



**HDFC securities**

Equity  
Research

Pick<sub>of the</sub>  
week

| Industry        | CMP     | Recommendation             | Add on dips to | Target      | Time Horizon |
|-----------------|---------|----------------------------|----------------|-------------|--------------|
| Housing Finance | Rs. 442 | Buy at CMP and add on Dips | Rs. 442-415    | Rs. 499-565 | 4-6 Quarters |

GIC Housing Finance Ltd. (GICHF) was incorporated as 'GIC Grih Vitta Limited' in Dec 1989 (name changed to current in Nov 1993) with the objective of entering in the field of direct lending to individuals and other corporates to accelerate the housing activities in India. The primary business of GICHF is to grant housing loans to individuals and to persons/entities engaged in construction of houses/flats for residential purposes. It was promoted by General Insurance Corporation of India and its erstwhile subsidiaries namely, National Insurance Company Ltd, The New India Assurance Company Ltd, The Oriental Insurance Company Ltd and United India Insurance Company Ltd together with UTI, ICICI, IFCI, HDFC and SBI, contributes to the initial share capital. GICHF has presence in 65 branches across the country for business.

We recommend GICHF a Buy at the CMP and add on declines to Rs. 442-415 for sequential targets of Rs. 499 (2.3x FY19E ABV) and Rs. 565 (2.6x FY19E ABV) in 4-6 quarters.

### Investment Rationale:

#### Significant scope of growth in mortgage

In India, mortgage to GDP ratio stands at 9% well below the developed economies like US and UK where it is at 81% and 88% respectively. Even certain emerging economies such as Thailand (17%) and China (20%) have a far higher mortgage ratio as compared to India. This lower mortgage penetration implies huge opportunity for growth going forward. As per BCG/IBA report, the estimated outstanding mortgage in India is set to increase manifold by 2022 to cross nearly 20% of India's GDP.

#### Favourable Environment

Shortage: India has a huge shortage in urban as well as rural housing. As per the estimate, housing shortage for 2012-17 in urban area have about 95% shortage in economically weaker sections and lower income group categories, whereas rural areas have about 90% shortage in below poverty line category.

Government Initiatives: Indian government has launched "Housing for all by 2022" programme in June-15, with the aim of providing 20mn new housing units in 500 towns & cities over next 7 years. Government has also plan to develop 100 Smart Cities between FY16 to FY20. The plan has expected budget of around Rs 480bn.

|                        |         |
|------------------------|---------|
| HDFC Scrip Code        | GICHOU  |
| BSE Code               | 511676  |
| NSE Code               | GICHSGF |
| Bloomberg              | GICHF   |
| CMP as on 22 Dec'17    | 442     |
| Equity Capital (Rs Cr) | 53.85   |
| Face Value (Rs)        | 10      |
| Equity O/S (Cr)        | 5.39    |
| Market Cap (Rs Cr)     | 2,373   |
| Book Value (Rs)        | 164.93  |
| Avg. 52 Week Vol       | 226413  |
| 52 Week High           | 623     |
| 52 Week Low            | 251     |

| Shareholding Pattern (%) |      |
|--------------------------|------|
| Promoters                | 42.2 |
| Institutions             | 16.3 |
| Non Institutions         | 41.5 |

|                  |        |
|------------------|--------|
| PCG Risk Rating* | Yellow |
|------------------|--------|

\* Refer Rating explanation

#### FUNDAMENTAL ANALYST

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**KEY HIGHLIGHTS**

- ***GICHF incorporated in 1993 by GIC and some other government general insurance companies is a Housing Finance provider for mid-income group.***
- ***Favourable Factors like a shortage in housing infra, Government's Push for affordable housing, urbanization, rising income and a higher standards of living provides immense growth opportunities.***
- ***Management is also taking active steps for improving Margin and Asset Quality.***
- ***We expect ROAE and ROAA to improve from 18.8% and 1.7%, respectively to 22% and 1.8% over FY17-FY19E.***
- ***We recommend GICHF a Buy at the CMP and add on declines to Rs. 442-415 for sequential targets of Rs. 499 (2.3x FY19E ABV) and Rs. 565 (2.6x FY19E ABV) in 4-6 quarters.***

Increased Affordability: Housing prices have increased at a very nominal rate over the last few years. However average annual income of the consumers has increased compared to a faster rate. Increasing working population has reduced the average age of the work force, with higher aspiration levels leading to rising standards of living, matched with sufficient purchasing power. Affordability index measures population's ability to purchase a particular item such as house, and is indexed to the population's income. Improving economic scenario has resulted in the affordability index improving and should lead to greater demand for owned houses as well as larger houses, thereby providing a fillip to the housing industry.

GICHF in Sweet Spot: Favourable Factors like shortage in housing infra, Government Push for affordable housing, urbanization, rising income and a higher standard of living provides immense growth opportunities not only for Real Estate companies but Housing Finance companies also. GIC housing Finance being a loan provider to mid income group remain in a sweet spot to take advantage.

**Expanding reach to achieve growth**

GICHF has become aggressive in opening branches and increasing its reach to tap new customers. It is looking to open 6-7 branches every year and in the last four years it has doubled its network to 65 branches. Earlier the company was primarily present in the west, but it has also expanded in the north-east in the last two years. It concentrates on incentivising the channel partners which bring in ~80% of the business. GICHF spends very less on branches as it relies on smaller branches of 400-500 sq. ft and hiring just 2-3 people to start with. GICHF identifies markets and opens branches in places where there is relatively high demand and limited competition.

**NIM to improve through reduction in high cost borrowing and increasing share of LAP in overall portfolio**

Reduction in High Cost Borrowing: The share of bank borrowing is quite high for GICHF compared to industry Avg. and now company is taking active measures for reducing over dependence as the cost of borrowing is higher here. The management is looking to reduce its borrowing costs by 1) repaying high cost, 2) aggressively increasing the share of NHB borrowing which is ~80bps cheaper than bank's borrowing 3) capital infusion by promoters through preferential capital and 4) borrowing from the money market.

Increasing share of high-yield loans: Share of loans against property (LAP) or non-housing loans has been increasing in GHFL's portfolio. As against 10-11% yield on a pure home loan, LAP can return close to 12-13%. Contribution of non-housing loans has increased from 2.1% in FY12 to 17.8% in FY16. Due to its increasing exposure to the latter, GIC makes close to 11.7% yield on its advances as against the average cost of funds at 8.2%.

Although LAP loans promises higher yields, it can be risky. To mitigate some of the risks, GHFL has been providing loan for only 60% of the property value besides restricting itself to retail borrowers with sound credit profile. The properties are also assessed by independent property valutors for proper and unbiased valuation.

### **Asset Quality to Improve Going forward**

Asset Quality of Housing Finance Companies always remain superior compared to other NBFCs. In the case of GICHF the GNPA is quite high compared to other industry peers, however NNPA of the company has remained zero as 100% provisioning has been done. The management is now actively making efforts to improve asset quality going forward. They believe that asset quality has peaked and might see an improvement in the next 2-3 years.

### **Bright Future Outlook**

The asset book of the company grew at a conservative pace of ~13% during FY05-12 with 31 branches. Post FY12 the company has started focussing on increasing its asset book and delivered high teen growth rates matching the top players in the industry. Outstanding advances have grown at CAGR of 15.3% over FY13-17. The company has also strategically doubled its branch network from 31 in FY12 to 65 at the end of FY17. With the aggressive branch expansion we expect GICHF to grow at CAGR of 23.5% over FY17-19E. NII and NP is also expected to grow at 25% CAGR over the same Time Frame. Therefore, ROAE and ROAA will improve from 18.8% and 1.7%, respectively to 22% and 1.8% over FY17-FY19E.

**View & Valuation:**

Favourable Factors like a shortage in housing infra, Government's Push for affordable housing, urbanization, rising income and a higher standard of living provides immense growth opportunities not only for Real Estate companies but Housing Finance companies also. GIC housing Finance being a loan provider to mid income group remain in a sweet spot to take advantage. Management is also taking active steps for improving Margin and Asset Quality. We expect ROAE and ROAA to improve from 18.8% and 1.7%, respectively to 22% and 1.8% over FY17-FY19E.

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**Risk & Concerns:**

- Slowdown in real estate sector
- Asset quality risks
- Rising competition from banks and peer companies
- Regulatory changes
- Senior management in PSU companies are prone to change on the whims of the government in power.

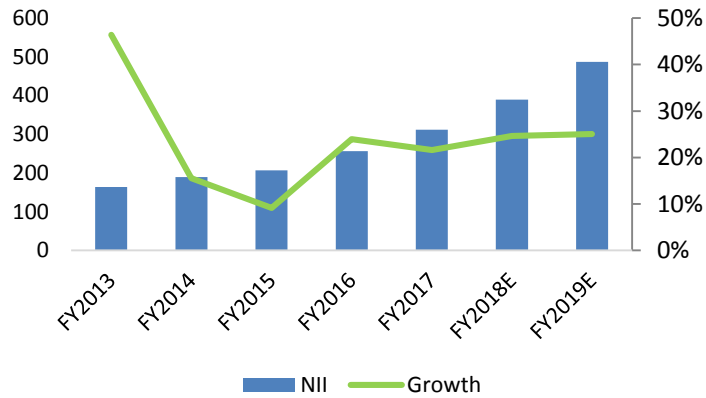
**Peer Comparison:**

|              | Loan book (Rs. Cr) | Ticket Size (in Rs. Mn) | Customer Segment |               | GNPA (%)    | NIM (%)     | ROA        | ROE         | Branches  |
|--------------|--------------------|-------------------------|------------------|---------------|-------------|-------------|------------|-------------|-----------|
|              |                    |                         | Salaried         | Non- Salaried |             |             |            |             |           |
| <b>GICHF</b> | <b>9300</b>        | <b>1.8</b>              | <b>80%</b>       | <b>20%</b>    | <b>2.3%</b> | <b>3.6%</b> | <b>19%</b> | <b>1.7%</b> | <b>65</b> |
| Can Fin      | 13313              | 1.8                     | 77%              | 23%           | 0.2%        | 3.5%        | 16%        | 0.0%        | 140       |
| DHFL         | 61775              | 1.34                    | 53%              | 47%           | 1.0%        | 2.9%        | 15%        | 1.2%        | 182       |
| LICHF        | 144534             | 2                       | 84%              | 16%           | 0.4%        | 2.7%        | 20%        | 1.4%        | 250       |
| Repco        | 8957               | 1.8                     | 40%              | 60%           | 2.6%        | 4.4%        | 17%        | 2.2%        | 150       |

|              | CMP        | Mcap (Rs.Cr) | P/BV       |            |            | P/BV       |            |            |
|--------------|------------|--------------|------------|------------|------------|------------|------------|------------|
|              |            |              | FY17       | FY18E      | FY19E      | FY17       | FY18E      | FY19E      |
| <b>GICHF</b> | <b>442</b> | <b>2,382</b> | <b>156</b> | <b>182</b> | <b>218</b> | <b>2.8</b> | <b>2.4</b> | <b>2.0</b> |
| DHFL         | 593        | 18,610       | 247        | 262        | 288        | 2.4        | 2.3        | 2.1        |
| LICHF        | 567        | 28,639       | 221        | 242        | 283        | 2.6        | 2.3        | 2.0        |
| Repco        | 684        | 4,279        | 183        | 197        | 239        | 3.7        | 3.5        | 2.9        |

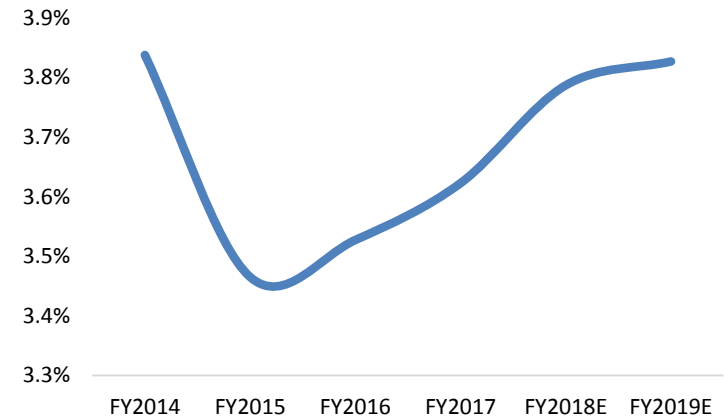
Source: Company, HDFC sec Research

## NII Growth Trajectory



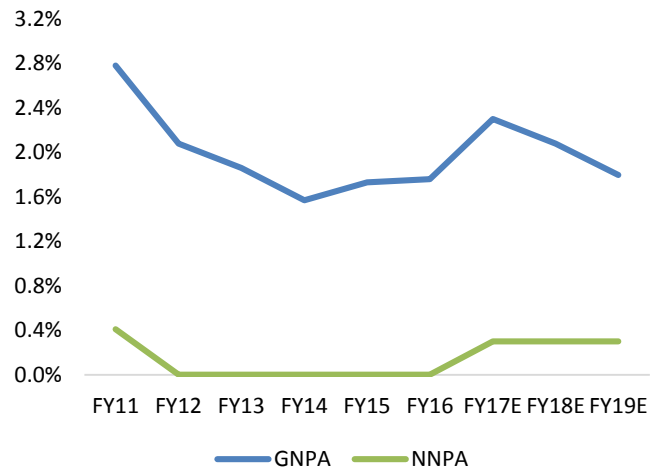
Source: Company, HDFC sec Research

## Net Interest Margin to improve



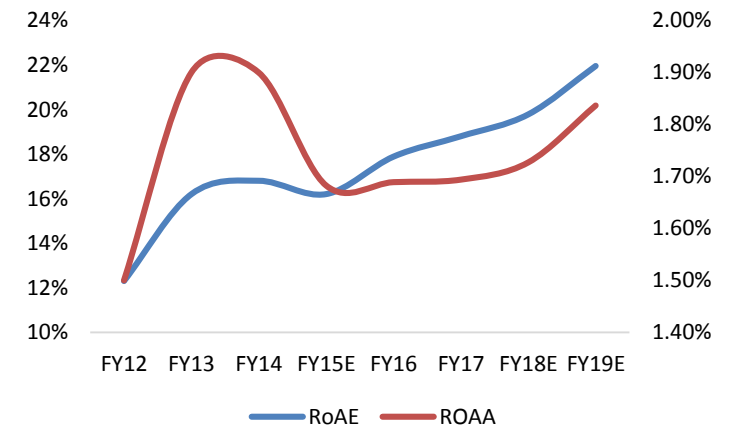
Source: Company, HDFC sec Research

## Asset quality to improve

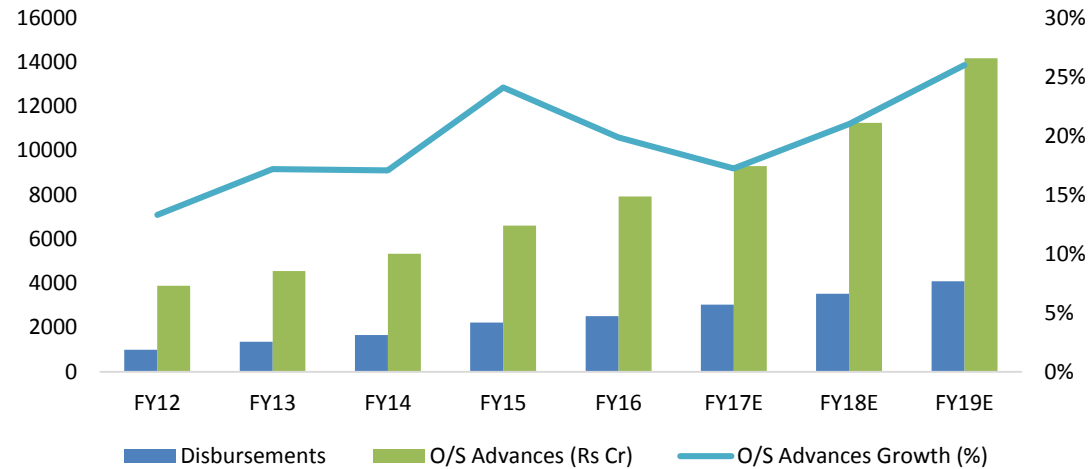


Source: Company, HDFC sec Research

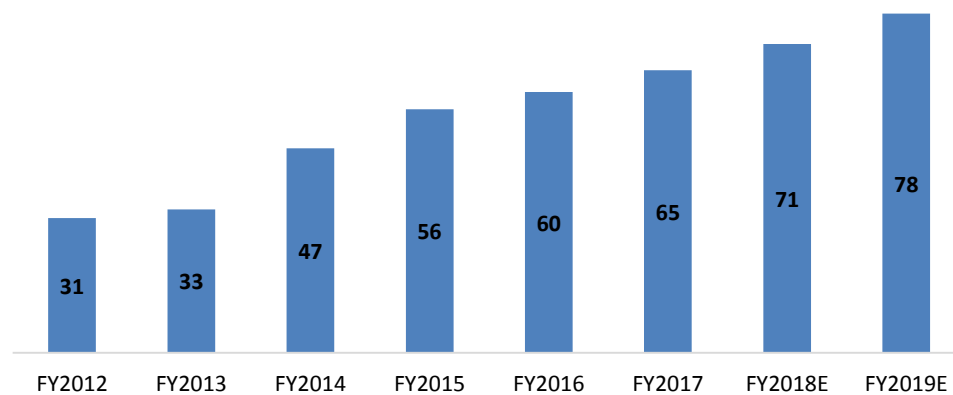
## RoAA and RoAE



Source: Company, HDFC sec Research

**Growth in Advances**


Source: Company, HDFC sec Research

**Pace of branch additions has increased sharply**


Source: Company, HDFC sec Research



**Income Statement**

| Particulars                | FY15         | FY16         | FY17         | FY18E        | FY19E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income            | 716.0        | 857.3        | 980.0        | 1171.6       | 1449.7       |
| Interest Expenses          | 508.9        | 600.7        | 667.8        | 782.4        | 963.0        |
| <b>Net Interest Income</b> | <b>207.1</b> | <b>256.6</b> | <b>312.2</b> | <b>389.2</b> | <b>486.7</b> |
| <b>Growth%</b>             | <b>9%</b>    | <b>24%</b>   | <b>22%</b>   | <b>25%</b>   | <b>25%</b>   |
| Non interest income        | 16.8         | 19.1         | 21.6         | 27.2         | 63.6         |
| <b>Operating Income</b>    | <b>223.8</b> | <b>275.7</b> | <b>333.8</b> | <b>416.4</b> | <b>550.2</b> |
| Operating Expenses         | 57.8         | 68.9         | 73.4         | 100.6        | 128.0        |
| PPP                        | 166.0        | 206.9        | 260.4        | 315.7        | 422.2        |
| Prov & Cont                | 12.3         | 15.8         | 33.4         | 51.4         | 63.6         |
| Profit Before Tax          | 153.7        | 191.1        | 227.0        | 264.4        | 358.6        |
| Tax                        | 50.7         | 66.6         | 79.4         | 84.6         | 121.9        |
| <b>PAT</b>                 | <b>103.0</b> | <b>124.5</b> | <b>147.6</b> | <b>179.8</b> | <b>236.7</b> |
| <b>Growth%</b>             | <b>6%</b>    | <b>21%</b>   | <b>19%</b>   | <b>22%</b>   | <b>32%</b>   |

Source: Company, HDFC sec Research

**Balance Sheet**

| Particulars              | FY15         | FY16         | FY17         | FY18E        | FY19E         |
|--------------------------|--------------|--------------|--------------|--------------|---------------|
| Share Capital            | 53.9         | 53.9         | 53.9         | 53.9         | 53.9          |
| Reserves & Surplus       | 606.5        | 677.9        | 784.3        | 925.3        | 1123.2        |
| <b>Shareholder funds</b> | <b>660.4</b> | <b>731.8</b> | <b>838.2</b> | <b>979.2</b> | <b>1177.1</b> |
| Borrowings               | 5794.3       | 7001.1       | 7379.0       | 10007.4      | 12651.8       |
| Other Liab & Prov.       | 266.0        | 288.5        | 1187.3       | 426.3        | 536.5         |
| <b>SOURCES OF FUNDS</b>  | <b>6721</b>  | <b>8021</b>  | <b>9404</b>  | <b>11413</b> | <b>14365</b>  |
| Fixed Assets             | 2.6          | 2.2          | 2.3          | 1.7          | 1.8           |
| Investment               | 9.8          | 9.8          | 26.5         | 33.8         | 42.5          |
| Cash & Bank Balance      | 41.6         | 52.3         | 62.1         | 78.8         | 85.1          |
| Advances                 | 6618.2       | 7933.5       | 9300.3       | 11253.4      | 14179.3       |
| Other Assets             | 48.5         | 23.6         | 13.3         | 45.0         | 56.7          |
| <b>TOTAL ASSETS</b>      | <b>6721</b>  | <b>8021</b>  | <b>9404</b>  | <b>11413</b> | <b>14365</b>  |

Source: Company, HDFC sec Research

**Key Ratios**

| Particulars                 | FY15  | FY16  | FY17  | FY18E | FY19E |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>Return Ratios</b>        |       |       |       |       |       |
| Calc. Yield on adv          | 12.0% | 11.8% | 11.4% | 11.4% | 11.4% |
| Calc. Cost of borr          | 9.7%  | 9.4%  | 9.3%  | 9.0%  | 8.5%  |
| Calc NIM                    | 3.5%  | 3.5%  | 3.6%  | 3.8%  | 3.8%  |
| RoAE                        | 16.2% | 17.9% | 18.8% | 19.8% | 22.0% |
| RoAA                        | 1.7%  | 1.7%  | 1.7%  | 1.7%  | 1.8%  |
| <b>Asset Quality Ratios</b> |       |       |       |       |       |
| GNPA                        | 1.7%  | 1.8%  | 2.3%  | 2.1%  | 1.8%  |
| NNPA                        | 0.0%  | 0.0%  | 0.3%  | 0.3%  | 0.3%  |
| <b>Growth Ratios</b>        |       |       |       |       |       |
| Advances                    | 24.1% | 19.9% | 17.2% | 21.0% | 26.0% |
| Borrowings                  | 24.6% | 20.8% | 5.4%  | 35.6% | 26.4% |
| NII                         | 9.1%  | 23.9% | 21.6% | 24.7% | 25.0% |
| PPP                         | 5.0%  | 24.6% | 25.9% | 21.3% | 33.7% |
| PAT                         | 5.5%  | 20.9% | 18.5% | 21.8% | 31.7% |
| <b>Valuation Ratios</b>     |       |       |       |       |       |
| EPS                         | 19.1  | 23.1  | 27.4  | 33.4  | 43.9  |
| P/E                         | 23.1  | 19.1  | 16.1  | 13.2  | 10.1  |
| Adj. BVPS                   | 122.6 | 135.8 | 155.6 | 181.7 | 218.5 |
| P/ABV                       | 3.6   | 3.3   | 2.8   | 2.4   | 2.0   |
| Dividend per share          | 5.0   | 5.0   | 5.0   | 6.0   | 6.0   |
| Dividend Yield (%)          | 1.2   | 1.2   | 1.2   | 1.4   | 1.4   |
| <b>Other Ratios</b>         |       |       |       |       |       |
| Cost-Income                 | 25.8  | 25.0  | 22.0  | 24.2  | 23.3  |

Source: Company, HDFC sec Research

**Rating Chart**

|                            |        |      |        |      |
|----------------------------|--------|------|--------|------|
| R<br>E<br>T<br>U<br>R<br>N | HIGH   |      |        |      |
|                            | MEDIUM |      |        |      |
|                            | LOW    |      |        |      |
|                            |        | LOW  | MEDIUM | HIGH |
|                            |        | RISK |        |      |

**Ratings Explanation:**

| RATING | Risk - Return                    | BEAR CASE                                    | BASE CASE  | BULL CASE   |
|--------|----------------------------------|--|--|---|
| BLUE   | LOW RISK - LOW RETURN STOCKS     | IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE | IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15% | IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE |
| YELLOW | MEDIUM RISK - HIGH RETURN STOCKS | IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE | IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30% | IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE |
| RED    | HIGH RISK - HIGH RETURN STOCKS   | IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE | IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30% | IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE |


**Rating Definition:**

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

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