



GRUH Finance Limited

RATING HISTORY

	Amount Outstanding [as on 31.03.2008] (in Rs. million)	Maturity Date	Rating Outstanding	Previous Ratings	
				September 2007	September 2006
			September 2008		
Rs. 3 billion debenture programme	-	Yet to be placed	LAA+ (stable)		
Rs. 3 billion debenture programme	500	October 2012	LAA+ (stable)	LAA+ (stable)	
Rs. 2 billion debenture programme	1100	September 2012	LAA+ (stable)	LAA+ (stable)	LAA+ (stable)
Rs. 2 billion debenture programme	400	February 2013	LAA+ (stable)	LAA+ (stable)	LAA+ (stable)
Fixed Deposit Programme	1861	-	MAA+	MAA+	MAA+

ICRA has assigned an 'LAA+' (pronounced L double A plus) rating to Rs. 3 billion Non-Convertible Debenture Programme of GRUH Finance Limited [GRUH]. ICRA has also reaffirmed the ratings assigned earlier to GRUH's NCD programme at 'LAA+'. This is the high-credit-quality rating assigned by ICRA. The rated instrument carries low credit risk. These ratings carry a stable outlook. ICRA has also reaffirmed the 'MAA+' (pronounced M double A plus) rating assigned earlier to the Fixed Deposit Programme of GRUH. This rating is the high-credit-quality rating assigned by ICRA. The rated deposits programme carries low credit risk.

The ratings factor in GRUH's strong parentage (GRUH is a subsidiary of HDFC rated at LAAA, MAAA and A1+ for its various debt instruments by ICRA), its network in western part of the country. The ratings also take into account the ability of the company to maintain its superior earnings and control its asset quality while growing its loan book by expanding its geographical reach. GRUH's portfolio typically consists of 'small ticket' loans spread across

the rural and semi urban regions of western India, where the yields are relatively higher than the higher ticket loans in the urban areas. In the past GRUH's has been maintaining low level of NPAs (Gross NPA% of 1.12% as on March 31, 2008). ICRA has taken note of the increase in the proportion of loans extended to self employed professionals (33% of the total portfolio as on March 31, 2008 as against 27% for the previous year) and builder loans (4% of the total loans as on March 31, 2008); thereby making GRUH more vulnerable to asset quality related issues as the inherent risks associated with these segments are higher. Nevertheless, GRUH's stricter lending norms (for builder segment), completely in-house appraisal and recovery, and well established systems mitigate the risk to some extent. Any further increase in the interest rates and possible correction in the property prices may impact the demand for home loans in the current year, resulting in a decline in disbursements for GRUH. Further, with the rise in its cost of funds, the company has reset the interest rates on existing home loans. This may impact delinquencies in case the increased

EMIs affect the customers cash flows. The rating also draws comfort from the adequate capitalization levels of the company (Tier 1 capital 15.46%, Net worth in relation to assets at 9.43% as on March 31, 2008) and in light of the internal capital generation and sufficient headroom available to raise Tier II capital, ICRA does not envisage any pressure on the capital front for GRUH to fund its future growth. GRUH has funded relatively long term assets through shorter-term borrowings, resulting in asset liability mismatches in the short to medium term, however owing to diverse funding sources available to the company; ICRA expects liquidity to remain comfortable in the short to medium term.

ICRA derives significant comfort from GRUH's status as a subsidiary of HDFC, which holds an equity stake of 61.5% in it (as of June 30, 2008). While the company operates as an independent entity, it continues to receive management as well as funding support from HDFC. HDFC has provided funding support to GRUH primarily through loan buy-outs, thereby bolstering its capital adequacy levels. Besides, in 2003-04, HDFC directly subscribed

¹ GRUH's average ticket size was Rs. 0.56 million as on March 31, 2008



to GRUH's Rs. 100 million tier II bonds. This apart, with HDFC as parent, GRUH has been able to access funds at competitive rates from banks as well as the debt market (through issue of debentures).

GRUH's portfolio has gone up from Rs. 13.77 billion as on March 31, 2007 to 17.70 billion as on March 31, 2008, registering a growth of 29 % as compared to 24% achieved by HFCs. GRUH's loan exposure is characterized by middle income borrowers, relatively low-ticket size, and comfortable LCR [Loan to Cost Ratio]. There has been a decline in the loans extended to Salaried individuals, to 61% of the total portfolio as on March 31, 2008 as compared to 68% as on March 31, 2007, as the company is focusing on tapping the unmet demand of self employed segment, the proportion of such loan has gone up from 27% as on March 31, 2007 to 33% as on March 31, 2008. Going forward, the company plans to keep its focus on the self-employed segment, as the yields are relatively higher in this segment vis-à-vis the home loans to salaried individuals. In case of self employed segment the company also relies on assessed income in order to determine the borrowing capacity of the borrowers. Although this assessment was started about five years ago the portfolio is yet to see a complete cycle and the impact of such assessments on asset quality is yet to be seen. The company also started expanding its builder loan portfolio in 2006-07, which has further gone up from Rs. 0.45 billion as on March 31, 2007 to Rs 0.75 billion as on March 31, 2008. Though currently this segment constitutes only 4% of the total portfolio, going forward the company is focusing on gradually building this portfolio, as the yields are 200 – 300 bps higher in this segment. Although inherent risks in the segments are higher, cautious approach adopted by GRUH is likely to mitigate the risks from such larger ticket loans. In terms of the geographical profile, GRUH is

primarily concentrated in Gujarat (47% of total portfolio as on March 31, 2008) and Maharashtra (35%). However, incrementally these contributed to 69% of disbursements in 2007-08 as against 77% in 2006-07, with the balance coming from the other states like Madhya Pradesh, Karnataka, Rajasthan, Tamil Nadu and Chhattisgarh. These states contributed 31% of disbursements in 2007-08 as against 23% the previous year. The company currently has around 87 branches out of which seven were opened in the current year. Since the socio-economic patterns in these States and in the ones that GRUH currently operates are largely similar, the expansion risks are relatively low. GRUH continues to maintain lending rates higher than offered by the leading players in metros. Incrementally, the growth for the company is expected to come from the relatively better yielding self employed and the builder segment. GRUH's ability to maintain strict control over the asset quality in these segments would remain critical. GRUH's stricter lending norms (for builder segment), completely in-house appraisal and recovery, and well established systems are expected to help the company in controlling its asset quality.

The Gross NPA% for the company reduced from 1.36% as on March 31, 2007 to 1.12% as on March 31, 2008. GRUH continues to maintain excess provisions resulting in zero net NPA position for the company as on March 31, 2008. With the increase in the EMI's on the existing loans and in light of the rise in inflation, there might be a decline in the borrowing capacity of the borrowers, resulting in the rise in delinquencies for the company in the current year. Further, with the increase in the larger ticket size builder loans, the concentration risk for the company is expected to go up and any slippages in this segment could result in deterioration in the asset quality indicators for the

company. However, the strong monitoring and recovery systems of the company are expected to mitigate the risk to some extent.

With the change in the risk weightages on housing loans of less than Rs. 2 million from 75% to 50% in July 2007, the risk weighted assets for GRUH have come down by 3% despite an increase of 29% in the loan portfolio in 2007-08. However, with the growth in the loan portfolio, the net worth in relation to total assets for the company came down from 10.81% as on March 31, 2007 to 9.43% as on March 31, 2008 while the gearing increased from 7.95 times to 9.32 times in the corresponding period. From a regulatory capital point of view, GRUH has adequate capitalization levels with a Tier I% of 15.46% as on March 31, 2008 (CAR of 18.15% as on March 31, 2008). The strong Tier I capital and adequate internal capital generation gives GRUH sufficient scope to raise Tier II capital. Going forward, ICRA does not envisage capital to be a constraining factor for GRUH to fund its future growth plans.

As in the case of all housing finance companies, GRUH has funded relatively long term assets through shorter-term borrowings, resulting in asset liability mismatches in the short to medium term. However, any liquidity risk is mitigated by its low refinancing risk, given the company's financial flexibility and access to diverse funding sources. As for interest rate risk, the liabilities of GRUH will get repriced faster vis-a-vis assets, exposing its earnings in a rising interest rate scenario. However, a substantial proportion of variable rate assets (93% of total loans) and track record of the company in increasing its lending yields are mitigants against the loss of earnings on this account. Though the capacity of the company to pass on any further hikes in interest rates to the end customers may get constrained if the customers are



unable to pay increased EMIs as a result of such interest rate hikes.

With the rise in interest rates, the cost of funds for the company also went up from 7.14% for the year 2006-07 to 7.79% for the year 2007-08. In terms of the borrowing profile, GRUH has access to diverse funding sources with bank borrowings forming the major source of funding for GRUH (51% of the total borrowings as on March 31, 2008). In order to manage its borrowing cost more efficiently the company has been trying to replace its short term bank borrowings with commercial papers. 50% of the fresh borrowings for the year 2007-08 were in the form of commercial paper as against 26% for the previous year. Consequently, the proportion of commercial paper borrowings in the total borrowings for GRUH has gone up to 17% as on March 31, 2008. As there are small mismatches in the asset liability profile of the company in the short term, the cost of funds for GRUH is expected to go up significantly resulting in a pressure on spreads in the current year. Nevertheless, the refinancing risk is low for the company, given the company's healthy financial flexibility and track record in servicing the liabilities.

GRUH continues to maintain profitability (profit after tax as % of Average Assets Deployed) of over 2% on the strength of healthy interest spreads, low operating expenses and moderate level of credit provisions. The credit provisions in relation to average total assets for the company came down from 0.55% for the year 2006-07 to 0.20% for the year 2007-08 as the company had made excess provisions in 2006-07 and those were sufficient to cover the incremental NPAs as well, thus resulting in lower provision requirement for the year 2007-08. However, in light of the change in the asset mix and deterioration in the operating environment, the credit provisions could go up in the short to

medium term resulting in a dilution in profitability. The yield on advances for GRUH increased by 110 bps from 10.87% as on March 31, 2007 to 11.97% as on March 31, 2008 while the cost of funds increased by 65 bps resulting in the an increase in the overall spreads from 2.99% to 3.32% in the period under review. However, this trend is unlikely to continue going forward and there might be some compression in the interest spreads for GRUH over the medium term. However, even at reduced levels profitability is likely to remain comparable to the similarly rated players. The company reported a PAT² of Rs. 423 million over an asset base of Rs. 20181 million as on March 31, 2008. For the three months ended June 30, 2008 GRUH reported a net profit of Rs. 77.8 million as against Rs. 50.4 million for the previous year, registering a growth of 54%.

About the company

GRUH is an established housing finance company [HFC] with a loan portfolio of Rs. 17.70 billion as on March 31, 2008. HDFC is the largest shareholder in GRUH with a stake of 61.5% as on June 30, 2008. While GRUH continues to operate as an independent entity, the high parental shareholding translates into strong management and strategic inputs from HDFC. Moreover, HDFC's top management has a significant presence on GRUH's Board of Directors. The Company's corporate office is located in Ahmedabad and the Company has a distribution network of 87 retail offices across seven states. For the three months ended June 30, 2008 GRUH reported a net profit of Rs. 77.8 million as against Rs. 50.4 million for the previous year, registering a growth of 54%. The total loan portfolio of the company stood at Rs. 18.93 billion as on June 30, 2008. GRUH reported a gross NPA% of 1.73% as on June 30, 2008 as compared to 2.30% as on June 30, 2007

October 2008.

² PAT: Profit After Tax



RECENT RESULTS

	Q 1 FY 09	Q1 FY 08	Growth y-o-y	2007-08
Interest Income	591.1	437.3	35%	2022.9
Interest Expended	391.9	274.8	43%	1216.7
Net Interest Income	199.2	162.5	23%	806.2
Other Income	1.9	0.8	138%	9.1
Total Income	201.1	163.3	23%	815.3
Other Operating Expenses	46.4	40.9	13%	179.4
Operating Profit	154.7	122.4	26%	635.9
Prov. Towards NPA's	31.6	47.2	-33%	43.3
PBT	123.1	75.2	64%	592.6
Current Tax	45.3	24.8	83%	169.2
PAT	77.8	50.4	54%	423.4

Q1: First Quarter; y-o-y: year on year

Note: Amount in Rs. million

For the three months ended June 30, 2008, GRUH has reported a 23% increase in the NII which coupled with lower provisioning has resulted in 54% increase in the net profits for the company. The company has reported a 65%

growth in the disbursements from Rs. 1.19 billion for the 3 months ended June 30, 2007 to Rs. 1.97 billion for the three months ended June 30, 2008. In the period under review, GRUH's outstanding portfolio has grown by 31% to Rs.

18.93 billion as on June 30, 2008. There has been an improvement in the asset quality indicators for the company with the gross NPA% coming down from 2.30% as on June 30, 2007 to 1.73% as on June 30, 2008.

KEY FINANCIALS

	Mar-08	Mar-07	Mar-06
Equity Capital	346	346	265
Net Worth (Reported)	1,903	1642	869
Net Loans	17,696	13,766	10,691
Total Assets	20,181	15191	12013
Total Income	2,042	1460	1,031
Net Interest Income	672	469	320.
PBT (reported)	593	370	262
PAT (reported)	423	296	217
Interest income / ATA ³	10.65%	9.77%	8.75%
Cost of average interest bearing funds	7.79%	7.14%	6.44%
Total Operating Income net of interest expenses/ ATA	4.70%	4.40%	3.89%
Expenses/ATA (%)	1.15%	1.14%	1.06%
Prov. & Charge offs / ATA	0.20%	0.55%	0.42%
PAT / ATA	2.39%	2.18%	2.03%
PAT / Average Net Worth	23.89%	23.52%	27.04%
Cost to Income Ratio	24%	26%	27%
Dividend/PAT (reported) (%)	38%	41%	31%
Dividend rate (%)	40%	30%	25%
Total Debt/Net Worth (reported)times	9.32	7.95	12.43
Capital / Risk weighted Assets	18.15%	16.31%	14.25%
Tier I capital	15.46%	13.03%	9.61%

Note: Amounts in Rs. million.

³ Calculated as (Total assets excluding current liabilities for current year + Total Assets excluding current liabilities for previous year)/2



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