25.0	[ICRA]AAA(stable)
Short Term Debt	-	-	7-365 days	5,500.0	[ICRA]A1+
Fixed Deposits	-	-	-	-	MAAA(stable)

^yet to be placed

Source: GRUH

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About ICRA Limited:

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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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