

GRUH FINANCE LTD

NBFC

Q1FY14: Healthy business growth backed by operating performance

Gruh Finance Ltd. reported healthy operating performance for Q1FY14 which was broadly in line with our estimates. Operating income was up 25.3% YoY while operating profit was up by 27%. With higher provisions accounted for in the previous quarter, the provisional coverage ratio for the current quarter has been reduced to 89% during Q1FY14. However, broadly the Asset quality continues to remain well managed during the quarter.

Valuations:

Founded in 1986 by HDFC and AKFED, Gruh Finance is one of India's leading housing finance providers focused in the rural and semi-urban sector. It is recognized by NHB as an eligible housing finance company for refinance facility since 1989 and became a subsidiary of HDFC in June 2000. The stock trades at premium valuation of 6.8x FY14E and 5.4x FY15E P/ABV. Due to consistent growth prospects, stable performance, healthy margins and well managed asset quality, we believe that the stock would continue to trade at a premium multiplier. We expect the company's loan book to grow by 25% through FY15 with steady NIMs at ~5%. We have introduced FY15 earnings and value the stock at 6x FY15E P/ABV which gives us the price target of Rs. 258 reflecting an upside of 9% to CMP.

Key Highlights

- Healthy Business Growth:** The bank's business grew at a healthy pace in Q1FY14 with disbursements and loan assets registering a growth of 29% and 32% YoY respectively. Disbursements have grown at a 10 year CAGR of 27% while Loan Assets have grown at a 10 year CAGR of 26%. We have factored in a Loan Book growth of 25% through FY15.
- Asset quality continues to remain well managed:** The bank's asset quality pressures continued to remain well managed in the current quarter. Gross NPA during the quarter came in at Rs.26.3 crores (0.46%) against 29.73 crores (0.69%) in Q1FY13. Provisional Coverage Ratio however increased to 89% for Q1FY14 against 88% in Q1FY13. However, given the efficient credit approval and recovery mechanisms along with strong cash flows, we continue to remain confident on the NPA front.
- Costs continue to remain well managed:** Cost to Income ratio for Q1FY14 stood at 19% against 21% YoY. With focus of the management to keep costs under control, we expect the Cost/Income ratio to remain below 20%.
- Marginal fall in Margins:** The reported NIMs for the bank declined marginally by 5 bps YoY to 4.25% on the back of higher interest expenses which increased 23% YoY. More than 98% of its loan book comprises of floating rate loans. Hence we believe that Gruh Finance will be able to pass on increased cost of funds to borrowers and maintain its NIMs at 4-5% going forward.

FINANCIAL SUMMARY

Y/E	PAT	EPS	Change	P/E	BV	P/BV	Net NPA	Adj BV	P/Adj.BV	RoE	RoA
Mar	(Rs. Cr)	(Rs.)	YoY (%)	(x)	(Rs.)	(x)	(%)	(Rs.)	(x)	(%)	(%)
FY12	120	6.8	31.5	22.8	21.8	7.1	0.0	21.8	7.1	34.2	3.2
FY13	146	8.3	21.2	28.2	27.8	8.4	0.0	27.8	8.4	33.3	3.0
FY14E	166	9.4	14.1	24.7	34.4	6.8	0.0	34.4	6.8	30.3	2.7
FY15E	200	11.3	20.1	20.6	43.0	5.4	0.0	43.0	5.4	29.3	2.7

Source: Company and Axis Securities

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Buy

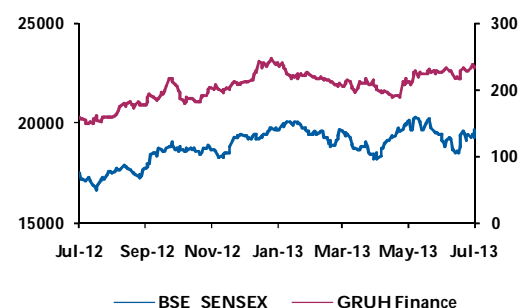
Target Price: Rs 258

 CMP : Rs 236
 Potential Upside : 9%
 Relative to Sector

MARKET DATA

 No. of Shares : 17.8 cr
 FV (Rs) : 2
 Market Cap : Rs 4233 cr
 52-week High / Low : Rs 250 / Rs 145
 Avg. Daily vol. (6mth) : 126,484 shares
 Bloomberg Code : GRFH IN
 Reuters Code : **GRUH.BO**
 BSE Code : **511288**
 NSE Code : GRUH

PRICE PERFORMANCE



Results Update

Gruh Finance	Quarterly					Yearly		
	Fig in Rs.Cr	Q1FY14	Q1FY13	Y-o-Y Ch (%)	Q4FY13	Q-o-Q Ch (%)	FY 13	FY 14E
Interest income	182.6	147.8	23.6	194.2	(6.0)	625.9	829.3	32.5
Interest expended	115.8	94.5	22.6	108.2	7.0	404.4	568.9	40.7
Net interest income	66.8	53.3	25.3	86.0	(22.3)	221.5	260.4	17.6
NII as a % of Net income	99.1	100.0		100.0		90.0	88.5	
Other income	0.6	0.0		0.0		24.6	33.9	37.8
Total income	183.2	147.8	24.0	194.2	(5.7)	650.5	863.2	32.7
Net total income (3+4)	67.4	53.3	26.4	86.0	(21.7)	246.1	294.3	19.6
Operating expenses	12.7	11.3	13.2	10.2	25.0	44.3	55.8	26.0
Personnel exp	6.4	6.0	6.2	4.0	60.2	23.7	28.4	19.8
Other exp	5.8	4.8	22.1	5.7	2.1	14.1	19.4	37.6
Profit before tax & prov.	54.6	42.0	30.0	75.8	(27.9)	201.8	238.5	18.2
Provisions & contingencies	9.8	6.9	(41.3)	0.9	1008.0	4.9	7.3	49.0
PBT	44.9	35.1	27.7	74.9	(40.1)	196.9	231.2	17.4
Tax	11.1	8.8	25.5	11.9	(6.7)	51.4	64.7	25.9
Tax as % of PBT	24.6	25.1		15.8		26.1	28.0	
Profit after tax	33.8	26.3	28.5	63.1	(46.4)	145.5	166.5	14.4
Extra ordinary Item	0.0	0.0		0.0				
Reported PAT	33.8	26.3	28.5	63.1	(46.4)	145.5	166.5	14.4
Equity	35.7	35.5		35.7		35.3	35.3	
Cap. adequacy ratio (Basel-II)	14.56	13.95		14.56		13.60	13.40	
EPS (Rs)	1.9	7.5	(75.0)	3.5	(46.9)	8.3	9.4	13.3
Net NPA (%)	0.05	0.08		0.05		0.05	0.00	
Provisional Coverage (%)	89.0	88.0		84.7		100.0	100.0	
NII/ Operating expenses	5.2	4.7		8.4		5.0	4.7	

Source: Company and Axis Securities

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