INDIA

HOLD

# GIC Housing Finance

CENTRUM

Housing Finance

Company Update 5 Septemeber 2017

## In a sweet spot, but rightly priced

**We lower our rating on GIC Housing Finance Ltd (GICHF) to Hold, even as we revise our TP upwards to Rs530 (valued at 2.5x FY19E ABV). The upward revision to our multiples follows a) greater degree of comfort that we draw from GICHF's loan growth and earnings and b) our interactions with various stakeholders (NHB, housing finance players, rating agencies) that point to favourable sector dynamics in the affordable housing space (including the extended scope of the scheme) under the Pradhan-Mantri Awas Yojana (PMAY) - Urban, the key segment of focus for GICHF. Strong capital position, healthy margins and respectable returns profile are an added comfort.**

- **GICHF – In a sweet spot:** GICHF's management has reiterated for strong growth in its business led by increased branch reach (plans to add 5-8 branches per year) and focus on client acquisition and retention. Q1'18 results were a reflection of the same evident in 33% YoY / 18% YoY growth in disbursements / loans. This, in addition to the extended scope of PMAY (Urban) bodes well for GICHF given its customer profile (average ticket size at Rs1.5mn). We thus have revised our disbursement / loan growth estimate upwards. We are also building in margin pressures following a) competitive lending rate regime and b) efforts at curtailing huge pre-payments. Q1'18 GNPAs rose 25% YoY to 3.0% of loans; management attributed the same to a) delinquencies in LAP portfolio, b) change in the recovery mechanism, and c) seasonality. It, though expects trend reversals therein. Q1'18 provisions at Rs256mn too were on the higher side to the regulatory requirement. NNPA stood at 0.8%.
- **Affordable Housing progress -** Initial progress of the PMAY (Urban) scheme (including the extended scope of the scheme that was announced in Mar' 2017) has been a tad slow (2.4mn houses sanctioned till date; 0.16mn houses completed vs. the overall shortfall pegged at ~18.8mn households) due to limitations on account of a) supply-side constraints, b) reluctance from private players to enter the space given thin margins and asset quality associated risk and c) lack of product awareness. Implementation of RERA (Real Estate Regulatory Authority) too has seen pace of growth moderate in the current quarter which will prevail in the near term.
- **The underlying story remains intact:** Our interactions with various stakeholders have pointed to a gradual pick-up in the on-ground activities. The number of units that have been granted interest subvention by NHB has increased to ~50,000 units (vs. 17,600 units until Dec' 2016). The cumulative pay-out of interest subsidy under CLSS scheme stood at Rs10bn YTD. An analysis of the loan portfolio for select housing finance companies point to 9.6% YoY increase in less than Rs1.5mn loan segment (vs. 16.7% YoY growth in overall loans during FY17); these players, however have pointed to strong demand revival following increased awareness and the extended scope of the scheme that is set to cover a wider set of the population. States of AP, Gujarat, MP, Maharashtra, Karnataka and Tamil Nadu have seen a slow yet steady pick-up in addressing supply-side related constraints. These states form ~40% of the housing shortage as per the report of The Technical Group on Urban Housing Shortage.
- **Valuation, view and key risks:** We have revised our estimates on loan growth and earnings front and are now building in 23%/ 19%/ 19% CAGR in loans/ NII and PAT respectively over FY17-19E. In our earlier notes, we had argued for valuation multiple expansions for GICHF. The stock is up 72% since our last note in Mar'17 and currently trades at 2.4x FY19E ABV. We believe the current valuations are justified for the given set of earnings and the return profile. We thus lower our rating to Hold, even as we revise our TP upwards to Rs530 (valued at 2.5x FY19E ABV). Higher pre-payments and or elevated NPAs remain key risks.

| Target Price | | | Rs530 |
|---|---|---|---|
| CMP* | | | Rs522 |
| *Upside* | | | *1.5%* |
| Previous Target | | | Rs370 |
| Previous Rating | | | Buy |
| **Price Performance (%)*** | | | |
| | **1M** | **6M** | **1Yr** |
| *GICHF IN* | *3.5* | *73.2* | *67.7* |
| *Nifty* | *(1.5)* | *11.4* | *12.5* |

| Key Data | |
|---|---|
| Bloomberg Code | GICHF IN |
| Curr Shares O/S (mna) | 53.9 |
| Diluted Shares O/S(mn) | 53.9 |
| Mkt Cap (Rs bn/USDmn) | 28.1/439 |
| 52 Wk H / L (Rs) | 623.4/250.5 |
| 5 Year H / L (Rs) | 623.4/78.1 |
| Daily Vol. (3M NSE Avg.) | 1,50,341 |

**as on 4 September 2017; Source: Bloomberg, Centrum Research*

### Shareholding pattern *(%)**

| | Jun-16 | Mar-17 | Dec-16 | Sep-16 |
|---|---|---|---|---|
| *Promoter* | *42.2* | *42.2* | *42.2* | *42.1* |
| *FIIs* | *3.1* | *2.9* | *2.7* | *2.5* |
| *DIIs* | *13.3* | *13.4* | *14.3* | *14.4* |
| *Others* | *41.5* | *41.6* | *40.8* | *41.0* |

*Source: BSE, *as on 4 September 2017*

### Earnings revision

| Particulars (Rs bn) | FY18E | | | FY19E | | |
|---|---|---|---|---|---|---|
| | New | Old | *Var (%)* | New | Old | *Var (%)* |
| NII + Oth. Inc | 4,080 | 3,790 | *7.7* | 4,903 | 4,547 | *7.8* |
| PPoP | 3,194 | 2,844 | *12.3* | 3,852 | 3,426 | *12.4* |
| Report. PAT | 1,710 | 1,622 | *5.4* | 2,095 | 1,952 | *7.3* |

*Source: Centrum Research Estimate*

**Aalok Shah**, *aalok.shah@centrum.co.in;* 91 22 4215 9075
**Gaurav Jani**, *gaurav.jani@centrum.co.in;* 91 22 4215 9110

| Y/E Mar (Rs mn) | Net Income# | PPOP | PAT | *YoY (%)* | EPS (Rs) | P/E (x) | Adj BV (Rs) | P/Adj BV (x) | *RoA (%)* | *RoE (%)* |
|---|---|---|---|---|---|---|---|---|---|---|
| FY15 | 2,238 | 1,660 | 1,030 | *5.6* | 19.1 | 9.5 | 122.6 | 1.5 | *1.7* | *16.2* |
| FY16 | 2,757 | 2,068 | 1,244 | *20.9* | 23.1 | 9.1 | 135.8 | 1.6 | *1.7* | *17.9* |
| FY17 | 3,339 | 2,605 | 1,478 | *18.8* | 27.4 | 13.3 | 155.6 | 2.4 | *1.7* | *18.8* |
| FY18E | 4,080 | 3,194 | 1,710 | *15.7* | 31.7 | 16.8 | 180.9 | 2.9 | *1.6* | *18.9* |
| FY19E | 4,903 | 3,852 | 2,095 | 22.5 | 38.9 | 13.4 | 212.7 | 2.4 | 1.6 | 19.8 |

*Source: Company, Centrum Research Estimates. FY15-18E have been valued on average market cap basis.*

## Affordable Housing: Initial progress a tad slower

At the beginning of the 12th Five Year Plan, the housing shortage in India was estimated at 18.8 million. Of which 96% pertains to households under the EWS and LIG segments. In a bid to provide housing for all, The Ministry of Housing and Urban Poverty Alleviation (MHUPA) launched the ambitious Pradhan Mantri Awas Yojana (PMAY) scheme in June 2015. The scope of the scheme was extended in Mar' 2017 to include a larger set of the population in the middle income group category (MIG – I i.e income between Rs0.6- Rs1.2mn / MIG-II income between Rs1.2-1.8mn) and with caps/ pre-defined limitations on the size of the dwelling units, tenure of the loan, interest subsidy and rate of interest.

### Exhibit 1: Components under the PMAY scheme

| Components | Directed towards | Subsidy amount |
|---|---|---|
| "In-situ" slum redevelopment | Slum redevelopment | Grant of Rs0.1mn per house is admissible for all houses built for eligible slum dwellers under the component of in-situ slum redevelopment using land as a resource with participation of private developers. |
| Credit linked subsidy scheme (CLSS) | EWS / LIG | Beneficiaries seeking housing loans from Banks, HFC and other such institutions are eligible for an interest subsidy of 6.5% on loan amount up to Rs.0.3mn. Net present value (NPV) of the interest subsidy is to be calculated at a discount rate of 9%. |
| Affordable housing in partnership with public or private sector | EWS | Central Assistance of Rs0.15mn per EWS house is provided by GoI in projects where atleast 35% of the houses in the projects are for EWS category and a single project has atleast 250 houses. |
| Beneficiary-led individual house construction / enhancements | EWS | Central assistance of Rs.0.15mn is available to individual eligible families belonging to EWS categories |

Source: MHUPA - Annual Report, 2016, Centrum Research. Credit linked subsidy component is being implemented as a Central Sector Scheme while other three components as Centrally Sponsored Scheme (CSS).

### Exhibit 2: PMAY (Urban) – Schemes eligibility and related requirements

| | Economically Weaker Section (EWS) | Low-Income Group (LIG) | Middle-Income Group (MIG-I) | Middle-Income Group (MIG-I) |
|---|---|---|---|---|
| Eligibility Criteria | Income up to Rs0.3mn | Income between Rs0.3-0.6mn | Income between Rs0.6-1.2mn | Income between Rs1.2-1.8mn |
| Loan amount | Upto Rs0.6mn | Upto Rs0.6mn | Upto Rs0.9mn | Upto Rs1.2mn |
| Subsidy calculation | 6.50% | 6.50% | 4.0% | 3.0% |
| Maximum dwelling unit carpet area | 30 sq meter | 60 sq meter | 90 sq meter | 110 sq meter |
| Subsidy amount | ~Rs0.27mn (for a Rs0.6mn loan) | ~Rs0.27mn (for a Rs0.6mn loan) | ~Rs0.25mn (for a Rs0.9mn loan) | ~Rs0.25mn (for a Rs1.2mn loan) |

*Source: MHUPA, Centrum Research*

The PMAY scheme aims at a) providing affordable homes with water connections, toilet facilities, 24x7 electricity supply b) constructing 20 million houses across the country c) benefitting the urban poor including the LIG and EWS by 2022, and d) covering 2 million non-slum urban poor households.

Even as the demand potential in the affordable housing space (including the extended scope of the scheme) is immense, our channel checks pointed to a slow pace of activity. This can be attributed to challenges such as a) supply-side constraints, b) reluctance of private players to enter the space on account of high cost of land and construction with thin margins, and c) asset quality associated risk due to the customers' income profiles. Also the implementation of RERA and the lack of awareness among end-users have led to the slow progress of PMAY.

According to MHUPA, until July 2017 the centre had released assistance to the tune of Rs114.5bn covering 2.39mn household units. The number of households completed stood at a mere 0.157mn units vs. the overall shortfall pegged at 18.78mn by the report on the technical group of Urban Housing Shortage (2012-17).

## Stakeholders, however point to strong growth prospects

We interacted with various stakeholders - rating agencies, regulators, financers and real-estate developers to get their sense on the trends and progress in the space. We also looked into FY17 annual reports of various housing finance companies, real-estate players and the management commentaries post Q1'18 results to get a sense on the likely traction in the space. Below are some of our learnings:

**National Housing Bank (NHB)**:

We interacted with senior management of NHB to get a sense on the progress under the CLSS scheme.

- The total amount of interest subvention disbursed (i.e. subsidiary paid out) till date stands at Rs10bn covering ~50,000 units (Rs3.2bn / 17,634 units until Dec' 2016). FY17 Union budget has earmarked Rs14bn as the subsidy amount which could be increased as and when required.
- 90% of the above interest subvention is towards units under EWS/ LIG segment. EWS/ LIG scheme was rolled out in June 2015 and NHB had started paying out the claims since Dec'15.
- On the other hand, the lower disbursement / pay-out towards MIG (10% of total interest subvention paid-out till date) is also following a) recent introduction of the scheme (scheme came into effect only from 1st Jan, 2017) and b) lag in getting systems in place.
- Procedural challenge (data relating to over 80 fields that need to be plugged into the system) which tends to be time-consuming/ lack of data at financer's end too has impacted overall pace of interest subvention pay-outs.
- Over 55% of claims paid are to the states of Gujarat and Maharashtra; the balance being evenly spread between the northern and southern region.
- In terms of lending institutions, about 80% of the subsidy disbursements were through HFCs and the remaining 20% were through banks.

While the amount of subsidy paid-out till-date is lower, experts have pointed to strong traction in the coming quarters. We believe efforts at a) adequate training to financers b) awareness among end-users and c) earlier prevailing software related issues which are now being resolved thus ensuring the ease of raising claims (once the entire data is made available to NHB, claims are paid in less than 10-days) will see pace of claims / interest subvention pay-out rise.

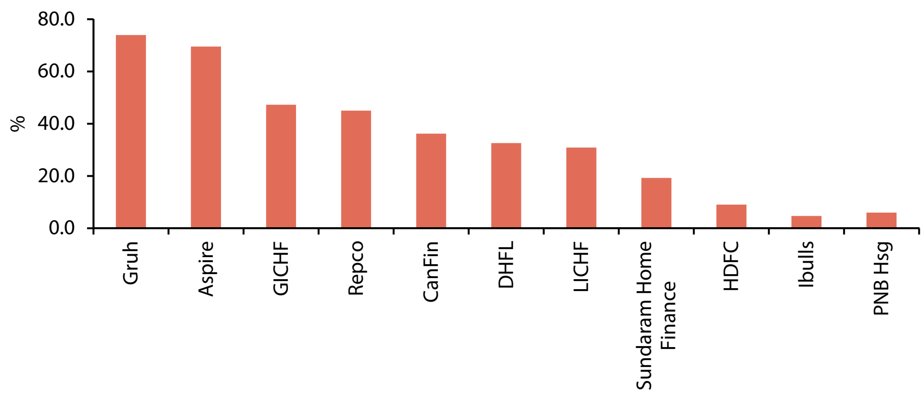
Our view on the likely increase in activities is also based on the fact that between Dec'16-August,2017 – interest subvention pay-out has increased 3x to Rs10bn (Rs3.2bn in Dec'2016); no of cases approved / units covered has risen to ~50,000 units vs. 17,634 in Dec' 2016.

### Housing Finance players:

An analysis of the loan portfolio in less than Rs1.5mn ticket size for a select set* of housing finance companies pointed to 9.6% YoY growth in loans to this segment vs. 16.7% YoY growth in the overall loan portfolio for FY17. The growth moderation in FY17, in our view was more following a) the overall slowdown in economic activities following demonetisation, b) a larger set of players now actively participating in funding affordable housing (data for which is not accurately available), and c) self-funding by borrowers given the informal nature of their income.

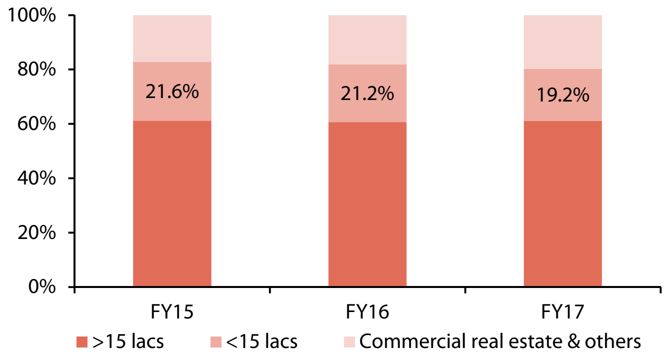
Over FY15-17 however, loans to less than Rs1.5mn segment have increased at a 15.2% CAGR vs. the 17.6% CAGR of the overall loan portfolio, thus pointing to this segment's strong growth potential. (Our select set of cos include Gruh Finance, Aspire, GICHF, Sundaram Home Finance, Repco Home Finance, DHFL, CanFin Homes given their higher exposure of loans below Rs1.5mn bucket).

**Exhibit 3: Less than Rs1.5mn loan portfolio % of total loans (FY17).**



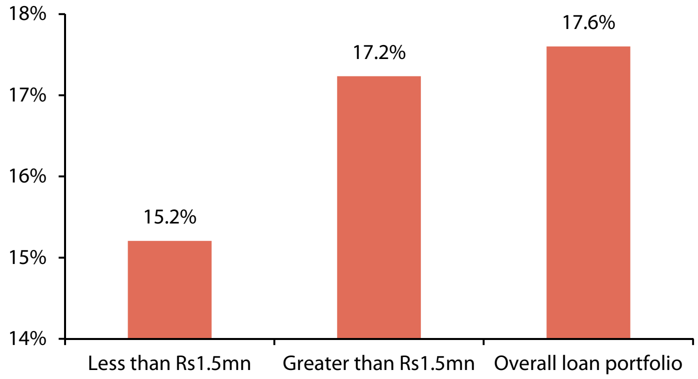

*Source: Companies. Centrum Research*

**Exhibit 4: Share of < Rs 1.5mn loans declined sharply in FY17…**




*Source: Companies, Centrum Research*

**Exhibit 5: … this segment however has witnessed healthy 15.2% CAGR vs 17.6% CAGR in overall loans over FY15-17.**




*Source: Companies, Centrum Research*

Our analysis of FY17 annual report / Q1'18 results commentaries of the leading housing finance players have pointed to strong growth potential in the affordable housing space. Some of the excerpts from the commentaries:

**Excerpts from HDFC FY17 annual report:** *"The government's modified Credit linked Subsidy Scheme is an outcome of the realisation that a small bit of support can go a long way in enabling both, the middle-income and lesser privileged groups to become homeowners earlier in life." Also, "The thrust given to affordable housing has been extremely encouraging. Developers can now avail a 100% tax deduction on profits and gains if they construct affordable housing units. No other major sector of the economy has been given such attractive incentives. Further, according infrastructure status for affordable housing should help open up more avenues of lower cos longer tenor funding. "*

**Commentaries from Q1'18 results concall:**

*Our strong growth is propelled by the growth in mid-income affordable housing. Growth in this segment is gaining momentum and we would be at the higher end of our asset growth guidance range as well. As I was sharing earlier, recent data from NHB on home loan disbursals for fiscal 2017 shows that disbursements of home loans of less than INR 2.5 million in value which is the segment IBHFL caters to, grew by as much as 33% over the previous year, pushing growth in overall home loan disbursals to 23%. –* **Indiabulls Housing Finance.**

*The strong growth in affordable housing disbursals is propelled by the Pradhan Mantri Awas Yojana subsidy scheme and the tax deductions, which have driven effective home loan rates to near zero levels. Over the course of the last 60 days to 90 days, the PMAY claim process has also now stabilized, and we now receive subsidies from the National Housing Bank within 30 days of submission of claim, that whole process has completely smoothened out. The scheme just got launched in the month of March, April, what we have done in this quarter is, we have sent our first list of claims to NHB, which is more than 2,400 cases. –* **Dewan Housing Finance.**

*We have made grace approvals are close to 1200 Crores, 95% of our approvals are in the income in the range of redefined affordable housing range, that is up to 18 lakhs annual income, in that up to 6 lakhs, the LIG segment constitutes around 53% and around 42% in MIG segment, that is how on the Q1 can be summed up. As of now, there are issues as far as supply side is concerned. Demand, there is no doubt the demand is going to come back. There are supply side issues in this segment particularly in the affordable segment where demand is there. If CLSS creates a demand in the LIG and lower MIG segment, but even today in the Metros, you do not find the property in those affordable prices. So as the supply side is getting addressed certainly it is going to pick-up and 19, 20s should see the peak really. And 2021-2022 it should be somewhere we should consolidate for funding the left over then only housing for all is possible.- **Can Fin Homes.***

***Gruh Finance** – The pioneers in the affordable housing space have received interest subvention to an extent of Rs1.9bn under the CLSS scheme (~20% of total subvention paid by NHB till-date) covering ~9,500 units.*

Though at a nascent stage of implementation, we expect PMAY (Urban) to be one of the key drivers for strong disbursement growth for players operating out the affordable housing space.

### Rating agencies:

According to India Ratings *"affordable housing finance (largely for loan ticket size up to INR1.5 million) will become a large segment within the housing finance sector for housing finance companies (HFCs) over FY18-FY22, with the estimated share to increase to around 37% in FY22 (FY17: 26%). The agency anticipates a demand for 25 million homes (4x of the entire current housing finance stock) over FY17-FY22 in the Medium Income Group (MIG) and Lower Income Group (LIG) categories. A combination of factors such as: 1) government financial and policy thrust, 2) regulatory support, 3) rising urbanisation, 4) increasing nuclearisation of families, and 5) increasing affordability is converting latent demand into a commercially lucrative business opportunity. Ind-Ra expects the sector to attract over INR200 billion of equity inflows over FY17-FY22 which would support growth."*

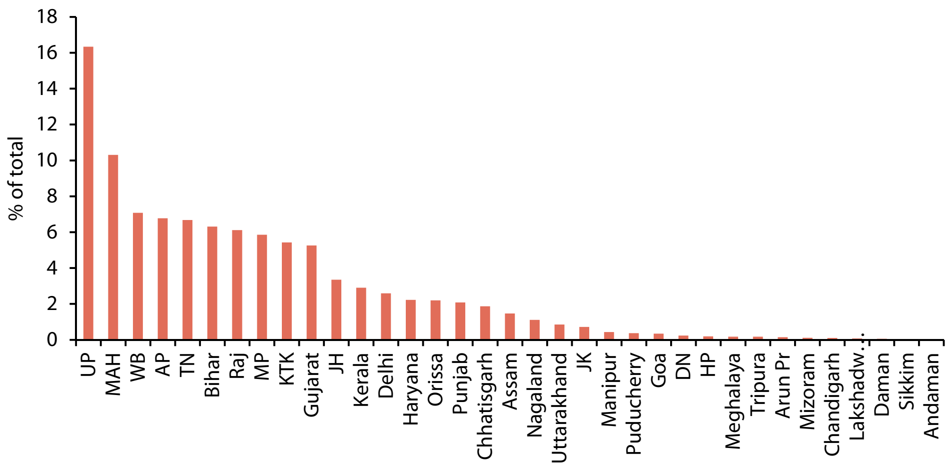
### Real estate players

GoI's thrust towards affordable housing under its Housing for all by 2022, favourable tax regime and the infrastructure status accorded to the sector have seen real estate players actively focus towards this segment. The increased reliance on this scheme also follows the slow-down in the large ticket size housing loan market. Our visits to some of the low-cost affordable housing projects/ interaction with players engaged in the space have pointed to a slow-yet steady pick-up in investment activities. Supply-side constraints following either regulatory clearance related issues, land or other clearances are being resolved, though at a slower pace. Also, while RERA implementation is set to lower the pace of activities, the impact of the same is set to be more temporary in nature.

Our interaction pointed to a pick-up in activities in the states of Maharashtra, Gujarat and TN. This is also following huge unprecedented demand in these pockets and a favourable state including local municipal policies. For instance, select local authorities in the state of Gujarat have been paying an additional Rs.15mn of subsidy, over and above Central Govt grants/ interest subvention under PMAY scheme.

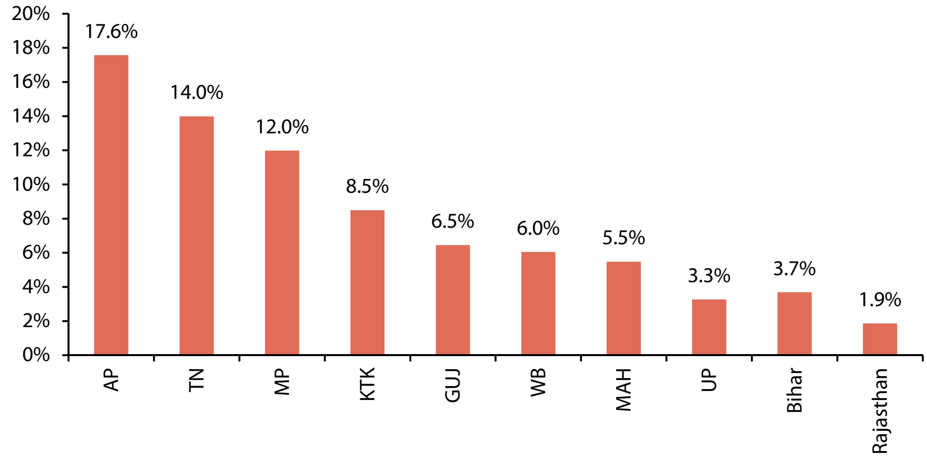
According to the report of the Technical group on Urban Housing Shortage (2012-17)), states of UP, Maharashtra, Gujarat, MP, West Bengal and TN account for ~50% of housing shortage. The report on the progress of PMAY scheme till July, 2017 has pointed to strong pick-up in investment activities in these states barring UP.

**Exhibit 6: State-wise Urban Housing shortfall: Top 10 states account for 76% of housing shortfall**




*Source: Centrum Research. Report of the Technical Group on Urban Housing Shortage (2012-17).*

**Exhibit 7: State-wise progress under PMAY (household involved)… States of AP, TN, MP, Karnataka and Gujarat have seen pick-up; pace of activity however remains slow in UP, Bihar and Rajasthan**




*Source: Pradhan Mantri Awas Yojana (Urban) - Housing for All (HFA) as at July, 2017, Centrum Research. Data indicates % contribution to total progress in terms of houses covered across all states.*

## GIC Housing Finance – In a sweet spot

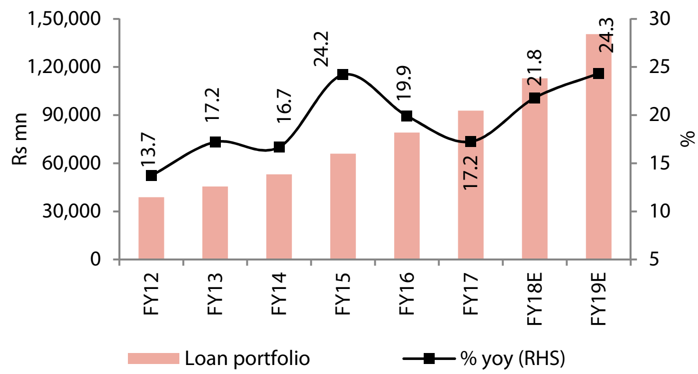
We interacted with GICHF's senior management team to get a sense of the business and traction therein. Here are some of the key learnings:

### On the loan growth front:

- In our last note, we had pointed to levers in place for strong growth for GICHF following a) continued focus towards its niche low-middle income segment, primarily in the metro/tier-I cities and b) increased branch reach. The traction therein has gained momentum and is evident from the fact that Q1'18 disbursement grew 33.5% YoY, highest in the past eight quarters. FY17 disbursements grew 10% YoY.
- While Q1'18 disbursements grew at healthy run-rate, pace of loan growth has remained lower at 18.3% YoY and is following huge pre-payment (including repayment). In a bid to curtail the high pre-payment rates, GICHF has undertaken the following initiatives:
    - ~90% of the loan portfolio is originated through DSA agencies. Unlike the earlier structure where the DSA fees were paid up-front, the same has been modified to payment based on disbursements. Also, in the event of take-out financing of the loan portfolio originated by the DSA within 18-months, the fees initially paid are recovered from the DSAs.
    - Also, in a bid to reduce DSA dependence, management has talked about the in-house loan origination model. They have entered into arrangements with marketing staff for loan origination.
    - One of the factors attributing to higher pre-payments for GICHF has been its higher interest rates and the fixed nature of the loan portfolio. In a bid to remain competitive and also following the reduction in its borrowing cost, GICHF resorted to reducing its lending rates for both a) new home-loan customers, and b) re-pricing existing loans to lower the rate of interest. Over the last one-year, lending rates have been reduced from 9.45%+ to 8.8%+. The re-pricing of existing loans too is done at 8.8%+ rate (vs 9.75% a year-ago).
- The extended scope of the PMAY scheme bodes well for GICHF given its customer profile (average ticket-size at Rs1.5mn) and loan exposure (47% of loans are below Rs1.5mn). However, unlike other players that availed / have sent proposals for claim to NHB , the quantum of claims sent by GICHF have been limited till-date.
    - Management expects the quantum of the claims / disbursements to increase in the coming quarters. It has ~Rs3bn of its loan portfolio (3.1% of overall loans) eligible for PMAY scheme. The GoI push towards affordable housing scheme and larger exposure to the much targeted customer segment (key segment of focus for GICHF) in our view will be an added push towards overall disbursements. Our estimates at the current juncture however do not factor in any major benefit of the PMAY scheme given the slow pace of activities therein.

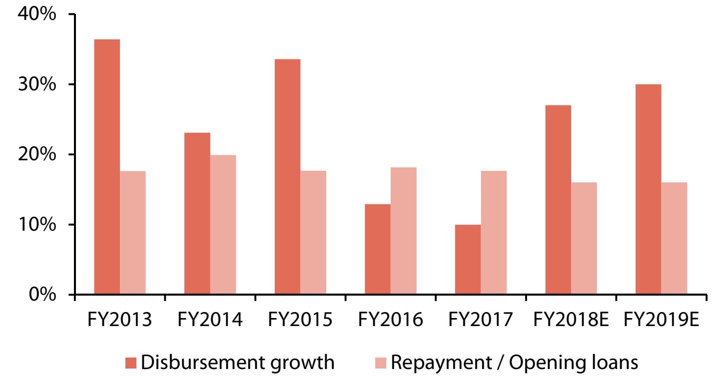
With levers in place including efforts at curtailing pre-payment rates and positive outcome of benefit following PMAY scheme, we expect disbursements and loan growth momentum to accelerate. We, thus are revising our disbursements/ loan growth estimates upwards to 28.5%/ 23% for FY17-19E (our earlier estimates of 18%/ 20% CAGR in loans/ disbursements for FY16-19E).

**Exhibit 8: Building in 23% CAGR in loans over FY17-19E**




*Source: Company, Centrum Research Estimates*

**Exhibit 9: Trend in disbursements / repayments**

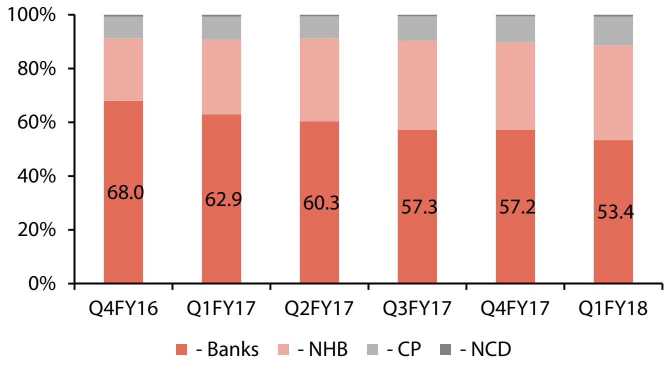



*Source: Company, Centrum Research Estimates*

### On the liability front

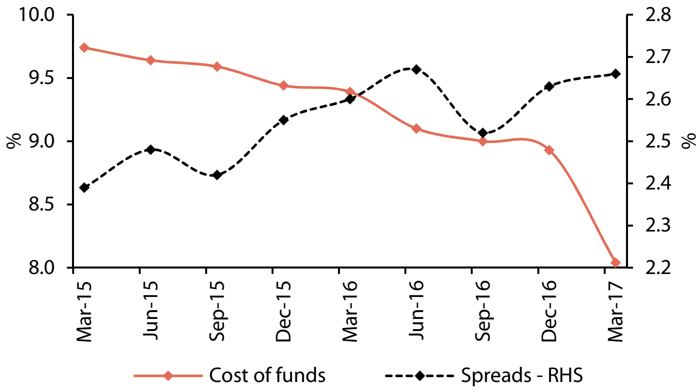
- The share of non-bank avenues has been on the rise. As at Q1'18, overall borrowings under non-bank avenue stood at 46.6% and were primarily borrowings availed from NHB.
- The increased proportion of non-bank avenues has seen GICHF's cost of funds decline. Over the past four quarters, the cost of funds (reported) i.e. cost of borrowings have declined by 104bps to 8.04%. Management has guided for increased reliance on non-bank avenues. Also while share of NCD remains low, it has taken an enabling resolution to raise Rs8bn via NCD route.

**Exhibit 10: Shift towards non-bank avenue gaining further traction**




*Source: Company, Centrum Research*

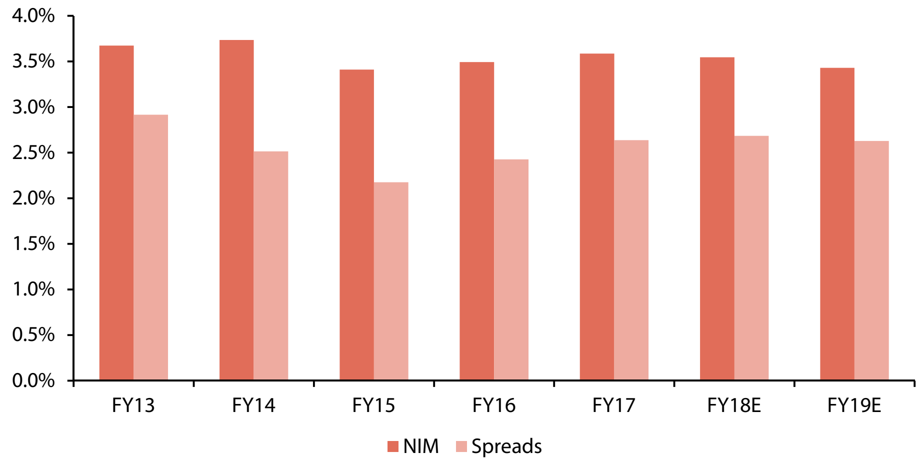
**Exhibit 11: Cost of funds has seen further reduction. Spreads continue to rise.**




*Source: Company, Centrum Research*

We thus expect GICHF's overall cost of borrowings to reduce further. However, led by the competitive scenario on the lending side of the new business, including pre-payment pressure on the existing portfolio, we expect GICHF to resort to reducing its lending rates. This, in our view will impact margins and we have factored the same into our estimates.

**Exhibit 12: Trend in spreads and NIM:**

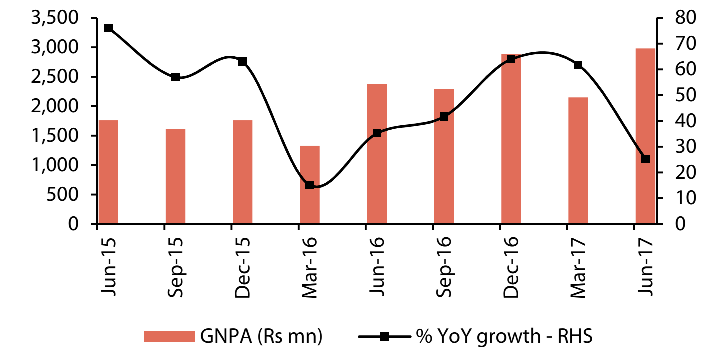



*Source: Companies, Centrum Research Estimates*

### A blip in asset quality; to get reversed in coming quarters

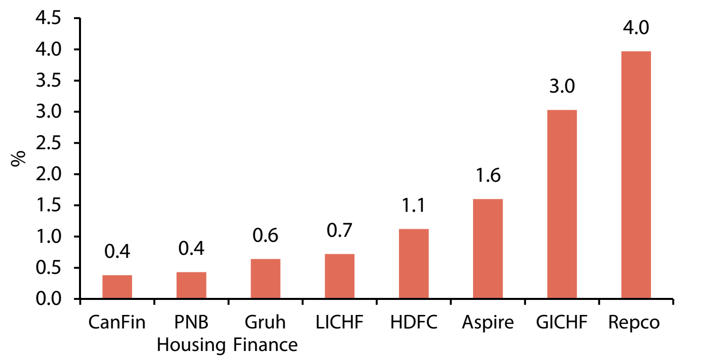
- Q1'18 saw GNPAs rise 25% YoY to Rs2.98bn or 3.03% of loans. The rise in GNPAs was due to, a) increase in delinquency from LAP portfolio (cash crunch following demonetisation) b) change in recovery mechanism (from earlier system of cash collection to entirely an electronic mode of transfer) that was initiated in the Oct, 2016, and c) seasonality factor. Provisioning for the quarter stood at Rs256mn, over and above the regulatory requirement as the management resorted to aggressive approach towards provisioning. NNPAs stood at 0. 8%.
- Management has initiated recovery proceeding against these accounts. Some of the measures initiated include, a) cash collection for certain NPA accounts, b) recovery proceedings including resorting to asset sale, and c) other recovery tools. Overall GNPA levels, thus are expected to decline in the coming quarters. Management however has guided at retaining the excessive provisioning on balance sheet.

**Exhibit 13: The recent past has seen an uptick in GNPA's**




*Source: Company, Centrum Research*

**Exhibit 14: Trend in GNPA across peers (Q1FY18)**




*Source: Company, Centrum Research*

## Earnings revision, valuation and view

**Exhibit 15: Earnings revision**

| Particulars | FY18E | | | FY19E | | |
|---|---|---|---|---|---|---|
| (Rs mn) | New | Old | *Chg (%)* | New | Old | *Chg (%)* |
| NII + Oth inc | 4,080 | 3,790 | *7.7* | 4,903 | 4,547 | *7.8* |
| PPOP | 3,194 | 2,844 | *12.3* | 3,852 | 3,426 | *12.4* |
| PAT | 1,710 | 1,622 | *5.4* | 2,095 | 1,952 | *7.3* |

*Source: Centrum Research Estimates*

We have revised our estimates on loan growth following continued focus at growth, efforts at curtailing pre-payments and the likely benefit following PMAY scheme. We are now factoring in 28.5% / 23% YoY CAGR in disbursements / loans respectively over FY17-19E. We see cost of borrowings decline following a favourable shift in the borrowing profile. Competitive lending rates and the need to curtail pre-payments will however see overall margins trend lower. We are now building in 23% / 19% / 19% CAGR each in loans / NII and profits over FY17-19E.

GICHF is moving into a higher ambit of growth with strong profitability. In our earlier notes, we had argued for scope of valuation multiple expansion given the earnings and returns profile. The stock is up 72% since our last note in Mar'17 and currently trades at 2.4x FY19E ABV. We believe the current valuations are justified given the near term challenges on asset quality and the competitive scenario. We lower our rating to Hold and revise our TP upwards to Rs530 (valued at 2.5x FY19E ABV). Higher pre-payments and or elevated NPAs remain key risks. We recommend buying GICHF at lowering levels.

In an event of higher-than-expected loan growth with a stable returns profile, valuation multiples (as seen in the case of other similar sized housing finance companies) could see further expansion.

## Exhibit 16: Quarterly financials

| (Rs mn) | Q2FY16 | Q3FY16 | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 |
|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | |
| Interest earned | 2,109 | 2,180 | 2,285 | 2,301 | 2,414 | 2,500 | 2,611 | 2,670 |
| Interest expended | 1,493 | 1,527 | 1,552 | 1,623 | 1,677 | 1,716 | 1,663 | 1,692 |
| **Net interest income** | **616** | **653** | **733** | **678** | **737** | **784** | **949** | **979** |
| Non-interest income | 46 | 48 | 50 | 48 | 58 | 49 | 55 | 97 |
| **Total income** | **663** | **701** | **783** | **726** | **794** | **833** | **1,004** | **1,076** |
| Operating expenses | 167 | 172 | 208 | 169 | 199 | 161 | 199 | 191 |
| **PPOP** | **494** | **527** | **572** | **556** | **594** | **670** | **803** | **884** |
| Provisions | 36 | 59 | 22 | 60 | 60 | 125 | 89 | 256 |
| **PBT** | **457** | **468** | **550** | **496** | **534** | **545** | **714** | **628** |
| Tax | 146 | 155 | 168 | 164 | 178 | 191 | 232 | 257 |
| **PAT before DTL provisioning** | **298** | **306** | **359** | **323** | **344** | **362** | **466** | **404** |
| DTL provisioning | 14 | 7 | 23 | 9 | 13 | (8) | 17 | (32) |
| **Profit after tax** | **298** | **306** | **359** | **323** | **344** | **362** | **466** | **404** |
| | | | | | | | | |
| **Balance sheet items** | | | | | | | | |
| Equity share capital | 539 | 539 | 539 | 539 | 539 | 539 | 539 | 539 |
| Reserves & surplus | 6,542 | 6,848 | 6,779 | 7,102 | 7,240 | 7,602 | 7,843 | 8,247 |
| **Shareholders fund** | **7,081** | **7,387** | **7,318** | **7,641** | **7,778** | **8,140** | **8,382** | **8,786** |
| Borrowings | 64,118 | 67,888 | 70,011 | 72,674 | 76,699 | 79,763 | 82,360 | 86,015 |
| **Total liabilities** | **73,513** | **77,589** | **80,214** | **83,166** | **87,264** | **90,705** | **94,045** | **98,104** |
| Advances | 72,246 | 75,353 | 79,123 | 82,144 | 86,230 | 89,670 | 92,769 | 97,193 |
| **Total assets** | **73,513** | **77,589** | **80,214** | **83,166** | **87,264** | **90,705** | **94,045** | **98,104** |
| | | | | | | | | |
| **Ratios** | | | | | | | | |
| **Growth YoY (%)** | | | | | | | | |
| *NII* | *25.4* | *35.5* | *30.8* | *20.2* | *19.6* | *20.0* | *29.5* | *44.3* |
| *Opex* | *30.8* | *44.7* | *6.5* | *27.0* | *19.0* | *-6.6* | *-4.6* | *13.1* |
| *PPOP* | *20.2* | *28.6* | *34.1* | *16.8* | *20.3* | *27.2* | *40.3* | *59.0* |
| *PAT* | *15.3* | *21.8* | *34.5* | *14.4* | *15.4* | *18.4* | *29.9* | *24.8* |
| *Loans* | *23.3* | *22.0* | *19.9* | *19.3* | *19.4* | *19.0* | *17.2* | *18.3* |
| *Borrowings* | *25.6* | *22.7* | *20.8* | *18.9* | *19.6* | *17.5* | *17.6* | *18.4* |
| **Reported (%) calc** | | | | | | | | |
| *Yield on advances* | *11.7* | *11.5* | *11.6* | *11.3* | *11.3* | *11.2* | *11.3* | *11.1* |
| *Cost of funds* | *8.3* | *8.1* | *7.9* | *7.9* | *7.9* | *7.7* | *7.2* | *7.0* |
| *Spreads* | *2.4* | *2.5* | *2.8* | *2.3* | *2.5* | *2.6* | *3.2* | *3.2* |
| **Key drivers (%)** | | | | | | | | |
| *Cost-income* | *25.2* | *24.5* | *26.6* | *23.3* | *25.0* | *19.3* | *19.8* | *17.8* |
| *GNPA* | *2.6* | *2.2* | *2.3* | *1.7* | *2.9* | *2.7* | *3.2* | *2.3* |
| *RoA* | *1.6* | *1.7* | *1.6* | *1.8* | *1.6* | *1.6* | *1.6* | *2.0* |
| *RoE* | *16.8* | *17.1* | *16.9* | *19.5* | *17.3* | *17.8* | *18.2* | *22.6* |

*Source: Company, Centrum Research*

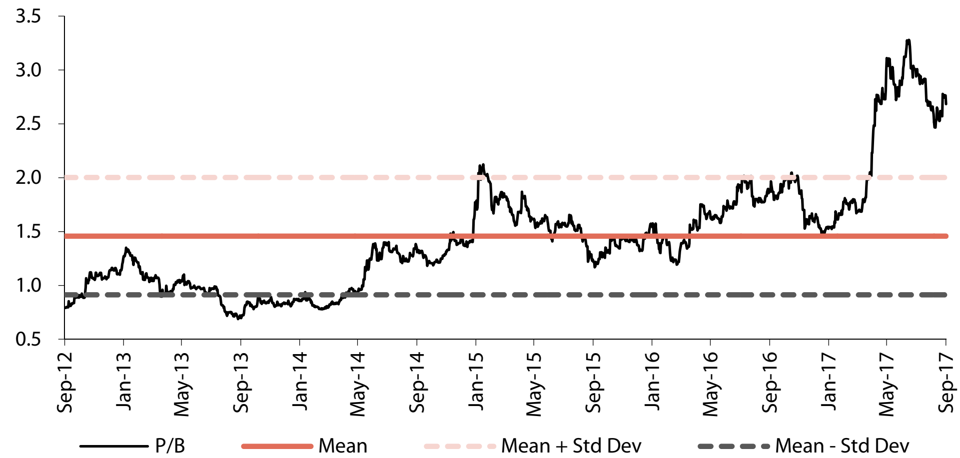
## Sensitivity analysis and peer comparison

### Exhibit 17: Sensitivity Analysis – impact of change in sanction/disbursement & YoA on FY18E PBT

| % | | Sanctions / Disbursement | | | | |
|---|---|---|---|---|---|---|
| | | -2% | -1% | ' Current levels | +1% | +2% |
| Yield on advances | - 10bps | *(3.1)* | *(1.9)* | *(0.8)* | *0.4* | *1.4* |
| | - 5bps | *(2.7)* | *(1.5)* | *(0.4)* | *0.7* | *1.7* |
| | Current levels | *(2.3)* | *(1.2)* | *0.0* | *1.1* | *2.2* |
| | + 5bps | *(1.7)* | *(0.7)* | *0.4* | *1.4* | *2.6* |
| | + 10bps | *(1.4)* | *(0.4)* | *0.8* | *1.9* | *3.1* |

*Source: Centrum Research Estimates*

### Exhibit 18: 1-yr rolling forward P/B chart




*Source: Bloomberg, Company, Centrum Research Estimates*

### Exhibit 19: Comparative Valuations

| Company | Mkt Cap (Rs mn) | CAGR % (FY17-FY19E) | | | PE (x) | | | RoA (%) | | | RoE (%) | | | P/BVPS (x) | | | Div Yield (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | NII + Oth inc | PPOP | PAT | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E |
| **GICHF*** | **28,121** | **21.2** | **21.6** | **19.1** | **13.3** | **16.8** | **13.4** | **1.7** | **1.6** | **1.6** | **18.8** | **18.9** | **19.8** | **2.4** | **2.9** | **2.4** | **1.4** | **1.0** | **1.2** |
| Gruh Finance | 1,88,382 | (6.8) | 22.9 | 23.1 | 44.6 | 44.6 | 42.5 | 2.3 | 2.4 | 2.5 | 30.0 | 30.1 | 30.2 | 12.5 | 12.4 | 11.7 | 0.6 | 0.6 | 0.5 |
| Repco Home | 40,615 | 23.2 | 18.1 | 20.4 | 25.3 | 23.3 | 15.6 | 2.1 | 2.1 | 2.2 | 17.2 | 17.1 | 17.7 | 4.0 | 3.6 | 2.6 | 0.4 | 0.4 | 0.4 |
| CanFin | 75,081 | 29.9 | 29.9 | 31.9 | 23.1 | 25.8 | 19.9 | 1.8 | 2.0 | 2.0 | 22.7 | 23.3 | 22.6 | 4.9 | 5.1 | 4.0 | 0.5 | 0.5 | 0.5 |
| Indiabulls HF | 5,24,259 | 20.6 | 19.6 | 19.5 | 12.8 | 13.4 | 12.5 | 3.5 | 3.2 | 3.1 | 25.2 | 27.2 | 28.8 | 3.1 | 3.4 | 3.4 | 3.4 | 3.4 | 2.9 |
| LICHF | 3,41,354 | 14.1 | 19.6 | 15.1 | 15.1 | 15.8 | 13.2 | 1.4 | 1.4 | 1.4 | 19.5 | 18.8 | 19.1 | 2.7 | 2.8 | 2.3 | 1.1 | 1.1 | 1.0 |
| HDFC | 27,96,821 | 12.4 | 12.9 | 14.0 | 29.4 | 31.4 | 29.5 | 2.4 | 2.3 | 2.3 | 20.9 | 19.8 | 20.5 | 5.9 | 5.9 | 5.6 | 1.1 | 1.1 | 1.1 |

*Source: Bloomberg consensus, *Centrum Research Estimates. FY17-18E have been valued on average market cap basis.*

# Financials (standalone)

## Exhibit 20: Income Statement

| Y/E March (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Interest Income | 7,160 | 8,573 | 9,800 | 11,577 | 14,009 |
| Interest Expense | 5,089 | 6,007 | 6,678 | 7,867 | 9,585 |
| **Net Interest Income** | **2,071** | **2,566** | **3,122** | **3,710** | **4,424** |
| **Non-Interest Income** | **168** | **191** | **217** | **370** | **479** |
| Fee & Other Income | 149 | 172 | 201 | 351 | 456 |
| **Total Net Income** | **2,238** | **2,757** | **3,339** | **4,080** | **4,903** |
| **Total Operating Expenses** | **578** | **689** | **734** | **886** | **1,051** |
| Employee Expenses | 167 | 205 | 233 | 312 | 358 |
| Other Operating Expenses | 411 | 484 | 501 | 575 | 693 |
| **Pre-provision Profit** | **1,660** | **2,068** | **2,605** | **3,194** | **3,852** |
| **Provisions & Contingencies** | **123** | **158** | **334** | **565** | **632** |
| NPA Provisions | 123 | 158 | 334 | 565 | 632 |
| **Profit Before Tax** | **1,537** | **1,910** | **2,271** | **2,629** | **3,220** |
| Taxes | 507 | 666 | 794 | 919 | 1,125 |
| **Profit after tax** | **1,030** | **1,244** | **1,478** | **1,710** | **2,095** |

*Source: Company, Centrum Research Estimates*

## Exhibit 21: Balance Sheet

| Y/E March (Rs mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Current assets | 712 | 857 | 988 | 1,921 | 1,923 |
| Loans & Advances | 65,979 | 79,123 | 92,769 | 1,12,991 | 1,40,497 |
| Investments | 98 | 98 | 265 | 265 | 265 |
| **Total Int Earning Assets** | **66,790** | **80,078** | **94,022** | **1,15,177** | **1,42,685** |
| Fixed Assets | 26 | 22 | 23 | 24 | 36 |
| **Total Assets** | **66,816** | **80,100** | **94,045** | **1,15,201** | **1,42,721** |
| **Borrowings** | **57,942** | **70,011** | **82,368** | **1,01,253** | **1,26,294** |
| - Secured | 44,890 | 47,637 | 46,603 | 58,221 | 72,619 |
| - Unsecured | 13,052 | 22,374 | 35,765 | 43,033 | 53,675 |
| **Interest Bearing Liabilities** | **57,942** | **70,011** | **82,368** | **1,01,253** | **1,26,294** |
| Other non int bearing Liabilities | 2,270 | 2,771 | 3,294 | 4,202 | 4,965 |
| **Total Liabilities** | **60,212** | **72,781** | **85,663** | **1,05,456** | **1,31,258** |
| Equity | 6,604 | 7,318 | 8,382 | 9,746 | 11,463 |
| **Total Liabilities** | **66,816** | **80,099** | **94,045** | **1,15,201** | **1,42,721** |

*Source: Company, Centrum Research Estimates*

## Exhibit 22: DuPont analysis

| (% of avg assets) | *FY15* | *FY16* | *FY17* | *FY18E* | *FY19E* |
|---|---|---|---|---|---|
| *Yield on assets* | *11.8* | *11.7* | *11.3* | *11.1* | *10.9* |
| *Cost of funds* | *8.4* | *8.2* | *7.7* | *7.5* | *7.4* |
| *Spreads* | *2.2* | *2.4* | *2.6* | *2.7* | *2.6* |
| ***NIM*** | ***3.4*** | ***3.5*** | ***3.6*** | ***3.5*** | ***3.4*** |
| *Other income* | *0.3* | *0.3* | *0.2* | *0.4* | *0.4* |
| ***Total income*** | ***3.7*** | ***3.8*** | ***3.8*** | ***3.9*** | ***3.8*** |
| *Operating expenses* | *0.9* | *0.9* | *0.8* | *0.8* | *0.8* |
| *Provisions* | *0.2* | *0.2* | *0.4* | *0.5* | *0.5* |
| ***PBT*** | ***2.5*** | ***2.6*** | ***2.6*** | ***2.5*** | ***2.5*** |
| *Tax* | *0.8* | *0.9* | *0.9* | *0.9* | *0.9* |
| ***RoA*** | ***1.7*** | ***1.7*** | ***1.7*** | ***1.6*** | ***1.6*** |
| *Leverage* | *10.1* | *10.9* | *11.2* | *11.8* | *12.5* |
| ***RoE*** | ***16.2*** | ***17.9*** | ***18.8*** | ***18.9*** | ***19.8*** |

*Source: Company, Centrum Research Estimates*

## Exhibit 23: Key Ratios

| Y/E March | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| **Growth Ratios (%)** | | | | | |
| *Loans* | *24.2* | *19.9* | *17.2* | *21.8* | *24.3* |
| *Borrowings* | *24.6* | *20.8* | *17.7* | *22.9* | *24.7* |
| *NII* | *9.1* | *23.9* | *21.7* | *18.8* | *19.2* |
| *Opex* | *21.4* | *19.1* | *6.6* | *20.7* | *18.6* |
| *PPOP* | *5.0* | *24.6* | *26.0* | *22.6* | *20.6* |
| *Provisions* | *(50.5)* | *28.7* | *111.4* | *69.1* | *11.9* |
| *PAT* | *5.6* | *20.9* | *18.8* | *15.7* | *22.5* |
| **Operating Ratios (%)** | | | | | |
| *Yield on funds* | *11.8* | *11.7* | *11.3* | *11.1* | *10.9* |
| *Cost of funds* | *8.4* | *8.2* | *7.7* | *7.5* | *7.4* |
| *Spread* | *2.18* | *2.43* | *2.64* | *2.68* | *2.63* |
| *NIM* | *3.41* | *3.49* | *3.59* | *3.55* | *3.43* |
| *Non-int inc / Total income* | *7.5* | *6.9* | *6.5* | *9.1* | *9.8* |
| *Fee to disbursement* | *0.7* | *0.7* | *0.7* | *1.0* | *1.0* |
| *Cost/Income* | *25.8* | *25.0* | *22.0* | *21.7* | *21.4* |
| *Opex/ Avg assets* | *0.89* | *0.93* | *0.83* | *0.82* | *0.79* |
| *Provision costs (bps)* | *20* | *22* | *38* | *54* | *49* |
| *Effective tax rate (%)* | *33.0* | *34.9* | *34.9* | *34.9* | *34.9* |
| *RoA* | *1.7* | *1.7* | *1.7* | *1.6* | *1.6* |
| *RoE* | *16.2* | *17.9* | *18.8* | *18.9* | *19.8* |
| **Dividend details** | | | | | |
| DPS (Rs) | 6.0 | 5.0 | 5.0 | 5.5 | 6.0 |
| *Dividend Pay-out (%)* | *36.7* | *26.1* | *21.9* | *20.3* | *18.1* |
| **Per Share (Rs)** | | | | | |
| BVPS | 122.6 | 135.8 | 155.6 | 180.9 | 212.7 |
| Adjusted BVPS | 122.6 | 135.8 | 155.6 | 180.9 | 212.7 |
| EPS - wt avg | 19.1 | 23.1 | 27.4 | 31.7 | 38.9 |
| **Valuation ratios** | | | | | |
| Price/BV (x) | 1.5 | 1.6 | 2.4 | 2.9 | 2.4 |
| Price/Adj. BV (x) | 1.5 | 1.6 | 2.4 | 2.9 | 2.4 |
| P/E (x) | 9.5 | 9.1 | 13.3 | 16.8 | 13.4 |
| *Dividend Yield (%)* | *3.3* | *2.4* | *1.4* | *1.0* | *1.2* |

*Source: Company, Centrum Research Estimates. FY15-18E have been valued on average market cap basis*

# Appendix A

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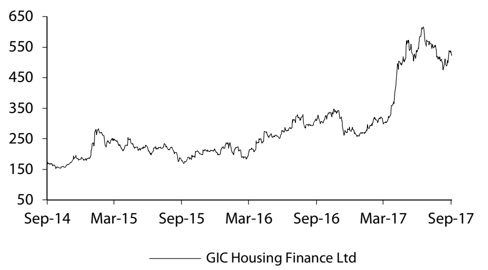
**GIC Housing Finance price chart**




*Source: Bloomberg, Centrum Research*

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|---|---|---|---|
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| **Hold** | Upside between -20% to +20% | Upside between -15% to +15% | Upside between -10% to +10% |
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**Website:** www.centrum.co.in
**Investor Grievance Email ID:** investor.grievances@centrum.co.in

**Compliance Officer Details**:
Kavita Ravichandran
(022) 4215 9842; Email ID: Compliance@centrum.co.in

| Centrum Broking Ltd. (CIN :U67120MH1994PLC078125) | |
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| **Registered Office Address**<br>Bombay Mutual Building ,<br>2nd Floor,<br>Dr. D. N. Road,<br>Fort, Mumbai - 400 001 | **Corporate Office & Correspondence Address**<br>Centrum House<br>6th Floor, CST Road, Near Vidya Nagari Marg, Kalina,<br>Santacruz (E), Mumbai 400 098.<br>Tel: (022) 4215 9000 |