

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Overview

The wheels of change continued to roll in the country with the launch of the Goods and Services Tax (GST) and the Real Estate Development and Regulation Act (RERA). While the GST would be a long-term positive for the economy, it had its initial implementation issues and the overall economy bore the brunt of the changes with traders and Medium and Small Scale Enterprises (MSME) getting adversely affected. The government as a result, had to revise the GDP growth estimates downward twice during the year from 7.40% to 6.60%.

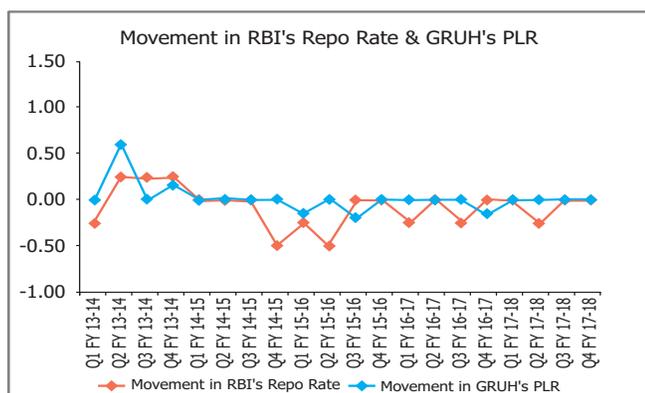
The Reserve Bank of India (RBI) continued to keep an eye on the inflation and therefore did not lower the benchmark rates during the year. However, on account of the weak credit offtake, banks continued to aggressively price their lending products, putting pressure on incremental spreads for the lenders.

While the last quarter of the financial year under review witnessed some positive signs in terms of production, export growth and lower inflation, the rising Non Performing Assets (NPAs) levels and large scale financial scams in the banking sector dampened sentiments.

The government reviewed the urban housing shortage numbers and reduced the shortage projections from the earlier 18.76 million units to 10 million dwelling units. While the government has been promoting housing and has offered various sops for the industry to meet the shortage, the sluggish offtake of housing and low supply numbers could still impact the achievement of the target of Housing for All by 2022.

The real estate market also witnessed the implementation of the RERA. While the implementation of RERA has been slow in many states, the provisions enshrined in the Act are definitely going to alter the landscape for real estate developers. RERA, however, would require higher disclosure and procedural requirements and could affect the viability of small scale developers. The immediate effects were witnessed in the industry with new project launches declining and demand continuing to remain sluggish. Even the drop in property prices in few pockets could not enthuse customers to make their purchase decision and unsold inventory levels continued to remain high.

The RBI in its recent policy has projected GDP growth to strengthen from 6.6 per cent during 2017-18 to 7.3 – 7.4 per cent in the first half and 7.3 – 7.6 per cent in the second half of FY18-19. It has kept the repo rate at 6.00 per cent, with inflation expected to be in the region of 4.4 per cent with a variation band of 0.1 – 0.3 per cent.



Market Scenario

The Pradhan Mantri Awas Yojana (PMAY) and particularly the Credit Linked Subsidy Scheme (CLSS) besides the incentives offered to developers is expected to usher in the supply of affordable homes for the low income segment. However the slow pace of activity across all major cities clearly indicates that the desired supply in the low income segment has not come into the market. As a result, the growth in outstanding mortgages continues to be tepid. ICRA also estimated the growth in outstanding mortgages to have declined from 19% to 16%.

While the Banks and Housing Finance Companies (HFCs) continued their aggressive pricing on home loans, the rising NPA levels in the market reflected the distress in the MSME and self-employed segments. The combined impact of compressed spreads and rising NPA could hurt the profitability of HFCs in the long run.

The lower demand for housing and pressure to grow the assets under management has also compelled lenders to opt for loan takeovers resulting in higher prepayments. The smaller HFCs have been more impacted by the prepayments further putting pressure on their viability and challenging their ability to sustain the price war.

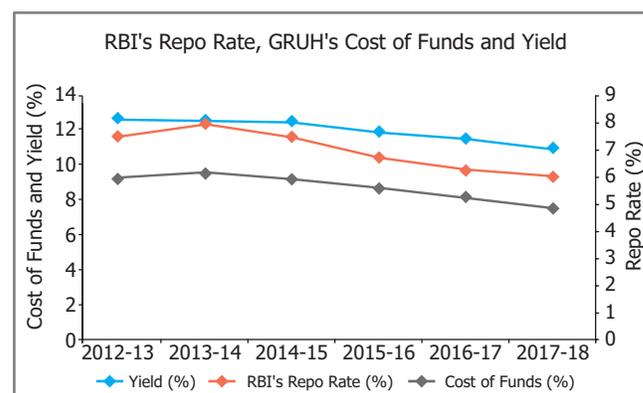
Many of the lenders have opted for a change in the product mix and are offering higher yielding products such as Loan Against Property and inventory financing. However, the risks associated with such products are higher and the balance sheet strength would largely determine the ability of the lenders to take such risk.

While the industry has witnessed the entry of many new players, the rising NPAs and the inability to upscale has raised many challenges so far. Newer players would have to therefore factor in these challenges before entering this competitive landscape.

Overall, the year ahead looks challenging with the industry having to face the pressures of lower incremental spreads, higher prepayments and higher NPA levels. The continuing effects of GST on the MSME and self-employed segment is also a factor to be considered which could affect delinquencies. However, there is hope of the demand as well as the supply improving in the market going forward which should benefit the stronger and efficient players.

Loan Products

GRUH's major focus has been to provide home loans to individuals and families for purchase, construction and extension. GRUH also



provides loans for repair and renovation of houses and home loans to families in the self-employed category where formal income proofs are not easily available. The repayment capacity of such families are appraised based on their cash flows. Apart from extending home loans, GRUH offers loans for purchase and construction of non-residential properties (NRP) and also offers mortgage loans against existing residential and commercial properties. GRUH offers developer loans on a selective basis.

Home loan products are being offered at variable and fixed rates, giving customers an option to decide on the type of interest rate risk.

GRUH has also signed an MOU with National Housing Bank (NHB) which is the Central Nodal Agency under the Pradhan Mantri Awas Yojana (PMAY) for the Credit Linked Subsidy Scheme (CLSS) for EWS, LIG and MIG categories. The subsidy received from the government through the Central Nodal Agency under this scheme, is being passed on to the beneficiaries by way of prepayment with a reduction in their instalments.

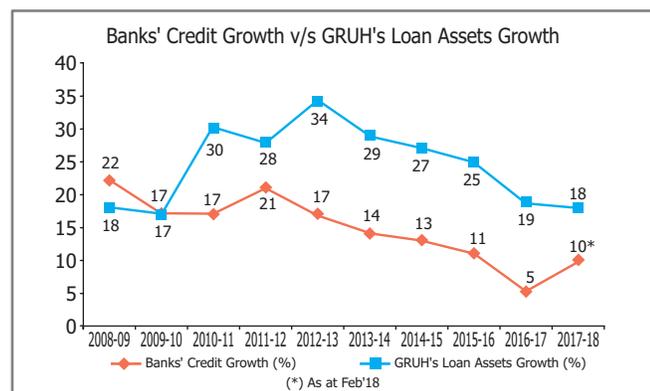
With a view to enable uniform processing of credit risk assessment, GRUH has adopted a credit score methodology. The pricing of each loan is linked to the credit score. This methodology enables GRUH to offer finer interest rates to deserving families, where credit risk is low and charge a higher rate of interest where credit risk is high. The credit score parameters and risk weightage are reviewed on regular basis and modified in line with the changing risk profile. The rate of interest bands are also reviewed on regular basis and aligned with the prevailing rates in the market.

Marketing Efforts

To ensure a deeper geographic reach, GRUH has been sourcing retail business through third party channels by appointment of GRUH Referral Associates (GRAs). GRAs only source loans while GRUH retains control over the credit, legal and technical appraisals. Business sourced through GRAs was 71% of total disbursements made during the year and GRUH paid referral fees of ₹ 17.80 crores to GRAs for sourcing business.

GRUH is operating in eleven states - Gujarat, Maharashtra, Karnataka, Rajasthan, Madhya Pradesh, Chhattisgarh, Tamilnadu, Uttar Pradesh, Bihar, Jharkhand, West Bengal and Dadra Nagar Haveli. GRUH established 9 new offices during the year. GRUH now has 194 retail offices across these eleven states. GRUH's staff strength as at March 31, 2018 was 692.

GRUH conducts outreach programmes from its retail offices to potential taluka places. The outreach marketing programme also serves as collection centre for collecting instalments besides providing services of enquiry handling, file opening and effecting disbursements.



Disbursements

GRUH disbursed ₹ 5,259 crores during the year as against ₹ 4,125 crores in the previous year registering a growth of 27%. GRUH disbursed loans of ₹ 4,016 crores (previous year ₹ 3,121 crores) for home purchase, repair and renovation and registered a growth of 29% in the retail home loan segment.

GRUH disbursed home loans to 43,473 families (previous year 36,453 families) and the average home loan to individuals was increased to ₹ 9.40 lacs from ₹ 8.86 lacs in previous year.

Disbursements under the Loan Against Property (LAP) segment were ₹ 557 crores (previous year ₹ 462 crores).

GRUH disbursed loans of ₹ 60 crores (previous year ₹ 71 crores) for purchase of NRP and ₹ 614 crores (previous year ₹ 471 crores) to developers.

Cumulative disbursements as at March 31, 2018 stood at ₹ 28,456 crores with a Compound Annual Growth Rate (CAGR) of 19% over the past 3 years period.

Insurance Products

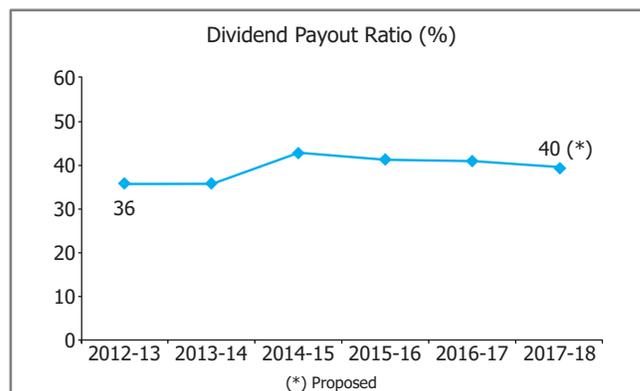
GRUH has an arrangement with The Oriental Insurance Company Limited for providing property insurance of the property mortgaged. During the year, GRUH referred 48,525 customers under this arrangement in respect of property cover of ₹ 4,655 crores.

GRUH has an arrangement with three Life Insurance service providers viz HDFC Life Insurance Co. Ltd., Bharti AXA Life Insurance Co. Ltd. and Kotak Mahindra Life Insurance Co. Ltd. GRUH continued to persuade its customers to take insurance cover on the life of the principal income earner as the collateral for its loans. The policies are assigned in favour of GRUH. During the year, 23,664 customers have taken the life cover from these insurance companies in respect of life cover of ₹ 1,887 crores.

Loans

The loan approval process at GRUH is decentralised with varying approval limits. Approvals of lending proposals are carried out by retail sanctioning committees up to the limits delegated. Approvals beyond certain limits are referred to the Committee of Management. Larger proposals, as appropriate, are referred to the committee of directors, set up by the board.

During the year, GRUH's total outstanding loans increased to ₹ 15,568 crores from ₹ 13,244 crores and registered a growth of 18%. CAGR over the past 3 years period has been 20%.



The total outstanding loans at variable rates stood at ₹ 14,431 crores (previous year ₹ 11,892 crores), which was 92% (previous year 90%) of the total outstanding loans. Loans to total assets stood at 97.48% as at March 31, 2018.

GRUH's outstanding home loans to individuals of ₹ 12,851 crores constitute 82.55% of the total outstanding loans. Loan Against Properties of ₹ 1,681 crores and other loans to individuals for non-residential premises (NRP) of ₹ 368 crores constituted 10.80% and 2.36% respectively of the total outstanding loans. GRUH experienced a prepayment ratio of 13.87% (previous year 11.17%) in respect of individual loans. The outstanding loans to developers of ₹ 668 crores constituted 4.29% of the total outstanding loans.

The average yield realised on the loan assets during the year was 11.10% (previous year 11.66%).

Particulars	CAGR (%) As At March 31, 2018			
	3 Years	5 Years	7 Years	10 Years
Disbursements	19	19	23	24
Loan Assets	20	23	25	24
NIM	24	24	24	24
PAT	21	20	22	24

Provision for Standard Assets, NPAs and Contingencies

As per the prudential norms prescribed by NHB for Standard Loan Assets, HFCs are required to carry a provision of 0.25% on individual Home Loans, 1% on individual NRP Loans, 0.75% on developer loans for residential projects and 1% on developers loan for commercial projects. During the year, NHB vide notification No. NHB.HFC.DIR.18/MD&CEO/2017 dated August 2, 2017 reduced the provisioning requirement on Standard Individual Housing Loans from 0.40% to 0.25%.

GRUH carries provision of ₹ 66.10 crores towards Standard Loan Assets comprising individual home loans, individual NRP Loans and developer loans aggregating to ₹ 15,498 crores. This provision includes provision of ₹ 0.21 crore towards standard assets in respect of instalments due from borrowers of ₹ 50 crores and a provision of ₹ 0.01 crore in respect of standard assets on loan against GRUH's fixed deposits and interest accrued thereon of ₹ 1.26 crore. As on March 31, 2018, GRUH carries Standard Assets provision which is ₹ 20.25 crores higher than the revised regulatory requirement of minimum 0.25%.

As per the prudential norms of NHB, GRUH has identified Non Performing Assets (NPAs) and made required provisions on such NPAs besides not recognising income in respect of such NPAs. An asset is NPA if the interest or principal instalment is overdue for 90 days.

GRUH's NPAs as at March 31, 2018 were ₹ 66.52 crores in respect of home loans and ₹ 3.57 crores in respect of individual NRP loans. There were no NPAs under developer loans. GRUH is required to carry a provision of ₹ 17.89 crores towards non-performing loans as per NHB norms. However, as a measure of prudence, your directors have decided to carry a provision of ₹ 53.47 crores. GRUH also carries provision of ₹ 16.63 crores as contingencies. GRUH therefore carries a total provision of ₹ 136.20 crores on its total assets including standard assets and non-performing loans. Net Non Performing Loans were Nil on outstanding loans of ₹ 15,568 crores.

During the year, GRUH has written off an amount of ₹ 1.08 crore in respect of individual loans where the recovery was difficult in the near future. However, GRUH continued the recovery efforts in respect of written off loans of earlier years and could effect recoveries of ₹ 0.29 crore in respect of written off loans.

GRUH carried 237 properties acquired in settlement of dues at the beginning of the year. During the year, GRUH acquired 76 properties and disposed off 20 properties. GRUH carried 293 properties as at March 31, 2018.

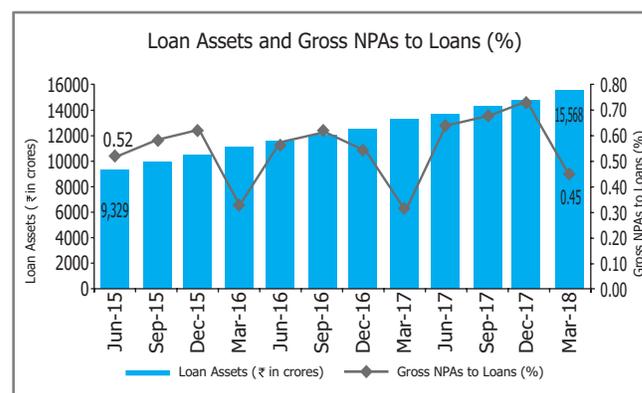
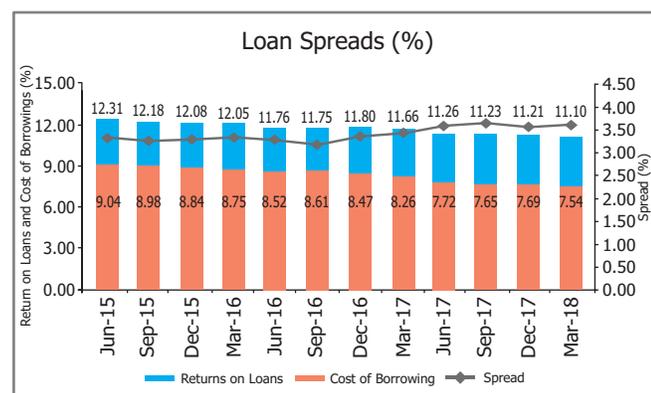
Investments

The Investment Committee constituted by the board of directors is responsible for approving investments in line with limits as set out by the board. The decisions to buy and sell upto the approved limit delegated by the board are taken by the Managing Director, who is assisted by two senior managers. The investment function is carried out primarily to support the core business of housing finance to ensure adequate levels of liquidity and to maintain investment in approved securities in respect of public deposits raised as per the norms of NHB.

Considering the time lag between raising of resources and its deployment, the surplus funds are generally being parked with liquid fund schemes of mutual funds and short-term deposits with banks. During the year, GRUH earned ₹ 9.75 crores as surplus from cash management schemes of mutual funds and ₹ 4.34 crores by way of interest on deposits placed with banks. At the end of the year, GRUH maintained ₹ 53.79 crores by way of deposits with banks.

As per NHB guidelines, HFCs are required to maintain Statutory Liquid Ratio (SLR) in respect of public deposits. Currently, the SLR requirement is 12.50% of the public deposits. As at March 31, 2018, GRUH has invested ₹ 214.48 crores in approved securities comprising government securities, government guaranteed bonds and deposits with scheduled banks, which is higher than the limits prescribed by NHB.

GRUH has classified its investments in SLR securities as long-term investments and valued them at cost. GRUH carries a provision of



₹ 9.57 crores towards losses, if any, that would arise on redemption of investments on maturity.

Borrowed Funds

GRUH has been raising funds for its lending activities from NHB by way of refinance, from banks by way of term loans, by private placement of non-convertible debentures (NCDs), by issuance of commercial paper and mobilisation of public deposits.

Endeavours at GRUH have been to maintain a prudent mix of fixed rate borrowings and variable rate borrowings with a view to minimise the weighted average cost of borrowings and maintain a healthy spread on its lending activities. GRUH has also been funding its operations through short-term borrowings in the form of commercial paper and short tenure loans from banks. While such a mix enables GRUH to sustain a healthy net interest margin, it raises the risks of asset liability mismatch. To minimise the risk arising on account of such mismatch, GRUH has set internal norms on the quantum of short-term borrowings so that a prudent balance is maintained in keeping the cost of funds low to an extent that the risk arising from the mismatch could be managed.

The borrowings which are maturing within twelve months from the end of the year, constituted 52.54% (previous year 12.70%) of the total borrowings of ₹ 14,046 crores (previous year ₹ 12,018 crores). The outstanding borrowings at fixed rate stood at ₹ 8,086 crores (previous year ₹ 6,492 crores), which was 57.57% (previous year 54.02%) of the total outstanding borrowings.

GRUH continued to borrow for both long and short-term from the banking sector at competitive rates. GRUH raised fresh loans from banks aggregating to ₹ 1,380 crores during the year and repaid loans aggregating to ₹ 79.48 crores. Term loans from banks are secured by a negative lien on all assets of the Company excluding the specific immovable property mortgaged in favour of the Debenture Trustees for issuance of NCDs and Statutory Liquid Assets having floating charge in favour of the Public Deposit Trustees against Public Deposits. Outstanding balance of bank loans was ₹ 5,637.50 crores as at March 31, 2018.

GRUH repaid refinance of ₹ 1,723 crores to NHB. Outstanding refinance from NHB as at March 31, 2018, of ₹ 2,048 crores is secured by a negative lien on all assets of the Company excluding the specific immovable property mortgaged in favour of the Debenture Trustees for issuance of NCDs and Statutory Liquid Assets having floating charge in favour of the Public Deposit Trustees against Public Deposits.

GRUH raised ₹ 2,060 crores through issuance of NCDs during the year. The outstanding balance of NCDs as at March 31, 2018 was ₹ 4,097 crores. The NCDs are secured by mortgage of a specific immovable

property and negative lien on all assets of the Company excluding the Statutory Liquid Assets having floating charge in favour of the Public Deposit Trustees against Public Deposits. GRUH's NCDs are rated "ICRA AAA" and "CRISIL AAA" indicating highest degree of safety regarding timely payment of financial obligations.

The outstanding subordinated debt as at March 31, 2018 stood at ₹ 35 crores. The debt is subordinated to present and future senior indebtedness of the Company and is rated "ICRA AAA" and "CRISIL AAA" indicating highest degree of safety regarding timely payment of financial obligations. Based on the balance term to maturity, as at March 31, 2018, ₹ 28 crores of the book value of subordinated debt is considered as Tier II capital as per the guidelines issued by NHB for the purpose of computation of Capital Adequacy Ratio (CAR).

GRUH's short term borrowings including commercial paper and short term NCDs are rated "ICRA A1+" and "CRISIL A1+", indicating very strong degree of safety regarding timely payment of financial obligations. The outstanding balance of commercial paper as at March 31, 2018 was ₹ 770 crores.

During the year, GRUH received fresh deposits of ₹ 477 crores and repaid deposits of ₹ 524 crores. The renewal ratio (the ratio of deposits renewed to the deposits maturing during the year) experienced by GRUH was 50.71%. The outstanding deposits have decreased from ₹ 1,505 crores at the beginning of the year to ₹ 1458 crores by the end of the year. The outstanding balance of public deposits constituted 10.38% of the total outstanding borrowings as at March 31, 2018.

GRUH's Deposit programme is rated "MAAA" by ICRA and "FAAA" by CRISIL. These ratings indicate very strong degree of safety as regards timely repayment of principal and interest.

GRUH has been offering brokerage to its deposit referral associates. The brokerage structure is linked to the term of deposits mobilised. GRUH has been amortising the brokerage paid over the tenure of deposits mobilised.

The average cost of total borrowings experienced during the year was 7.54% per annum (previous year 8.26%).

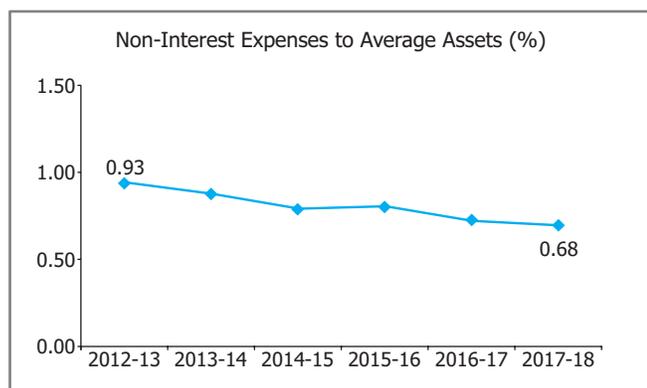
NHB Guidelines and Prudential Norms

GRUH has complied with the guidelines issued by NHB regarding accounting guidelines, prudential norms for asset classification, income recognition, provisioning, capital adequacy, concentration of credit, credit rating, Know Your Customer (KYC) guidelines and Anti Money Laundering (AML) Standards, Fair Practices Code, grievance redressal mechanism, recovery of dues, channel partners and real estate and capital market exposures.

GRUH had no investment in excess of the limits prescribed by NHB with any one company or any single group of companies. GRUH has not made investment in any of the promoter group companies or in the stock markets.

GRUH's total borrowings as at March 31, 2018 of ₹ 14,046 crores were within the permissible limit of 16 times of the net owned funds. Of this, the public deposits of ₹ 1,458 crores were also within the limit of 5 times of the net owned funds as prescribed by NHB. GRUH has complied with the guidelines issued by NHB regarding the ceiling on interest rates offered on deposits and brokerage paid to the deposit referral associates.

GRUH's CAR as at March 31, 2018 was 18.90% as against NHB's prescribed limit of 12%. The Capital Adequacy on account of Tier I Capital was 17.68% while the Capital Adequacy on account of the Tier II Capital was 1.22%.



Central Registry

The Government of India has set up the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) under section 21 of the SARFAESI Act, 2002 to have a central database of all mortgages created by lending institutions. The object of this registry is to compile and maintain data relating to all transactions secured by mortgages. All Banks & Housing Finance Companies (HFCs) which fall under the purview of SARFAESI Act are required to register with CERSAI and submit the data in respect of all properties mortgaged in its favour. The lending institutions are required to pay fees for uploading the data of mortgage.

GRUH is registered with CERSAI. GRUH has uploaded 43,530 records in respect of loans disbursed during the year. GRUH has paid fees of ₹ 0.52 crore to Central Registry towards uploading the data of mortgages.

Risk Management

GRUH has formulated a risk management framework which lays the procedure for risk assessment and mitigation. The Risk Management Committee (RMC) comprises the Managing Director as the chairman and the members include senior managers holding key positions in the Company. The RMC apprises the Audit Committee of the key risks associated with the business of the Company and the measures to mitigate them.

The Audit Committee has been periodically reviewing the risk profile of the Company and evaluating the adherence by the branches / functions of the systems and processes in place for monitoring, evaluation, assessment and mitigation of risk through a systematic and effective audit programme. The observations of Audit Committee, if any, on the risk management are reported to the board.

GRUH manages various risks like financial risk, operational risk, marketing risk, external risk and regulatory risks associated with the mortgage business. The critical risks which can significantly impact profitability and financial strength are credit risk, interest rate risk and liquidity risk. GRUH manages credit risk through internal credit norms. Liquidity risk and interest rate risks arising out of maturity mismatch of assets and liabilities are managed through regular monitoring of the maturity profile.

Internal Audit and Control

GRUH has an adequate system of internal control in place which has been designed to provide a reasonable assurance with regard to maintaining of proper accounting controls, monitoring of operations, protecting assets from unauthorized use or losses, compliance with regulations and for ensuring reliability of financial reporting. GRUH has documented procedures covering all financial and operating functions.

GRUH has robust internal audit programme, where the internal auditors, an independent firm of chartered accountants, conduct a risk-based audit with a view to not only test adherence to laid down policies and procedures but also to suggest improvements in processes and systems. Their audit program is agreed upon by the Audit Committee. Internal audit observations and recommendations are reported to the Audit Committee, which monitors the implementation of such recommendations.

IT Audit and Security

Information systems is the backbone of GRUH's business. GRUH has implemented an application software which is being maintained and has been enhanced and modified by the in-house IT software development group. The software is integrated to record and process

lending and deposit mobilization and accounting transactions of GRUH across its branches.

The Information System at GRUH operates under centralized IT environment and all the branches are connected through MPLS VPN connectivity. The centralized IT environment enables prompt communication between its retail offices and head office and also provides an interface for easy and quick MIS and preparation of various monthly reports.

Considering the significant dependence of GRUH's operations on its IT system, GRUH also takes initiative in maintaining adequate control for data integrity and its confidentiality. The Application Software and IT System at GRUH are upgraded from time to time. GRUH is having its entire IT infrastructure on a Cloud based model at Tier 4 Data Center. GRUH has also arranged for a Cold Disaster Recovery site at a different geographical location than the primary Data Center.

GRUH carries out audit of its IT system from external agency at regular intervals. The external agency's suggestions and recommendations are reported to Audit Committee and implemented where found necessary.

Statement of Profit and Loss

Key elements of the statement of profit and loss for the year ended March 31, 2018 are:

- Profit before tax grew by 27.16% as against 22.20% in the previous year.
- Profit after tax grew by 22.26% as against 21.79% in the previous year.
- Current year income tax provision amounted to ₹ 166 crores as compared to ₹ 120 crores in the previous year. The effective income tax rate for the year was 29% as against 27% during the previous year.
- Pre-tax return on average assets was 3.80% in the current year as against 3.53% in the previous year. Post-tax return on average assets was 2.45% as against 2.37% in the previous year.
- Return on average net worth for the year was 29.08% as against 30.45% in the previous year.
- Ratio of net interest margin to average assets was 4.40% for the current year as against 4.20% in the previous year.
- Cost to income ratio was 14.16% for the year as against 15.87% in the previous year.
- The Earnings Per Share (Basic) was ₹ 9.93 for the current year as against ₹ 8.15 for the previous year.

Human Resource

The enthusiasm of staff members continued to be high in sustaining positive growth of disbursements and in maintaining healthy recoveries. With the high level of commitment and loyalty by staff members, GRUH is confident to face the challenges of the tougher market conditions.

