

GRUH Finance Limited

December 15, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Debt Programme	4,447	4,447	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	35	35	[ICRA]AAA (Stable); reaffirmed
Commercial Paper Programme	5,500	5,500	[ICRA]A1+; reaffirmed
Fixed Deposits Programme	-	-	MAAA (Stable); reaffirmed
Total	9,982	9,982	

Rating action

ICRA has reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 4,447 crore long-term debt programme and Rs. 35 crore subordinated debt programme of GRUH Finance Limited (GRUH)¹. ICRA has also reaffirmed the rating of MAAA (pronounced M triple A) for the fixed deposits programme and the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 5,500 crore commercial paper 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 September 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 return on equity (RoE) of 30% over the last four years), good financial flexibility with access to diverse funding sources and good asset quality through business cycles (gross NPAs of 0.67% as on September 30, 2017) despite lending to the relatively vulnerable lower income self-employed segment.

ICRA also takes note of the mismatches in the company's ALM profile in the short term buckets. 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. Further, the company has gradually been shifting a large proportion of its borrowings to long-term, and reducing its reliance on short-term borrowings.

Outlook: Stable

In ICRA's opinion, GRUH will continue to report steady growth with good asset quality and healthy profitability indicators, given its conservative lending norms. The outlook may be revised to Negative in case there is significant deterioration in the company's asset quality or solvency indicators. Any material change in GRUH's ownership structure would also remain a key rating sensitivity.

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

Key rating drivers

Credit strengths

Strong parentage, imparting overall strategic and management supervision - HDFC Limited is the largest shareholder in GRUH with a stake of ~58% as on September 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 recorded a steady growth of 17% CAGR in disbursements during FY2013-FY2017. During H1FY2018, the company reported a steady YoY growth of 18% 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 September 30, 2017, followed by mortgage loans (11%), non-residential premises (NRP) loans (3%) 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 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 and 25.87% in H1FY2018). ICRA expects the company to report stable profitability indicators going forward as well.

Good asset quality, notwithstanding the relatively vulnerable borrower profile – GRUH's borrower segment largely includes the economically weaker sections and lower middle-income categories. However, 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 0.67% as on September 30, 2017 (0.31% as on March 31, 2017) and net NPAs of 0.07% as on September 30, 2017 (nil as on March 31, 2017).

Diversified funding mix – GRUH enjoys good financial flexibility with access to diverse funding sources at competitive rates of interest. The company's overall cost of funds is competitive, supported by the relatively low rate of refinance from National Housing Bank (NHB), softening of systemic interest rates, and the shift from bank borrowings to market borrowings. As on September 30, 2017, around 47% of GRUH's borrowings were through market borrowings, around 23% in form of NHB refinance, 19% from banks and balance 11% in the form of fixed deposits and other sources. Further, the company has gradually been shifting a large proportion of its borrowings to long-term, and reducing its reliance on short-term borrowings.

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. Given that the small ticket affordable housing segment is still underpenetrated, growth opportunities for the company remain good. Growth potential in this segment is further supported by the GoI's focus on "Housing for All" and the subsidies offered under the Pradhan Mantri Awas Yojana, for which a large proportion of GRUH's target segment would be eligible.

Credit challenges

Moderate economic capitalisation indicators, given the higher pace of growth than internal accruals – 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 September 30, 2017. Nevertheless, the company's regulatory capital adequacy is supported by the relatively lower risk weights prescribed by the NHB 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 16.07% and 17.48% respectively as on September 30, 2017 (16.82% and 18.32% respectively as on March 31, 2017).

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 a major proportion of its borrowings as on September 30, 2017 being at fixed rates vis-à-vis only 9% of its advances. 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.

Limited geographical diversity in portfolio - The company's operations are largely concentrated in Gujarat and Maharashtra. The company, however, has penetrated deeply into these states, which imparts it a superior market knowledge and understanding of local economy. The company has also forayed into other states over the past 10 years, and expects to reduce the concentration of these two states 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. 14,304 crore as on September 30, 2017 (Rs. 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 57.99% as on September 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 187 retail offices across 11 states and 1 union territory as on September 30, 2017.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Net interest income	409	509
Profit before tax	362	442
Profit after tax	244	297
Net advances	11,115	13,244
Total assets	11,443	13,586
% Tier 1	16.13%	16.82%
% CRAR	17.82%	18.32%
Gearing	12.26	10.80
% Net profit/Average total assets	2.36%	2.37%
% Return on net worth	31.49%	30.45%
% Gross NPAs	0.32%	0.31%
% Net NPAs	0.09%	0.00%
Net NPA/Net worth	1.24%	0.00%

Amount is Rs. crore

Source: GRUH; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instru- ment	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years														
		Am- ount Rated (Rs. crore)	Am- ount Out- stand- ing (Rs. crore)	FY2017					FY2016					FY2015				
				De- c 20 17	Au- g 20 17	May 20 17	April 20 17	Mar- 20 17	De- c 20 16	Nov 20 16	Se- p 20 16	Au- g 20 16	Nov 20 15	Aug 201 5	Mar 201 5	Dec 201 4	Nov 20 14	Jul 20 14
1	Long-term debt programme	4,47	4,47	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	Upgraded [ICRA] AA (stable)	[ICRA] AA + (positive)	[ICRA] AA + (positive)	[ICRA] AA + (Stable)	[ICRA] AA + (Stable)
2	Subordinated debt	35	35	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	Upgraded [ICRA] AA (stable)	[ICRA] AA + (positive)	[ICRA] AA + (positive)	[ICRA] AA + (Stable)	[ICRA] AA + (Stable)
3	Commercial Paper	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 +	[ICRA] A1 +
4	Fixed deposits	-	-	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
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)
INE580B07422	Non-convertible debentures	27-09-17	7.40%	30-09-20	342.0	[ICRA]AAA(stable)
INE580B07448	Non-convertible debentures	30-10-17	7.49%	31-10-22	478.0	[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)

Source: GRUH

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

Akshay Kumar Jain

+91 22 6114 3430

akshay.jain@icraindia.com

Supreeta Nijjar

+91 124 4545 324

supreetan@icraindia.com

Prateek Mittal

+91 22 6114 3425

prateek.mittall@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 66069999

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