

August 10, 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. 3,947 crore long-term debt and Rs. 35 crore subordinated debt programme of GRUH. ICRA also has ratings outstanding of [ICRA]A1+(pronounced ICRA A one plus) for the Rs. 5,500 crore short-term debt programme and 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 ~58% stake in the company as on June 30, 2017. 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), good financial flexibility and good asset quality through business cycles (gross NPAs of 0.64% as on June 30, 2017) despite lending to the lower income segment.

ICRA takes note of the mismatches in the company's ALM profile in the short term buckets and its high reliance on short term debt instruments. However, the risk is partly mitigated by the company's policy of maintaining adequate unutilised 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

- **Strong parentage, imparting overall strategic supervision and support in terms of funding and capital** - HDFC Limited is the largest shareholder in GRUH with a stake of 58.36% as on June 30, 2017. While GRUH operates as an independent entity, the parent's shareholding and presence on its Board of Directors, translates into strong management and strategic support for the company.
- **Demonstrated track record of healthy growth and profitability** – GRUH has recorded a steady growth of 17% CAGR in disbursements during FY2013-FY2017. During Q1FY2018, the company reported a steady YoY growth of 19% in advances, in line with the 19% growth during FY2017. The company's portfolio mix remained stable with home loans contributing to 82% of the total portfolio as on June 30, 2017, followed by mortgage loans (11.1%), NRP loans (2.9%) and developer loans (4%). During FY2017, GRUH's net interest income increased by 22% to Rs. 595.06 crore supported by the healthy growth in the loan book. The company was able to borrow at

¹ For complete rating scale and definitions please refer to ICRA's website (www.icra.in) or other ICRA rating publications

competitive rates during FY2017, which resulted in a decline in its cost of funds to 8.3%. With stable operating costs and contained credit costs, the company reported good profitability indicators (RoE of 30.45% in FY2017 to and 26.4% in Q1FY2018). ICRA expects the company to report stable profitability indicators going forward as well.

- **Good asset quality notwithstanding the risky borrower profile** - Its borrower segment largely includes 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 the segment, as reflected in its comfortable asset quality with gross NPAs of 0.64% as on June 30, 2017 (0.31% as on March 31, 2017) and net NPAs of 0.16% as on June 30, 2017 (nil as on March 31, 2017).
- **Good growth opportunities in the affordable housing segment with the Government of India's (GoI) focus on Housing for All by 2022** – GRUH focuses largely on the small ticket affordable housing segment, with an average ticket size of around Rs. 9 lakh. A large proportion of GRUH's target segment is eligible for subsidies under the Pradhan Mantri Awas Yojana, and therefore the growth opportunities for the company in this segment remain good.

Credit weaknesses

- **Moderate economic capitalisation indicators, given the higher pace of growth than internal capitalisation** – Notwithstanding GRUH's ability to raise equity and the high level of support from the parent, its gearing levels were relatively high at 11.2 times as on June 30, 2017. Nevertheless, the company's regulatory capital adequacy 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. The company's regulatory capital adequacy was comfortable with its Tier 1 and CRAR remaining moderate at 15.57% and 17.02% respectively as on June 30, 2017 (15.10% and 16.73% respectively as on June 30, 2016).
- **Relatively high ALM gaps; however, adequate unutilised bank lines and cash balances result in a comfortable liquidity profile** - GRUH's reliance on short-term funds, while resulting in lower cost of funds, results in relatively high ALM gaps. ICRA takes comfort from the management's stated policy of maintaining adequate unutilised bank lines and cash balances. GRUH also carries an interest rate risk in a declining interest rate scenario, with 88% of its borrowings as on June 30, 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, and the relatively short tenure of such liabilities as compared with the assets and their relatively competitive rates of interest.
- **Lacks geographical diversity in portfolio** - The company's operations are largely concentrated in Gujarat and Maharashtra. The company has forayed into other states, and expects to reduce the concentration going forward.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Housing Finance Companies](#)

About the company:

GRUH Finance Limited (GRUH) is an established housing finance company with a loan portfolio of Rs.13,695 crore as on June 30, 2017 (13,244 crore as on March 31, 2017 and Rs. 11,115 crore as on March 31, 2016). HDFC Limited is the largest shareholder in GRUH with a stake of 58.36% as on June 30, 2017. While GRUH operates as an independent entity, the parent'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 186 retail offices across 11 states as on June 30, 2017.

Key Financial Indicators (Audited)

	FY2016	FY2017	Q1FY2017	Q1FY2018
Net interest income	409	509	126	162
Profit before tax	362	442	90	108
Profit after tax	244	297	60	72
Net advances	11,115	13,244	11,544	13,695
Total assets	11,443	13,586	12,020	14,072
% Tier 1	16.13%	16.81%	15.10%	15.57%
% CRAR	17.82%	18.31%	16.73%	17.02%
Gearing	12.26	10.80	12.06	11.20
% Net profit/Average total assets	2.36%	2.37%	2.05%	2.09%
% Return on net worth	31.49%	30.45%	27.82%	25.96%
% Gross NPAs	0.32%	0.31%	0.56%	0.64%
% Net NPAs	0.09%	0.00%	0.27%	0.16%
Net NPA/Net worth	1.24%	0.00%	3.44%	1.93%

Amounts in Rs. crore

Source: GRUH; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years												
		Type	Rated Amount (Rs. crore)	Aug 2017	FY2018		FY2017					FY2016		FY2015			
					May 2017	April 2017	Mar 2017	Dec 2016	Nov 2016	Sep 2016	Aug 2016	Nov 2015	Aug 2015	Mar 2015	Dec 2014	Nov 2014	Jul 2014
1	Long-term debt programme	Long Term	500	[ICRA] AAA (stable)	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Long-term debt programme	Long Term	3,947	[ICRA] AAA (stable)	[ICRA] AAA (stable)	[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)	[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+	[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)	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

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
NA	Non-convertible debentures	NA	NA	NA	820.0^	[ICRA]AAA(stable)
INE580B07307	Non-convertible debentures	02-03-15	9.15%	12-04-18	150.0	[ICRA]AAA(stable)
INE580B07315	Non-convertible debentures	04-03-15	9.07%	08-06-18	150.0	[ICRA]AAA(stable)
INE580B07323	Non-convertible debentures	05-03-15	9.05%	15-03-18	100.0	[ICRA]AAA(stable)
INE580B07356	Non-convertible debentures	09-11-15	8.39%	01-11-18	47.0	[ICRA]AAA(stable)
INE580B07364	Non-convertible debentures	01-07-16	8.40%	01-01-18	250.0	[ICRA]AAA(stable)
INE580B07372	Non-convertible debentures	17-11-16	7.57%	17-11-19	500.0	[ICRA]AAA(stable)
INE580B07380	Non-convertible debentures	21-03-17	7.58%	20-03-20	500.0	[ICRA]AAA(stable)
INE580B07398	Non-convertible debentures	24-03-17	7.68%	23-03-20	690.0	[ICRA]AAA(stable)
INE580B07406	Non-convertible debentures	27-04-17	7.54%	15-03-19	300.0	[ICRA]AAA(stable)
INE580B07414	Non-convertible debentures	06-06-17	7.45%	27-03-19	375.0	[ICRA]AAA(stable)
INE580B07422	Non-convertible debentures	09-06-17	7.48%	10-06-19	565.0	[ICRA]AAA(stable)
INE580B08032	Subordinated debt	22-03-13	9.75%	22-03-23	10.0	[ICRA]AAA(stable)
INE580B08040	Subordinated debt	25-03-13	9.75%	25-03-23	25.0	[ICRA]AAA(stable)
NA	Short Term Debt	-	-	7-365 days	5,500.0	[ICRA]A1+
NA	Fixed Deposits	-	-	-	-	MAAA(stable)

^yet to be placed

Source: GRUH

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About ICRA Limited:

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