

If you're not getting better, you're getting worse

With above motto today we are starting a new category of posts “Annual report Reviews”

An annual review is a perfect exercise as

- most companies produce a look back report (called annual report) with details once in a year
- it gives enough gap for business to progress on stated objective thus helping investor to observe business’s Moat (whether it is expanding or contracting)
- it helps us answer many of the question we get while reviewing quarterly results – e.g. where is business putting capex, is the product portfolio or customer mix is changing
- Finally I bet if you write these reviews for 5 business for 5 continuous years than you will expand your understanding of business and the key metrics that drive the business

And what better company than GRUH finance limited to start this exercise

Some companies produce outstanding annual reports and GRUH is definitely part of that tribe.

To get a good grasp of GRUH’s business read this [post](#) and come back

Let’s start

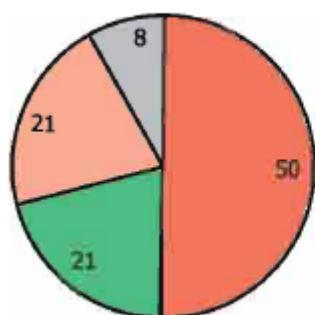
First the core numbers,

Disbursements still remains a small percentage of total number of household in India and average ticket size has gone down

GRUH disbursed home loans to 33,625 families and the average home loan to individuals was ` 8.39 lacs during the year as against ` 7.64 lacs during the previous year

The average ticket size still small with 50% loans sanctioned less than INR 300,000 and average age of borrower is ~ 36 years

Properties Financed - Loan Amount Wise Distribution



Loan Amount (₹)	No.	%	
Up to 3,00,000	1,45,501	50	■
> 3,00,000 to 5,00,000	60,976	21	■
> 5,00,000 to 10,00,000	60,294	21	■
> 10,00,000	23,387	8	■
Total	2,90,158	100	

Mode of operations still remains via paid referrals through associates

61% of total disbursements made during the year and GRUH paid referral fees

Expanding its geographical reach by entry in a Uttar Pradesh

GRUH established 12 new offices, including its first office in Uttar Pradesh

The company does a great job of providing 10 year snap shot wish more companies do it

The record is exemplary with tremendous growth in almost each parameter

Loan disbursements ,PAT and Operating profit have nearly gone 10X

Financial Highlights	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06
Loan Disbursements	3,121	2,577	2,174	1,487	1,211	780	655	632	474	360
Net Interest Income	344	271	218	179	143	115	85	74	52	36
Fees & Other Charges	33	27	22	17	14	12	7	6	6	6
Operating Cost	64	56	46	39	32	25	21	18	14	12
Operating Profit	318	246	198	159	127	103	72	63	44	30
Provisions & Write Offs (Net)	17	2	1	(4)	1	8	3	4	7	4
Profit Before Tax	301	244	197	163	126	94	70	59	37	26
Profit After Tax	204*	177	146	120	92	69	50	42	30	22
Stockholders' Equity	711	607	491	386	318	265	221	190	164	87
Borrowed Funds	8,216	6,447	4,915	3,833	2,966	2,323	2,245	1,773	1,305	1,080
Loan Assets	8,915	7,009	5,438	4,067	3,172	2,449	2,086	1,770	1,377	1,069

Ratios

NIM has been retained at good level irrespective of fluctuating interest rates and the return on assets has been excellent

Key Financial Ratios

Capital Adequacy Ratio (%)	15.36	16.36	14.56	13.95	13.32	16.55	16.21	18.15	16.31	14.24
Debt Equity Ratio (times)	12	11	10	10	9	9	10	9	8	12
Loans to Total Assets (%)	97	97	97	94	94	92	82	88	90	89
Gross NPAs to Loan Assets (%)	0.28	0.27	0.32	0.52	0.82	1.11	0.94	1.12	1.36	1.48
Net NPAs to Loan Assets (%)	0	0	0.05	0	0	0	0	0	0	0.23
Net Interest Margin to Average Assets (%)	4.18	4.21	4.38	4.64	4.73	4.42	3.73	4.18	3.82	3.37
Non-Interest Expenses to Average Assets (%)	0.78	0.87	0.93	1.01	1.06	0.98	0.91	1.01	1.02	1.10
Cost to Income Ratio (%)	17	19	19	20	20	20	22	22	24	28
PAT to Average Assets (%)	2.48	2.76	2.94	3.12	3.02	2.65	2.21	2.39	2.17	2.03
Return on Average Networth (%)	31	32	33	34	31	28	24	24	24	27

When numbers are so good obviously the shareholder returns are excellent

Measuring Shareholders' Wealth

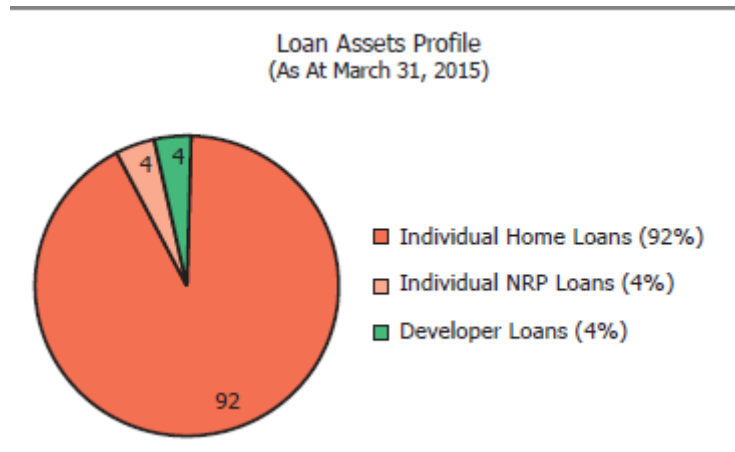
Earnings Per Share (₹) ^	5.57	4.93	4.11	3.41	2.62	1.99	1.45	1.22	0.94	0.74
Dividend Rate (%)	100 *	150	125	115	110**	65	48	40	30	25
Dividend Payout Ratio (%)	43	36	36	39	49	38	39	38	41	35
Book Value Per Share as at March 31 (₹) ^	19.64	16.92	13.82	10.94	9.10	7.62	6.37	5.49	4.74	3.28
Market Price Per Share as at March 31 (₹) ^	244	147.65	105.15	63.70	36.02	21.78	9.37	15.44	13.74	9.33
Price to Value Ratio (times)	12.42	8.73	7.61	5.83	3.96	2.86	1.47	2.81	2.90	2.85
Price to Earnings Ratio (times)	44	30	26	19	14	11	6	13	15	11
Market Capitalisation (in crores)	8,867	5,319	3,753	2,249	1,266	756	325	535	476	247

I will throw in another table before I move on, See how market has rewarded GRUH with excellent returns in last few years

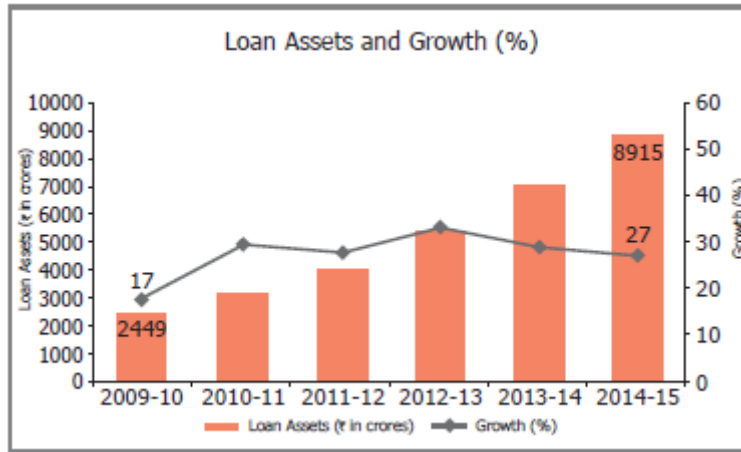
Particulars	2014-15	2013-14	2012-13	2011-12	2010-11
Closing Market Capitalisation	8,866.58	5,319.27	3,753.36	2,248.60	1,266.38
Opening Market Capitalisation	5,319.27	3,753.36	2,248.60	1,266.38	756.14
Money raised during the year from Shareholders	10.56	10.52	12.30	2.39	7.12
Net Capital Appreciation	3,536.75	1,555.39	1,492.46	979.83	503.12
Dividend including Dividend Tax	87.48	63.49	52.46	47.29	45.04
Total Gain	3,624.23	1,618.88	1,544.92	1,027.12	548.16
Gain to Opening Market Capitalisation (%)	68.13	43.13	68.71	81.11	72.50

Moving on main business remains same with growth intact

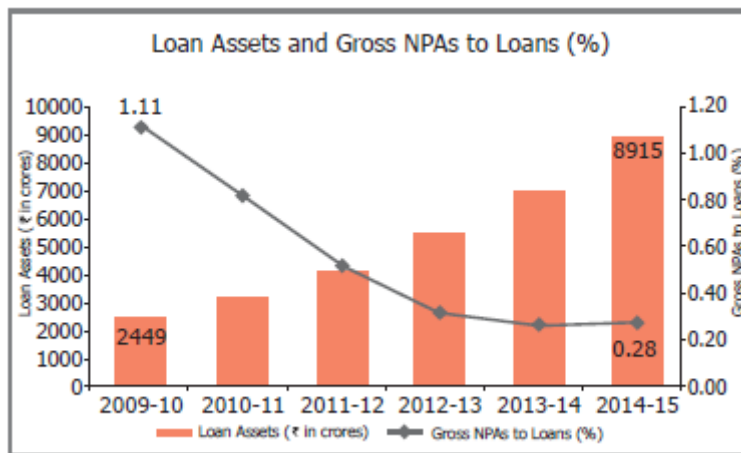
Still maximum loans given to individuals even the developer’s loans are selective..



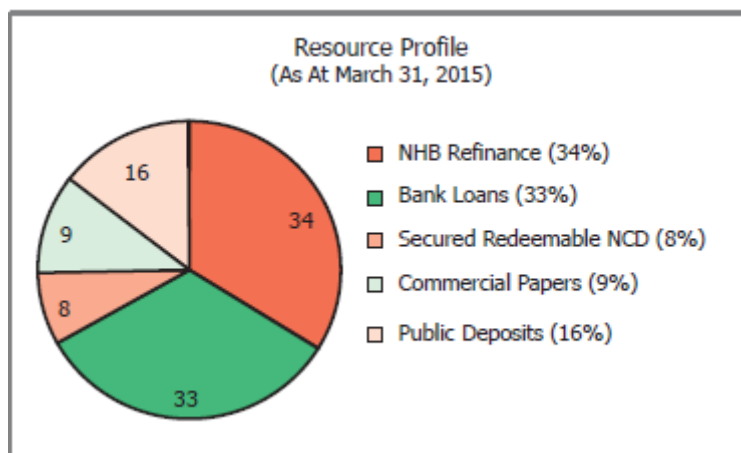
Loan asset growth was good at 27% last year..



With very conservative lending practices resulting in lower gross NPA's and almost Nil NPA's



The borrowing pattern had a good mix of short term and long term sources, however principal reliance is still on NHB refinance and bank loans..

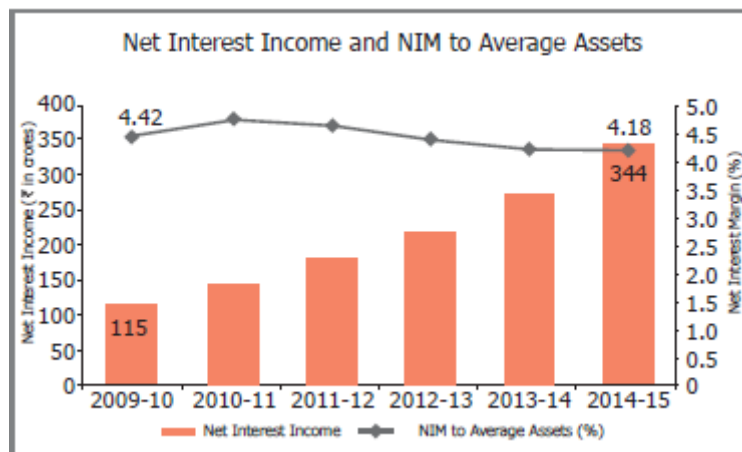


One of the principal risks for any financial institution is asset liability **maturity mismatch**

Short term sources are funding long term uses telling me GRUH is expecting interest rates to go down , without a mix of variable and fix interest break up on loans I can comment whether it will impact them if interest rates go ups

Maturity Buckets	Liabilities		Assets	
	Borrowings from Banks	Market Borrowings	Advances	Investments
1 day to 30 days (one month)	0.00	38.14	41.92	0.00
Over one month to 2 months	0.00	399.94	42.08	0.00
Over 2 months to 3 months	99.64	415.79	48.19	20.04
Over 3 months to 6 months	99.64	38.71	146.56	9.28
Over 6 months to 1 Year	374.27	125.32	256.29	0.00
Over 1 to 3 Years	1,171.43	1,191.13	1,015.33	40.92
Over 3 to 5 Years	998.71	475.42	965.46	8.45
Over 5 to 7 Years	664.96	16.52	878.03	1.13
Over 7 to 10 Years	412.89	37.45	1,371.84	0.00
Over 10 Years	1,655.63	0.00	4,149.65	0.00
Total	5,477.17	2,738.42	8,915.35	79.82

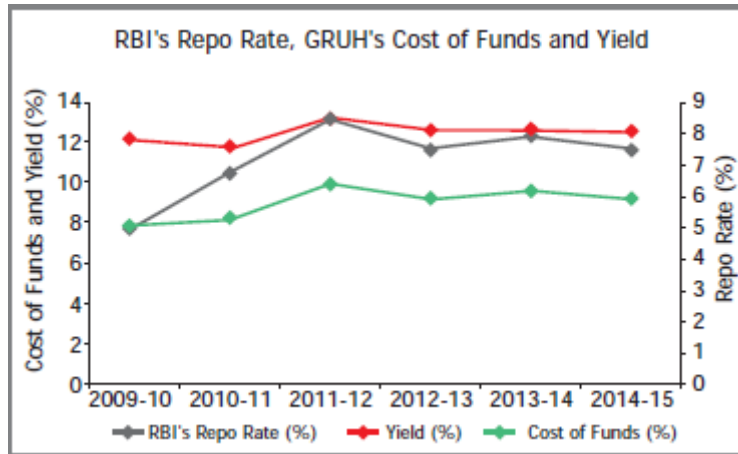
The NIM has been well maintained over last few years any improvement would substantially improve overall profitability on an increasing asset base...



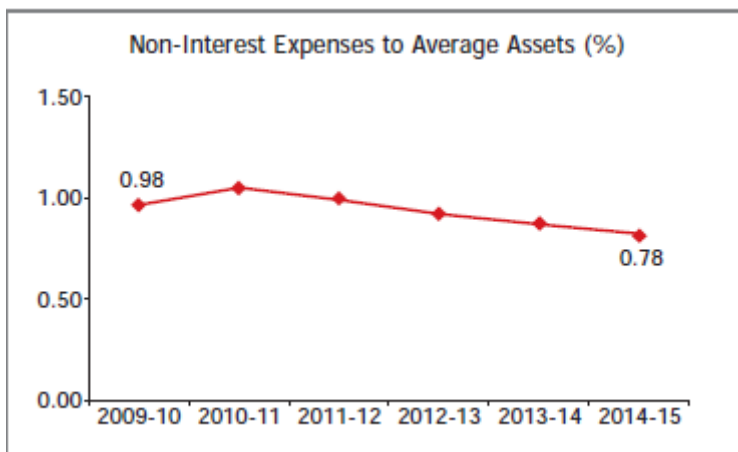
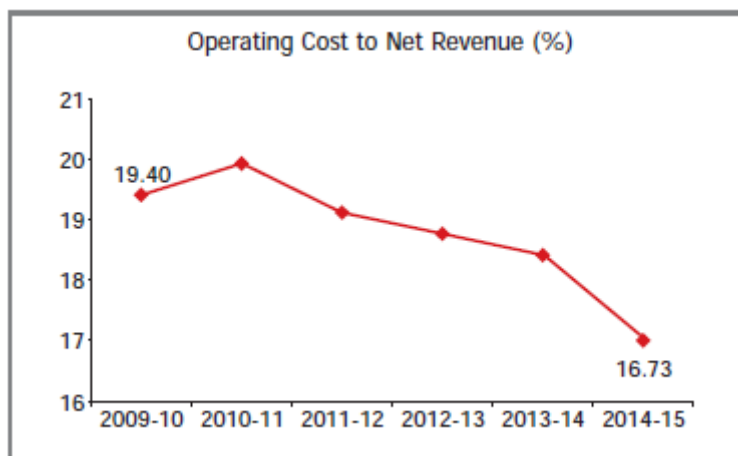
Yield has been maintained at decent levels as well....

The average yield realised on the loan assets during the year was 12.65% (previous year 12.75%).

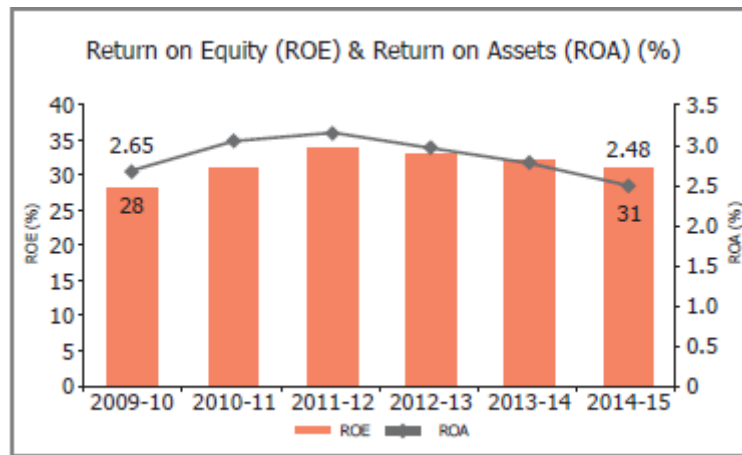
The average cost of total borrowings experienced during the year was 9.24% per annum (previous year 9.57%).



As company gathers scale the operating expense are going down....



RoE is not the right number as NBFCs are hugely leveraged however ROA has been excellent and steady ...



Industry commentary

Few excerpts on industry commentary, see my emphasis on affordable housing

Overall market size for home mortgage finance INR 9 lac crore

Demand for new residential properties is very sluggish and property valuations have increased. The market scenario has become much more discouraging and it is expected that the scenario might not change for a further period of 12 to 15 months. [**However, in line with the Central Government's Housing for all – 2022 programme, various State Governments have taken up housing projects in the affordable segment through their agencies viz. Municipal Corporations, Housing Boards, Development Authorities or through specialised agencies set up for the purpose**]. GRUH is working with these agencies and lending to beneficiaries who are in the EWS and LIG segment. GRUH has been trying to minimise the risk while lending to these segments as much as possible by entering into Tripartite agreements wherein the government agencies are a party

Net profit is understated

During the year, the regulator for Housing Finance Companies (HFC)- National Housing Bank (NHB) stipulated that HFCs are required to create Deferred Tax Liability in respect of Special Reserve being created by HFCs. As a result, the reported Profit After Tax (PAT) gets adversely impacted. GRUH is of the opinion that generally HFCs would not be required to utilise Special Reserve since specific provisions towards Standard Loan Assets and Non-Performing Loans are being made. Hence, in all probabilities, such creation of Deferred Tax Liability will not get crystallized in the long term period PAT due to such accounting entry

See below accounting entry as part owners we should ignore these adjustment entries

PROFIT BEFORE TAX FOR THE YEAR		300.84	244.46
Tax Expenses :			
Current Tax	80.56		68.20
Deferred Tax (Net)	(2.85)		(0.70)
Deferred Tax on Special Reserve	3.2	19.33	0.00
		97.04	67.50
PROFIT AFTER TAX FOR THE YEAR		203.80	176.96
Earnings per Equity Share (Face value of ₹ 2 per Share)	33		
Basic		5.571	4.930
Diluted		5.566	4.896

Profit After Tax before impact of DTL on Special Reserve grew by 26% as against 21% in the previous year, however the reported number due to adjustment was 15% a whopping 9% difference due an accounting entry

Other important points

- Stocks options are granted this year at the rate of INR 268/Share to employees as expected there was less than 1% dilution of equity
- No Major related party transactions
- Almost negligible contingent liability on books
- Lastly see how EV multiple has kept on increasing through years

Particulars	(₹ in crores)				
	As At March 31, 2015	2014	2013	2012	2011
Number of Equity Shares of ₹ 2 each (crores)*	36.34	36.03	35.70	35.30	35.16
Market Price per share on face value of ₹ 2 each*	244.00	147.65	105.15	63.70	36.02
Market Capitalisation	8,866.58	5,319.27	3,753.36	2,248.60	1,266.38
Total Debt	8,215.59	6,447.50	4,914.52	3,833.00	2,966.33
Cash	6.80	15.67	13.12	114.98	93.69
Enterprise Value(EV)	17,075.37	11,751.10	8,654.76	5,966.62	4,139.02
EBIDTA	979.86	790.54	603.20	475.23	328.32
EV/ EBIDTA (Times)	17.43	14.86	14.35	12.56	12.61

That's it from me today, I will continue to write these reviews for model portfolio companies and few other businesses I like