

GIC Housing Finance Ltd. (GICHF) is a leading company in India's Housing Finance market promoted by domestic re-insurer General Insurance Corporation (GIC), with the objective of entering into the field of direct lending to individuals and other corporate to accelerate the housing activities in India. The primary business of GICHF is granting housing loans to individuals and to persons/entities engaged in construction of houses/flats for residential purposes.

### Investment Rationale

**Loan growth momentum to provide higher earnings visibility:** During H1FY15, housing loans of the company increased by 10.3% to ₹58,615.9 million from ₹53,126.2 million in FY14. The complete loan book is towards individual loans and that too towards the residential segment. ~95% of loans are given to salaried customers. We believe that strong growth in housing, due to the government's impetus, and large latent demand will drive growth in housing loans book. Therefore, we expect that the company will grow its housing loan book by ~18% during FY15E.

**NIM to remain healthy on lower COF:** The fundamentals of GICHF are improving after it witnessed a declining trend in the cost of fund considering the fund mix. Earlier it was dependent on bank borrowings. Its NIMs is at 2.78% and the Company is making every effort to enhance the NIM. With lower exposure to bank borrowings and higher bond market penetration, GICHF is expected to improve the NIM to 2.8-3.0% going forward.

**Government's focus on HFCs to benefit the company:** Increasing urban population, lower mortgage penetration levels, increasing affordability and moderation in the interest rates will enable HFCs to maintain their growth momentum in loan disbursements. With the government's focus on providing housing for all, GICHF is well poised to benefit from recent regulatory announcements. With recent interest rate cut and strong growth potential is expected to keep GICHF's RoE and RoA firm in FY16E. Recently, positive developments like allocating funds for low cost housings, increasing rebate on housing loan for self-occupied property tend to benefit HFCs including GICHF going forward.

**Committed to achieve ₹100 billion business by FY18E:** In tandem with the Prime Minister's 'Housing for all' drive, GICHF aims to grow its business by 66% to ₹100 billion by FY18E, with focus on the middle class housing segment. Besides, GICHF continues to have a tight control on cost, with cost to income (C/I) ratio at ~25% in H1FY15. Thus, we believe that the company, with its low operating costs and a diversified revenue stream will continually earn returns and will maintain its narrow economic moat for the next decade.

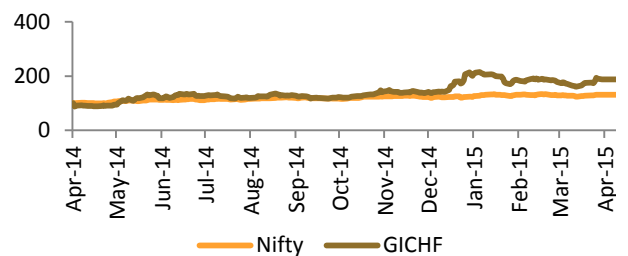
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	242.0
<b>Target (₹)</b>	<b>285</b>
<b>Potential Upside</b>	~18%
<b>Duration</b>	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	287.3/114.0
Adj. all time High (₹)	287.0
Decline from 52WH (%)	15.8
Rise from 52WL (%)	112.3
Beta	1.1
Mkt. Cap (₹bn)	13.0
Book Value (₹bn)	113

### Fiscal Year Ended

Y/E	FY14A	FY15E	FY16E	FY17E
NII (₹bn)	2.0	2.4	3.0	3.7
Net Profit (₹bn)	1.0	1.2	1.5	2.0
Share Capital (₹bn)	0.5	0.5	0.5	0.5
EPS (₹)	18.1	22.1	28.4	36.2
PE (x)	13.4	11.0	8.5	6.7
P/BV (x)	2.1	1.9	1.6	1.3
C/I Ratio (%)	22.2	21.0	19.7	18.5
RoA (%)	1.8	1.8	2.1	2.3
ROE (%)	16.0	17.0	18.5	19.9

### One year Price Chart



Shareholding Pattern	Mar'15	Dec'14	Diff.
Promoters	41.87	41.59	0.28
FII	3.74	3.34	0.40
DII	10.76	10.87	(0.11)
Others	43.63	44.2	(0.57)

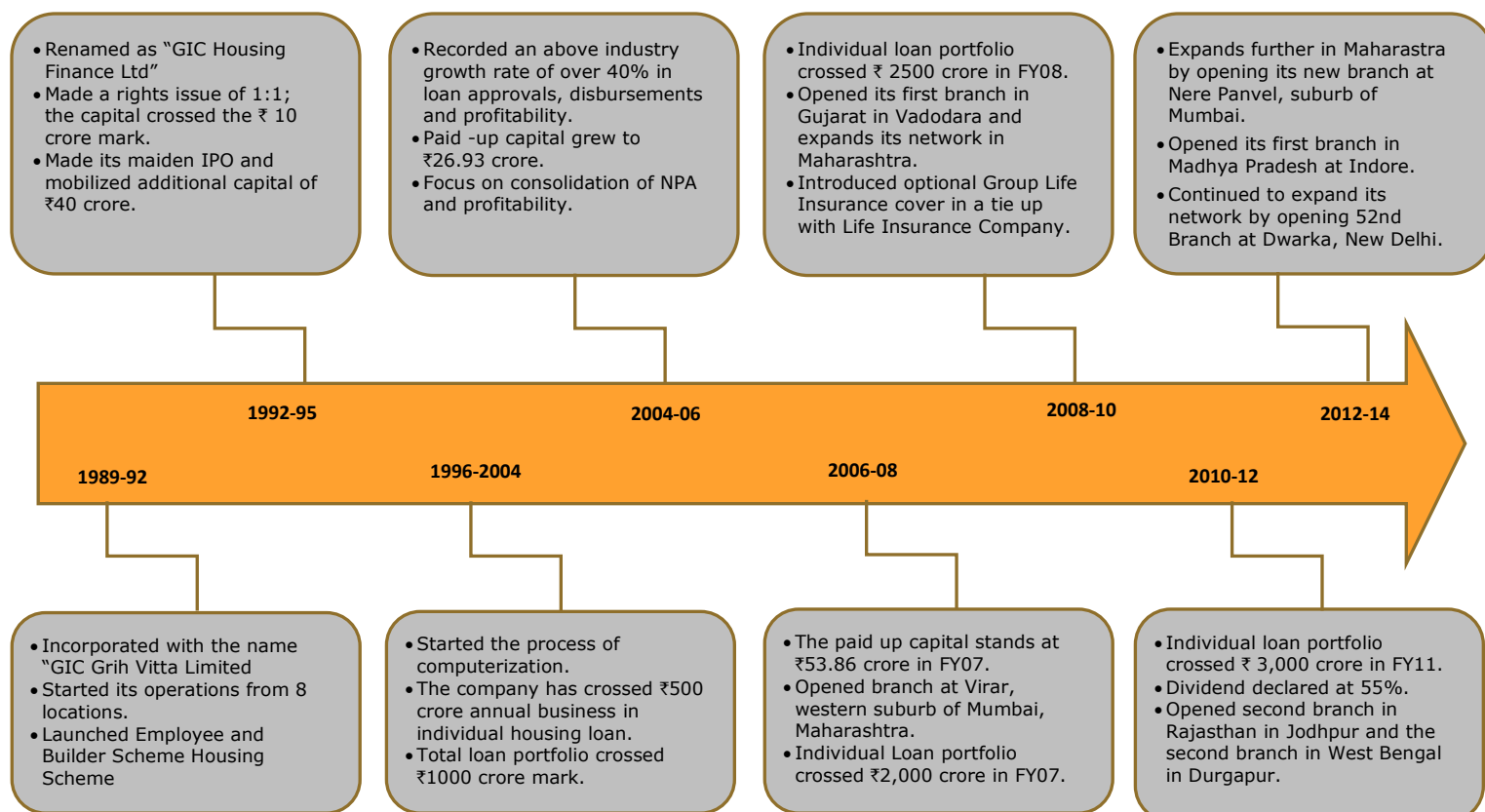
## GICHF - a leading player in India's Housing Finance market

GIC Housing Finance Ltd (GICHF) was incorporated as 'GIC Grih Vitta Limited' on 12th December 1989. The name was changed to GICHF with a Certificate of Incorporation issued on 16th November 1993. The Company was formed with the objective of entering into the field of direct lending to individuals and other corporate to accelerate the housing activities in India. The primary business of GICHF is granting housing loans to individuals and to persons/entities engaged in construction of houses/flats for residential purposes. The company carried a vision for the future of Housing in India.

The company was promoted by General Insurance Corporation of India and its erstwhile subsidiaries namely, National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited together with UTI, ICICI, IFCI, HDFC and SBI, all of them contributing to the initial share capital.

GICHF has presence in 53 branches across the country for business. The company has got a strong marketing team, which is further assisted by Sales Associates (SAs). It has tie-ups with builders to provide finance to individual borrowers. It also has tie-ups with corporates for various housing finance needs.

### GICHF-Journey so far



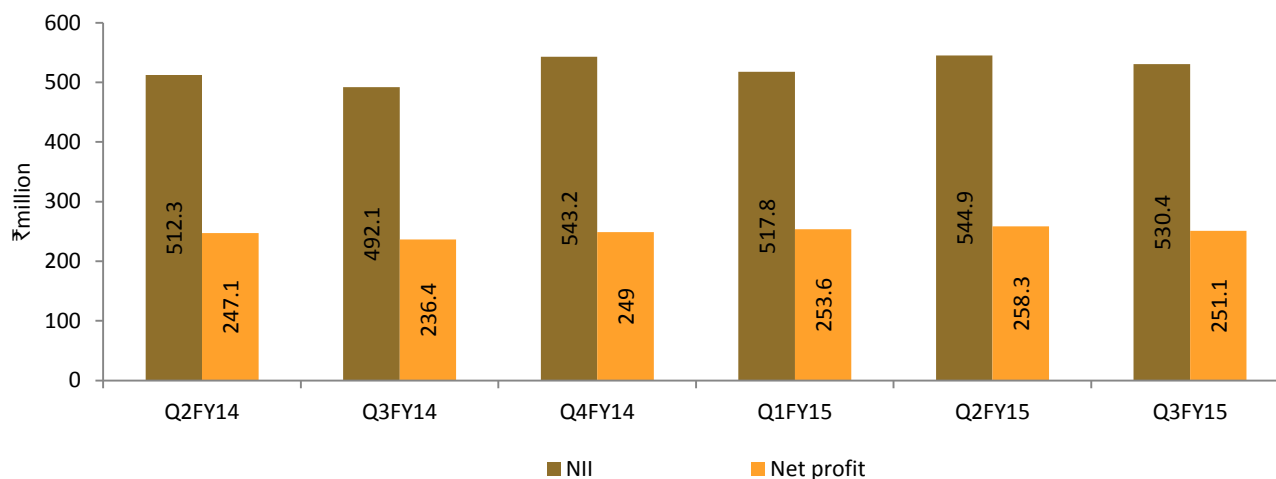
***We believe that on the back of rising yield on advances, robust asset quality, lower exposure to bank borrowings and higher bond market penetration, GICHF is well positioned to take the advantage of the underlying opportunity present in the Indian housing finance industry.***

### Impressive Q3FY15 performance

On standalone basis, GICHF has reported a healthy set of numbers in Q3FY15, with 17.7% YoY robust growth in total income at ₹1,864.8 million. Net Interest Income (NII) of the company posted a growth of 7.8% YoY at ₹530.4 million aided by strong growth in housing loan portfolio. Further, on account of lower operating expenses, the company reported a 17.4% YoY growth in its operating profit at ₹380.4 million during the quarter. In Q3FY15, the company made a provision of ₹29.4 million. The net profit of the company registered a growth of 6.2% YoY at ₹251.1 million in Q3FY15.

During FY14, the company's housing loan portfolio surged by 17% YoY to ₹53,126 million. In FY14, the company sanctioned and disbursed ₹17,546 million and ₹16,653 million loan to individuals, respectively. While at the end of H1FY15, the company's total housing loan portfolio rose to ₹53,126.2 million. Thus, we believe that on the back of rising yield on advances, robust asset quality, lower exposure to bank borrowings and higher bond market penetration, GICHF is well positioned to take the advantage of the underlying opportunity present in the Indian housing finance industry.

### Sustained control over cost resulted in decent quarterly performance



### Indian Housing Finance Industry to provide huge opportunity ahead

Despite challenges in the operating environment, Indian housing finance industry, with a market size of ₹9.7 trillion has grown at a steady rate of 19% CAGR over the last three years while reporting good asset quality indicators. The industry includes both banks and Housing Finance companies (HFCs). Though banks still constitute a bulk of the proportion of the industry (~ 60%), HFCs' share has increased to ~40% currently from 29% in FY08.

Presently, the housing finance market in India aims to include borrowers who are currently not being serviced by financial institutions (typically these borrowers are in low-to-mid income segment and may not have formal income proof). GICHF is looking at 66% increase in business in the next three years to post ₹100 billion business. The company will also focus exclusively on the middle class housing segment, in tandem with the Prime Minister's 'Housing for all' drive.

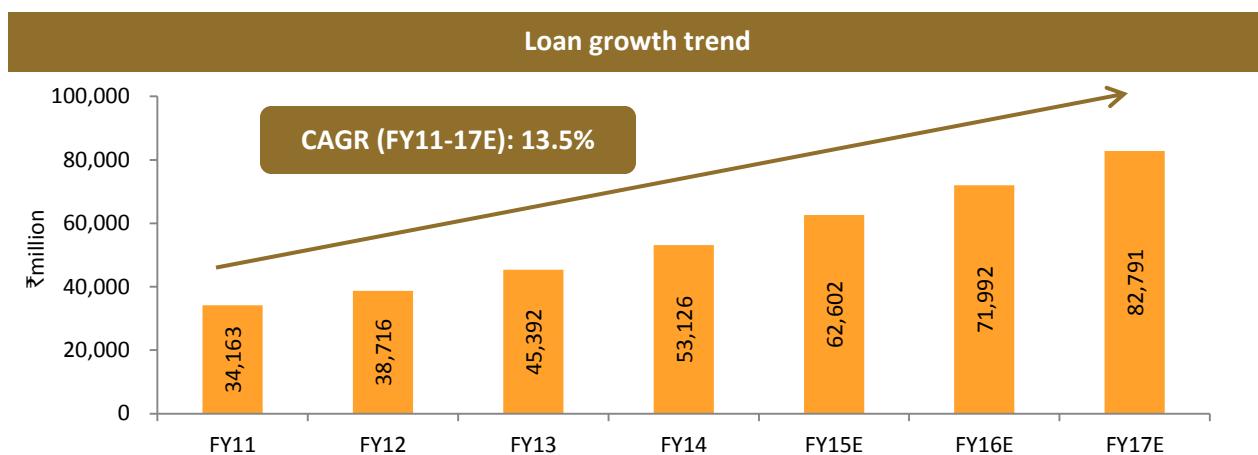
*We believe that strong growth in housing, due to the government's impetus, and large latent demand will drive growth for housing loan going forward.*

Given India's rapid population growth, increasing urbanisation, and rising affordability, the Housing Finance Market will continue to grow. However, considering the fast penetration by banks in Housing Finance Market, HFCs, which are in a position to have access to low cost of funds, better credit control and customer focus will be in a position to sustain the growth. With the increase in urbanisation and improving affordability, we believe that the demand for housing loans will continue to grow at a healthy pace.

### Government's focus on the Housing sector to drive demand for housing loans

With an aim to provide housing for all, the Narendra Modi led new government is banking higher on the development of the housing market. During the Budget session 2015-16, the government of India (GoI) made positive regulatory announcements, with allocation of ~₹14,000 crore fund for low-cost housing by building 2 crore houses in urban areas and 4 crore houses in rural areas. Further, GoI's support of allowing External Commercial Borrowings (ECBs) for low-cost affordable housing projects also bodes well for the Housing Finance Companies (HFC). GICHF is planning to raise ₹400 crore in FY16 through external borrowing. Following two successive rate cut by Reserve Bank of India (RBI) in the last four months, most banks cut their loan rate, which in turn help in reviving demand for home loans.

We believe that an increase in disposable income in the hand of the common man will increase the spending power and boost domestic investment. This increase will promote home ownership and give a boost to the housing sector, which in turn to benefit HFCs including GICHF going forward.



### Sufficient CAR and lower lending rate to enhance earnings visibility

After regulatory body, National Housing Bank (NHB) relaxed norms towards lower risk weights and provisioning on select individual loans, which are above ₹7.5 million and residential projects under corporate real estate category, GICHF's Tier-I Capital Adequacy Ratio (CAR) improved to 17.26% in FY14 as compared to 14.04% in FY13. In order to take the advantage of the falling bond yield, the company is planning to raise ~₹2,000 million in bonds to support its business growth.

Recently, the Reserve Bank of India (RBI) surprised with two successive key lending rate cut from 8% to 7.50%, in a move that is expected to boost business confidence and add momentum to economic growth. We believe that the company to be a major beneficiary post the interest rate cuts as this is expected to boost the demand for individual housing loan.

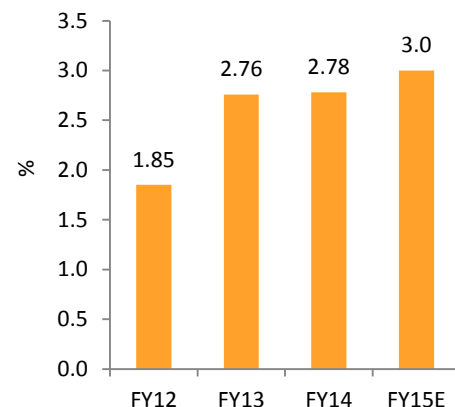
*We believe that lower exposure to bank borrowings and higher bond market penetration to further reduce its cost of funds, which in turn lead to higher margin growth.*

### Lower COF & higher yield on advances to keep NIM firm in the coming years

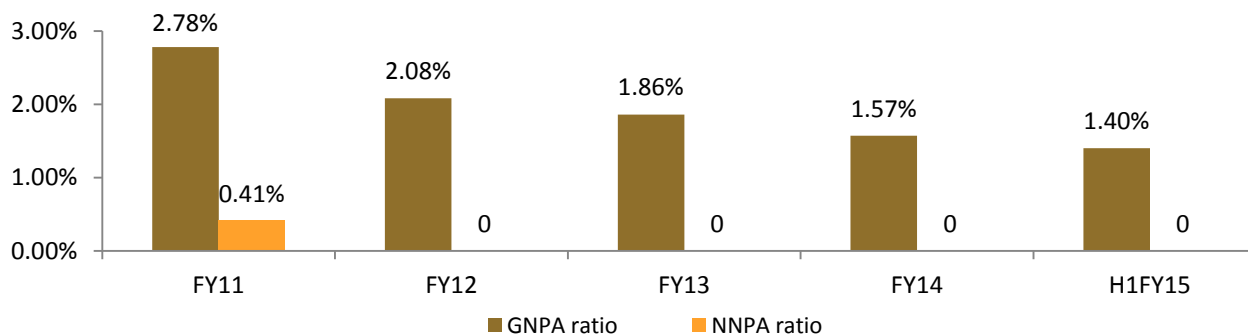
The company has witnessed a slight declining trend in the cost of fund (CoF) considering diversified fund mix with long-term loans and bonds forming a majority of the portion. For the last three years, GICHF has been focusing on reducing its dependence on bank borrowings by raising higher short term and foreign currency loans, which resulted in lowering in the cost of funds. During FY14, the company witnessed a NIM improvement of ~2 bps YoY to 2.78%, on account of low cost of fund and higher yield on advances.

With focus on low cost funding and the bond market penetration, we expect GICHF to improve its NIM to ~3.0%. On the back of more exposure towards low cost funds, GICHF posted 14bps YoY decline in cost of funds at 9.72%. We expect the cost of fund to fall at 9.6% in FY15E, after two successive rate cut of 50 bps by RBI.

### NIM to expand to 3.0% in FY15E



### Asset quality continued to show impressive performance



### Better risk management to keep asset quality at a comfortable level

Strong domain knowledge and expertise in various business segments, coupled with a proactive approach in credit selection and stress testing have enabled the company to have the best-in-class asset quality. GICHF has significantly improved its asset quality over the years. The surprise came in FY14, when the company reported Net non-performing assets (NNPA) at 0%. The asset quality of the bank improved with the gross non-performing asset (GNPA) coming down to 1.57% in FY14 as against 1.86% in the previous year.

During FY14, the company has made provision to the extent of ₹247.6 million as against ₹269.3 million provided for in FY13. The company is also carrying an additional provision of ₹586.2 million in its books, beyond what is prescribed under the guidelines, as a prudential measure.

With the continued support of NHB, the company availed refinance amounting to ₹1,000 million during FY14 as against ₹4,250 million in the previous year. The refinance facility outstanding as on 31st March, 2014 was ₹7,230 million as against ₹8,230 million as at the end of the previous year. In H1FY15, GNPA further decreased to 1.40% and NNPA remained nil. We expect the company to maintain best in class asset quality with GNPA below 2% and NNPA nil in the coming two years.

*We expect the company to maintain GNPA below 2% and NNPA nil in the coming two years.*

### Balance Sheet (Standalone)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Share Capital	539	539	539	539
Reserve and surplus	5,566	6,457	7,748	9,283
<b>Net Worth</b>	<b>6,105</b>	<b>6,995</b>	<b>8,287</b>	<b>9,822</b>
Long Term Borrowing	36,301	43,561	50,095	57,609
Provisions	1,889	2,059	2,244	2,446
Current Liabilities	10,887	12,084	13,524	15,137
<b>Total Equity &amp; Liabilities</b>	<b>55,181</b>	<b>64,699</b>	<b>74,150</b>	<b>85,015</b>
Fixed assets	52	42	46	50
Investments	99	99	99	100
Deferred tax assets	604	606	609	611
Loans and Advances	150	158	169	180
Other Assets	100	100	100	101
Housing Loans	53,126	62,602	71,992	82,791
Current Assets	1,050	1,092	1,136	1,181
<b>Total Assets</b>	<b>55,181</b>	<b>64,699</b>	<b>74,150</b>	<b>85,015</b>

### Profit & Loss Account (Standalone)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Interest income	6,236	7,171	8,462	9,985
Interest expense	4,193	4,754	5,467	6,288
<b>Net Interest Income</b>	<b>2,043</b>	<b>2,417</b>	<b>2,994</b>	<b>3,697</b>
Non-interest income	14	15	16	17
<b>Operating income</b>	<b>2,057</b>	<b>2,431</b>	<b>3,010</b>	<b>3,714</b>
Operating expenses	456	511	592	687
<b>Profit before provisions</b>	<b>1,601</b>	<b>1,921</b>	<b>2,418</b>	<b>3,027</b>
Depreciation	21	21	21	22
Provisions	248	272	300	330
Tax	357	439	566	722
<b>Net Profit</b>	<b>975</b>	<b>1,188</b>	<b>1,531</b>	<b>1,953</b>

### Key Ratios (Standalone)

Y/E	FY14A	FY15E	FY16E	FY17E
Operating profit margin (OPM) (%)	25.6	26.7	28.5	30.3
NPM (%)	15.6	16.5	18.1	19.5
ROE (%)	16.0	17.0	18.5	19.9
ROA (%)	1.8	1.8	2.1	2.3
Interest Exp/ Interest Inc. (%)	67.2	66.3	64.6	63.0
C/I (%)	22.2	21.0	19.7	18.5
BVPS (₹)	113.3	129.8	153.8	200.5
P/BV (x)	2.1	1.9	1.6	1.3
EPS (₹)	18.1	22.1	28.4	36.2
P/E (x)	13.4	11.0	8.5	6.7

### Valuation and view

GICHF continues to perform well on growth, margins, and asset quality fronts. We expect the housing loan portfolio to grow by 18% in FY15E. Margins continue to hold well on lower cost of funds and higher bond market penetration. The company aims to increase the disbursements to low cost housing loans going forward, which is likely to keep the margins firm. Asset quality remains best, with GNPA below 2% and NNPA NIL. Strong visibility on business growth and margins, superior asset quality, healthy provision cover and healthy return ratios are key positives. We believe that with bottoming out of the Indian economy, higher government focus towards affordable housing and lower interest rate benefit after RBI cut lending rate by 25 bps recently, GICHF is well poised to witness higher earnings upside.

At a current market price (CMP) of ₹242.0, the stock trades at a P/BV of 1.6 x FY16E and 1.3x FY17E. We recommend 'BUY' with a target price of ₹285, which implies a potential upside of ~18% to the CMP from a long term perspective.

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