September 30, 2019

GRUH Finance Limited: Rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	1,240.00	0.00	[ICRA]AAA@; withdrawn
Non-convertible Debenture Programme	4,510.00	4,510.00#	[ICRA]AAA@; outstanding
Subordinated Debt Programme	35.00	35.00	[ICRA]AAA@; outstanding
Commercial Paper	7,500.00	7,500.00	[ICRA]A1+; outstanding
Fixed Deposits Programme	-	-	MAAA@; outstanding
Total	**13,285.00**	**12,045.00**	

**Instrument details are provided in Annexure-1*
@ - Rating placed on Watch with Negative Implications
 # - Includes unallocated amount of Rs. 769.90 crore

Rationale

GRUH's current ratings derive significant support as it is a subsidiary of HDFC Limited (47.43% stake as on June 30, 2019; rated [ICRA]AAA(Stable)/MAAA(Stable)/[ICRA]A1+). However, given its impending amalgamation with Bandhan Bank Limited (rated [ICRA]AA&/[ICRA]A1+), GRUH's ratings were placed on Watch with Negative Implications. The ratings also factor in the company's strong franchise and brand image in western India, especially Gujarat and Maharashtra, the steady growth in its business volumes (~20% 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 (Stage 3 assets of 0.95% as on June 30, 2019 and 0.66% as on March 31, 2019) despite lending to the relatively vulnerable lower income self-employed segment. ICRA notes the moderate economic capitalisation levels and limited geographical diversity in the portfolio.

ICRA had placed the long-term rating of the company on Watch with Negative Implications on January 8, 2019, following the company's announcement on January 7, 2019 that its board has given approval for GRUH's amalgamation with Bandhan Bank. The merger is pending approval from the National Company Law Tribunal (NCLT), Kolkata Bench and a final approval from the Reserve Bank of India (RBI) before the integration can be executed. Once the merger is complete, the ratings would be based on the financials of the merged entity.

Key rating drivers and their description

Credit strengths

Demonstrated track record of healthy growth and profitability – GRUH's disbursements increased at a steady CAGR of 14% during FY2015-FY2019. It has a track record of over 25 years of growing profitably while maintaining the asset quality. Though the YoY growth in advances declined to 12% in FY2019 from 17% in FY2018, the 5-year CAGR of advances remained healthy at 20%. The company's portfolio mix remained stable with home loans contributing to 83% of the total portfolio as on March 31, 2019 and as on June 30, 2019, followed by mortgage loans and non-residential premise (NRP) loans (12%) and developer loans (5%). GRUH's net interest income stood at Rs. 671 crore in FY2019, supported by the steady growth in its loan book. An increase in the cost of funding was mitigated by stable operating costs and controlled credit costs, resulting in good profitability indicators (RoE of 26% in FY2019).

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. This is reflected in its comfortable asset quality with Stage 3 assets of 0.95% as on June 30, 2019 compared to 0.66% as on March 31, 2019. As on March 31, 2019, GRUH's GNPA and NNPA, as per National Housing Bank (NHB) norms, were 0.66% and 0.35%, respectively.

Good growth opportunities in affordable housing segment with GoI's 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 Government of India's (GoI) 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 compared to internal accruals – Notwithstanding GRUH's ability to raise equity and the high level of support expected from the parent, its gearing levels were relatively high at 8.76 times as on March 31, 2019. 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 part of GRUH's portfolio.

ALM gaps in longer-tenure buckets; however, adequate unutilised bank lines and cash balances result in comfortable liquidity profile – A decline in the share of commercial paper borrowings has resulted in an improvement in the short-term ALM gaps, though negative mismatches remain in the longer-tenure buckets. ICRA takes comfort from the management's stated policy of maintaining adequate unutilised bank lines and cash balances. While GRUH has been able to manage the asset-liability maturities thus far, the same would be a key monitorable, given the prevailing liquidity conditions in the market. However, ICRA takes comfort from GRUH's financial flexibility as a significant portion of its portfolio qualifies for priority sector lending (PSL).

Limited geographical diversity in portfolio – The company's operations are largely concentrated in Gujarat and Maharashtra. GRUH, however, has penetrated deeply into these states, which provides it with superior market knowledge and understanding of the 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.

Liquidity position: Adequate

With no negative cumulative mismatches in the up to one-year bucket, as per GRUH's liquidity statement as on June 30, 2019, its liquidity is **adequate**. The liquidity profile is supported by Rs. 2,500-crore liquid balances (cash and encumbered bank deposits) and Rs. 1,300-crore sanctioned but undrawn bank lines, covering the repayment obligations (excluding

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interest) till March 2020 up to 1.27 times. The expected inflows from performing advances will further support disbursements. Overall, ICRA expects GRUH to be able to meet its near-term commitments as it holds sufficient liquidity in the form of short-term bank deposits and cash and bank balances as on June 30, 2019. In addition, the company has healthy financial flexibility and a PSL-compliant portfolio for availing funds through the direct assignment route.

Rating sensitivities

Negative triggers – Pressure on GRUH's ratings arise from its impending merger with Bandhan Bank. Post-merger, the ratings would be based on the financials of the merged entity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies ICRA's policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	ICRA's ratings for GRUH derived significant support from its being a subsidiary of HDFC Limited. Once the merger with Bandhan Bank is concluded, the ratings will be based on the business plans of the combined entity.
Consolidation/Standalone	The ratings are based on the standalone financials of the issuer.

About the company

GRUH Finance Limited is an established housing finance company with a loan portfolio of Rs. 17,408 crore as on March 31, 2019 (Rs. 15,588 crore as on March 31, 2018 and Rs. 13,244 crore as on March 31, 2017). HDFC Limited held a 47.43% stake in GRUH as on June 30, 2019. The company's corporate office is in Ahmedabad, Gujarat and it had a distribution network of 196 retail offices across 11 states and 1 Union Territory as on June 30, 2019.

Key financial indicators (audited)

	IGAAP FY2017	Ind-AS FY2018	Ind-AS FY2019
Net interest income	526	658	671
Profit before tax	442	567	615
Profit after tax	297	402	447
Advances	13,244	15,588	17,408
Total assets	13,586	15,921	18,786
% Tier 1	16.82%	17.68%	19.26%
% CRAR	18.32%	18.90%	20.30%
Gearing			
% Net profit/Average total assets	2.37%	2.73%	2.58%
% Return on Average net worth	30.45%	30.15%	25.95%
% Gross NPAs	0.31%	0.45%	0.66%
% Net NPAs	0.00%	0.00%	0.35%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: Non

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years													
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018					FY2017					
					30-Sep-2019	08-Jan-2019	22-Oct-2018	07-May-2018	15-Dec-2017	10-Aug-2017	26-Jul-2017	13-Jun-2017	03-May-2017	23-Mar-17	30-Dec-2016	18-Nov-2016	19-Oct-2016	31-Aug-2016
1	NCD	Long Term	1,240	0	[ICRA]AAA@ withdrawn	[ICRA] AAA@	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable) (rating withdrawn for Rs. 400 crore NCD)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
2	NCD	Long Term	4,510*	3,740.1	[ICRA]AAA@	[ICRA] AAA@	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 2,000 crore)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 500 crore)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 835 crore)	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 500 crore)	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 1,047 crore)	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 115 crore)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable) (rated amount enhanced by Rs. 500 crore)
3	Subordinated Debt	Long Term	35	35	[ICRA]AAA@	[ICRA] AAA@	[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) (reduce	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years												
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2018					FY2017				
					30-Sep-2019	08-Jan-2019	22-Oct-2018	07-May-2018	15-Dec-2017	10-Aug-2017	26-Jul-2017	13-Jun-2017	03-May-2017	23-Mar-17	30-Dec-2016	18-Nov-2016	19-Oct-2016	31-Aug-2016
															d from Rs. 150 crore)			
4	Commercial Paper	Short Term	7,500	-	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+ (rated amount enhanced from Rs. 5,500 crore)	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+ (rated amount enhanced from Rs. 4,450 crore)	[ICRA] A1+	[ICRA] A1+
5	Fixed Deposit	Medium Term	-	-	MAAA@	MAAA@	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA	MAAA

*Amount in Rs. crore; *- includes unallocated amount of Rs. 769.90 crore*

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE580B07406	Non-convertible debentures	27-04-17	7.54%	15-03-19	300.0	[ICRA]AAA@; withdrawn
INE580B07414	Non-convertible debentures	06-06-17	7.45%	27-03-19	375.0	[ICRA]AAA@; withdrawn
INE580B07422	Non-convertible debentures	09-06-17	7.48%	10-06-19	565.0	[ICRA]AAA@; withdrawn
NA	Non-convertible debentures (Unallocated)	NA	NA	NA	769.9	[ICRA]AAA@
INE580B07455	Non-convertible debentures	30-10-18	9.50%	30-10-28	230.0	[ICRA]AAA@
INE580B07463	Non-convertible debentures	05-11-18	9.35%	06-04-22	137.6	[ICRA]AAA@
INE580B07471	Non-convertible debentures	16-11-18	9.35%	28-04-22	105.0	[ICRA]AAA@
INE580B07489	Non-convertible debentures	28-11-18	9.18%	29-03-22	492.5	[ICRA]AAA@
INE580B07497	Non-convertible debentures	6-12-18	9.35%	31-10-23	265.0	[ICRA]AAA@
INE580B07372	Non-convertible debentures	17-11-16	7.57%	17-11-19	500.0	[ICRA]AAA@
INE580B07380	Non-convertible debentures	21-03-17	7.58%	20-03-20	500.0	[ICRA]AAA@
INE580B07398	Non-convertible debentures	24-03-17	7.68%	23-03-20	690.0	[ICRA]AAA@
INE580B07430	Non-convertible debentures	27-09-17	7.40%	30-09-20	342.0	[ICRA]AAA@
INE580B07448	Non-convertible debentures	30-10-17	7.49%	31-10-22	478.0	[ICRA]AAA@
INE580B08032	Subordinated debt	22-03-13	9.75%	22-03-23	10.0	[ICRA]AAA@
INE580B08040	Subordinated debt	25-03-13	9.75%	25-03-23	25.0	[ICRA]AAA@
NA	Commercial paper programme	-	-	7-365 days	7,500.0	[ICRA]A1+
NA	Fixed deposits	-	-	-	-	MAAA@

Source: GRUH Finance Limited

Annexure-2: List of entities considered for consolidated analysis

NA

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About ICRA Limited:

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