

# Dewan Housing Finance Ltd

## Strong business at attractive valuation

Dewan Housing Finance (DHFL) is a niche housing finance company (HFC) focused on low and middle income (LMI) housing market with an extensive network in Tier 2 and 3 cities. Its loan portfolio has registered 39% CAGR during FY12-15 making it one of the fastest growing HFCs in India. Company's loan book and AUM stood at Rs. 51,040cr and Rs. 56,900cr respectively as of FY15. The Govt's 'Housing for All by 2022' and '100 Smart Cities' initiatives should substantially expand the addressable market for DHFL going forward. The recent interest subvention policy for economically weaker sections (EWS) indicates some real progress by Govt. We expect DHFL to deliver a better-than-industry AUM CAGR of 21.5% over FY15-17.

DHFL's loan mix has witnessed a dramatic shift in the past few years. The housing loans (HL) share has given way to a higher yielding LAP book. Currently, individual HLs comprise 75% of the overall book which is lowest amongst the peers. Therefore, loan mix hereon should remain stable and which would mean that interest spread would be largely driven by competition dynamics and easing in cost of funds.

DHFL's cost to income ratio has been high compared to peers as the company has aggressively invested in network expansion. As utilization levels of branches improve and share of alliance partners in incremental business generation pick-up, the cost/income should moderate. Company has maintained GNPA's and NNPA's at sub 1% levels and 0% respectively. Given the swift shift in portfolio mix towards non-HL products in the recent years, it is likely that asset quality and credit costs could witness a marginal uptick in coming years.

With stock trading at 1x FY17 P/ABV, DHFL's valuation is alluring not just because it is at significant discount to the industry but also in the context of company's strong sustainable profitability (1.4% RoA and 17-18% RoE). Initiate coverage on DHFL with 12-month price target of Rs. 570.

### Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Total operating income	4,968	5,979	7,238	8,572
yoy growth (%)	22.3	20.3	21.1	18.4
Operating profit (pre-provisions)	805	1,048	1,381	1,720
Net profit	529	621	804	985
yoy growth (%)	17.0	17.4	29.4	22.6
EPS (Rs)	41.3	42.6	55.2	67.6
Adj.BVPS (Rs)	279.3	318.2	364.6	421.8
P/E (x)	10.5	10.2	7.9	6.4
P/adj.BV (x)	1.6	1.4	1.2	1.0
ROE (%)	15.5	15.1	16.2	17.2
ROA (%)	1.3	1.3	1.3	1.4
Dividend yield (%)	1.8	1.4	1.7	2.1
CAR (%)	17.2	16.5	15.8	15.3

Source: Company, India Infoline Research

<b>Rating:</b>	<b>BUY</b>
<b>Target (12months):</b>	<b>Rs570</b>
<b>CMP:</b>	<b>Rs432</b>
<b>Upside:</b>	<b>32.0%</b>

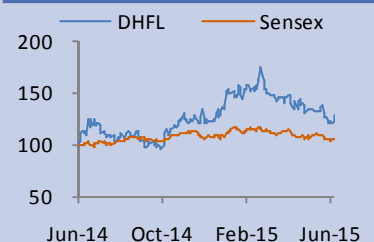
<b>Sector:</b>	<b>Financials</b>
<b>Sector view:</b>	<b>Positive</b>
Sensex:	27,804
52 Week h/l (Rs):	570/306
Market cap (Rscr) :	6,222
6m Avg vol ('000Nos):	1,047
Bloomberg code:	DEWH IS
BSE code:	511072
NSE code:	DHFL
FV (Rs):	10

Prices as on 23 Jun, 2015

### Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth					
RoA Progression					
B/S Strength					
Valuation appeal					
Risk					

### Share price trend



### Share holding pattern

	Sep-14	Dec-14	Mar-15
Promoters	39.2	39.6	35.0
Institutions	30	20.9	28.2
Others	30.8	39.5	36.8

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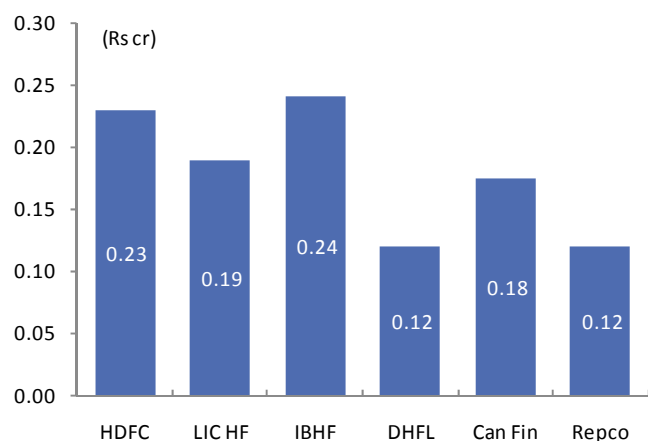
**June 24, 2015**

**Company Report**

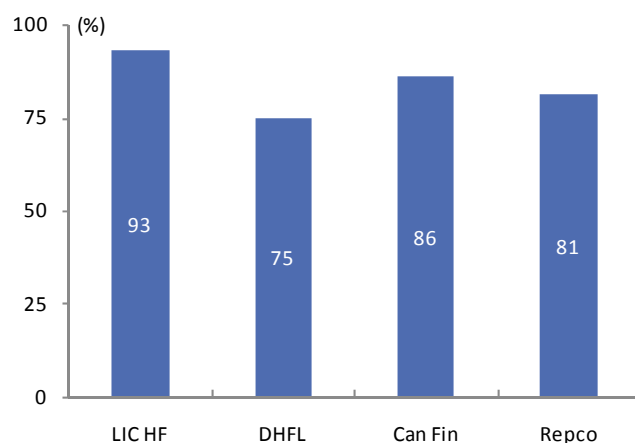
## DHFL - a niche housing finance company

- ✧ The company was founded in 1984 by Shri Rajesh Kumar Wadhawan with a focus on low and middle income (LMI) segments. It currently has presence across at 550+ locations in India and offices in UK and UAE.
- ✧ DHFL is India's fourth largest private sector housing finance company with AUM of Rs. 56,900cr as on FY15 end.
- ✧ Loan book is well diversified across housing loans (75%), LAP (18%), project loans (6%) and SME (1%) on FY15 end. The company has the lowest proportion of HL portfolio compared to peers.
- ✧ DHFL's niche positioning arises out of its lower ticket sized loans at Rs. 0.12cr whilst larger players operate in the Rs. 0.18 - 0.24cr market segment. The closest competitor by nature is Repco, however it is substantially smaller in terms of AUM.
- ✧ For LAP and project finance segments, the average ticket size is Rs. 30 lac and Rs. 12 cr respectively. LTVs are average 42% and 35% for the two segments respectively.
- ✧ Within the housing loan book, salaried customers constitute 70% of the portfolio and non-salaried customers contribute the rest. Typically, the income level of customers range between Rs. 20,000 - Rs. 50,000 per month. Geographic focus is primarily Tier 2/3 cities and metropolitan suburbs and average duration of the book is 8 years.
- ✧ DHFL operates via a large distribution network of 364 company operated centers across India and 372 locations through alliance partners (mainly banks). In general, the agreement with banks is to allow them to retain 50% of the loans origination for provision of infrastructure.
- ✧ Company sources about 70% of its loans via self operated centers, while bank alliances and DSAs contribute 5% and 25% respectively.
- ✧ DHFL has applied for a Small Bank License.

**DHFL's low loan ticket size reflects its LMI focus**

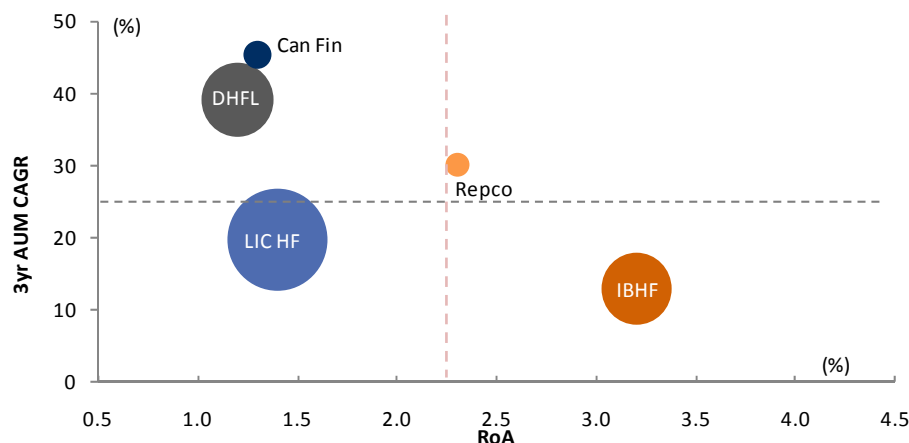


**Housing loan proportion for DHFL among the lowest**



Source: Company, India Infoline Research

## A snapshot of various HFCs - DHFL ranks higher on growth and size



Source: Company, India Infoline Research. \*Bubble size indicates AUM

## Government Initiatives in the LMI housing space

### ✧ Housing for All by 2022

The 'Affordable Housing for All' is a critical policy agenda for the GoI. According to public sources, the building of 1.6mn homes for EWS was sanctioned in FY14 with a value of ~Rs. 41,723cr. Approximately 11 crore houses is estimated to be required by 2022 of which ~70% will be in the affordable segment. The potential investment required in this space is ~USD250bn pa as per a KPMG report thus implying a huge opportunity for HFCs focused on LMI and EWS segments. Annual income of EWS is upto Rs. 1lac and for LIG is Rs.1-2 lacs while the property value for these segments is upto Rs. 6lac and Rs. 15-20lac respectively. The GoI must take steps towards improving banking penetration and reducing cost of houses which will increase the affordability of homes. LIG and EWS segment currently constitute ~60% of housing shortages in India. On June 17, 2015, the Cabinet Committee on Economic Affairs (CCEA) raised the interest subsidy for affordable housing in urban areas to 6.5% for EWS including slum dwellers and LMI groups. According to the ministry of Urban Development, the policy impact of this change will positively benefit urban poor to the tune of Rs. 2.3lac each. This move, along with other schemes such as PMJDY, will help overcome the challenge of limited access to credit by EWS/LIG and consequently, will help spur demand for affordable housing.

### ✧ 100 Smart Cities

The '100 Smart Cities' government initiative is aimed at reshaping the urban landscape by making cities more affordable and livable. Each city selected under the scheme would be granted Rs. 100cr/year for five years. This presents a huge opportunity for the housing segment.

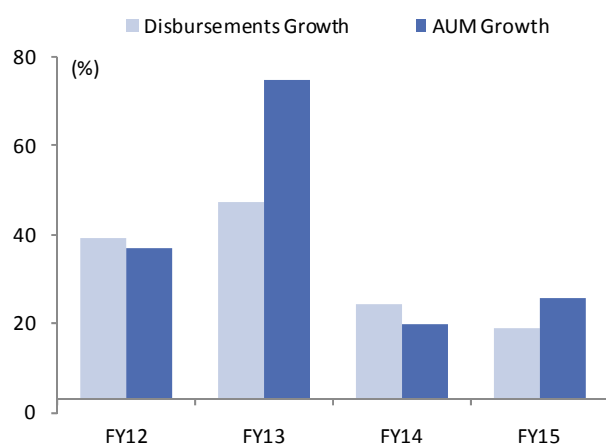
### Loan book growth to register strong 21.3% CAGR FY15-17E

DHFL's loan book and AUM has registered a CAGR of 38.2% and 39.2% respectively over FY12-15 to Rs. 51,040 cr and Rs. 56,900 cr as on FY15 end. This has been on the back of robust 30% CAGR in disbursements over the same period. One of the key reasons behind a stronger business traction in the past few years was company's focus on improving the share of non-housing loan products (LAP and Builder financing) where ticket size is significantly large. DHFL has been successful in executing on this strategy as the share of non-housing loan products has increased to ~25% as compared to 16% at FY13 end. However, scope for further shift in the portfolio mix is capped as HFCs need to maintain housing loans proportion at minimum 75%. Company expects disbursements to grow at 20% pa compared to 19% yoy and 27.8% yoy growth registered in FY15 and Q4 FY15 respectively. This should translate into a loan book growth of 21.6%/21.0% in FY16E/FY17E respectively.

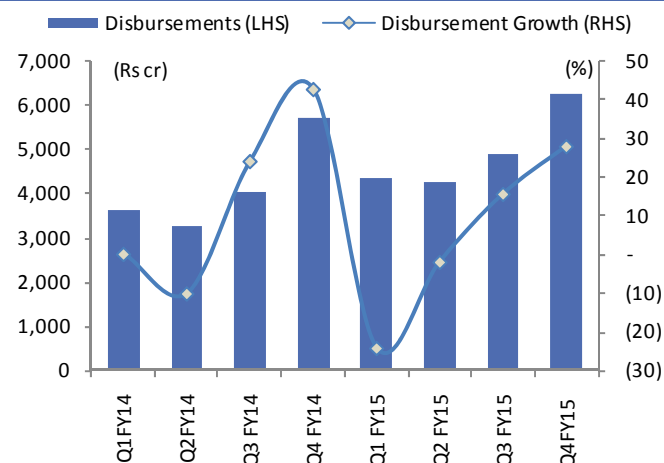
*DHFL's loan book and AUM has registered a CAGR of 38.2% and 39.2% respectively over FY12-15*

*...should translate to a loan book growth of 21.6%/21.0% in FY16E/FY17E respectively*

#### Robust disbursements driving AUM growth

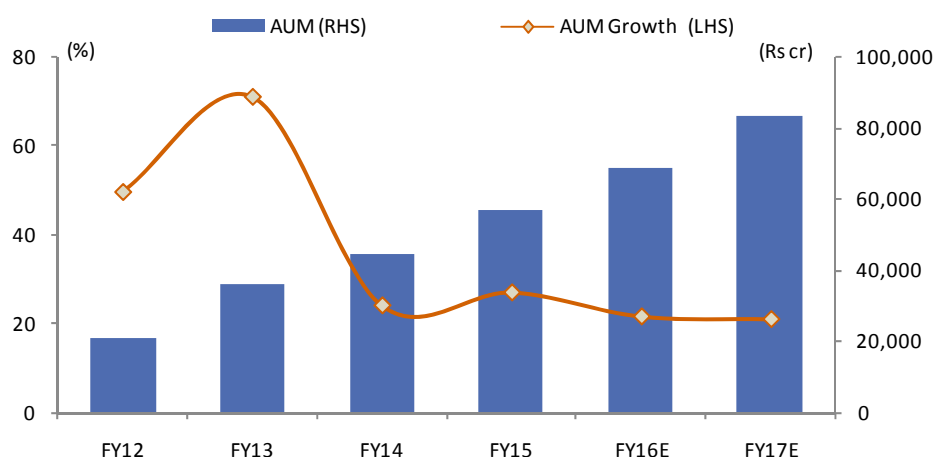


#### Disbursements trend in the recent quarters



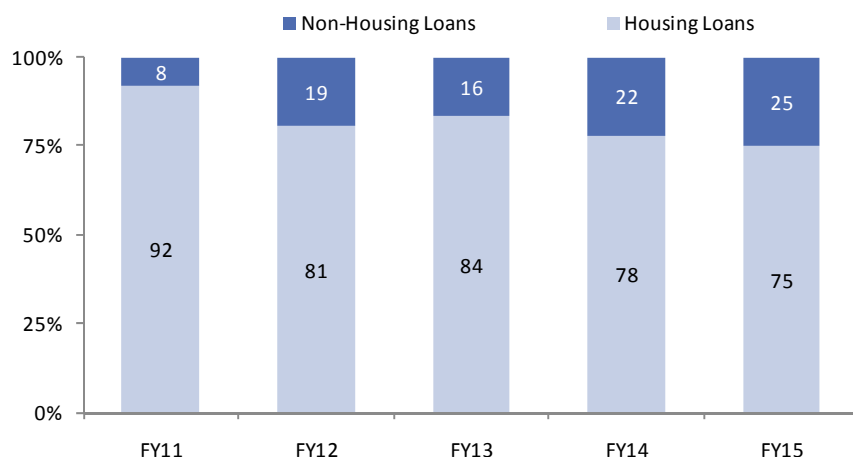
Source: Company, India Infoline Research

#### AUM to witness steady growth



Source: Company, India Infoline Research.

## Non-housing loans portfolio has increased in share



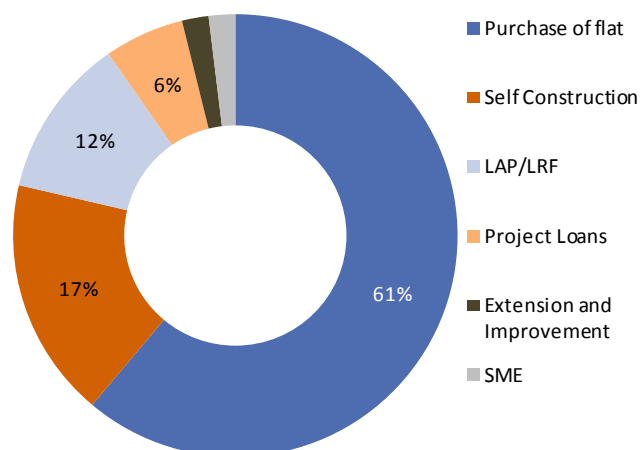
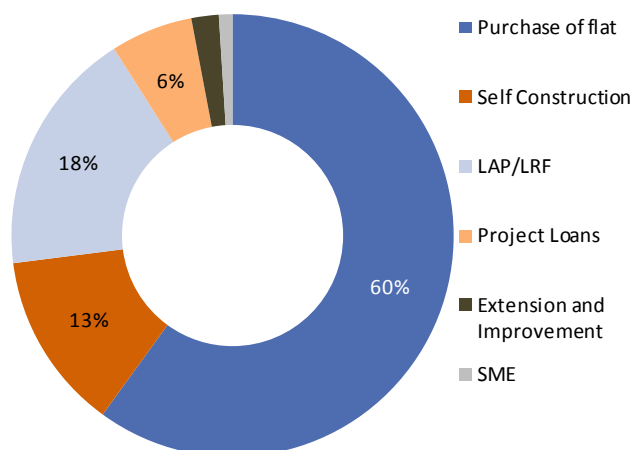
Source: Company, India Infoline Research.

## Portfolio yields to moderate going forward

DHFL's loan book is well-diversified now with housing loans, LAP, project finance and SME comprising 75%, 18%, 6% and 1% respectively. Of these segments, builder loans (i.e. project loans) provide the highest yields at 18-20%, while LAP and home loans are lent at 13-16% and 10-13% respectively. Over the past three years, DHFL's loan book has seen a significant shift in favor of LAP, whose share has grown 700bps during the period to 18%, while home loan share has contracted 600bps to 75%. This phenomenon has supported the blended portfolio yield in spite of increasing price competition in the home loans industry. Going forward, portfolio yield could moderate as benefits of easing borrowing cost are largely passed on due to high competitive intensity. Also there would be no incremental support from the loan mix.

### LAP share at end-FY15 stood at 18%

### ... compared to 12% at end-FY12



Source: Company, India Infoline Research

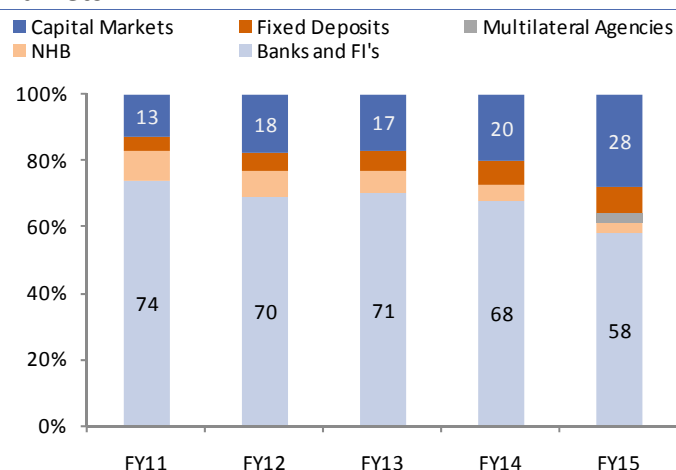
### Cost of borrowings to ease significantly

On the liability side, DHFL relies heavily on Banks and FI's which comprise 58% of the total borrowings as of FY15 while capital market contribute only 28%. Company has, however, strategically improved its borrowing profile through FY15 by taking advantage of much lower costing bond borrowings. While bank borrowing cost has gone down by 20bps between FY13-FY15, capital market funding cost has gone down ~60bps over the same period. This has allowed DHFL's weighted average cost of borrowing to decline 30bps over the period to 10.3% in FY15. The company is yet to experience full benefits of softening long-term bond yields as its credit rating was upgraded to AAA by CARE and Brickwork in June 2014. In addition to this, banks are yet to cut their base rates further adding impetus to improvement in the cost of borrowing. The company is dedicated to gradually decreasing the share of bank borrowings to 50% over the next three years. These developments will help DHFL in maintain spreads in the face of increasing competition in housing loans and LAP.

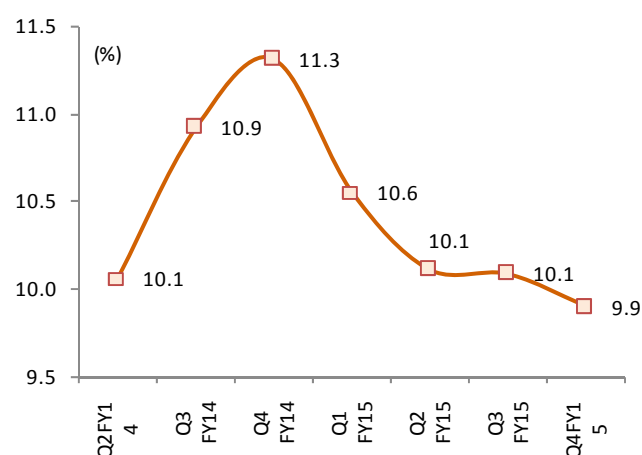
*...full benefits of declining yields to be realized as long term credit rating has been upgraded to AAA*

*The company is dedicated to gradually decreasing its share of bank borrowings to 50% over 3-4 years*

### Borrowing mix has moved in favour of capital markets

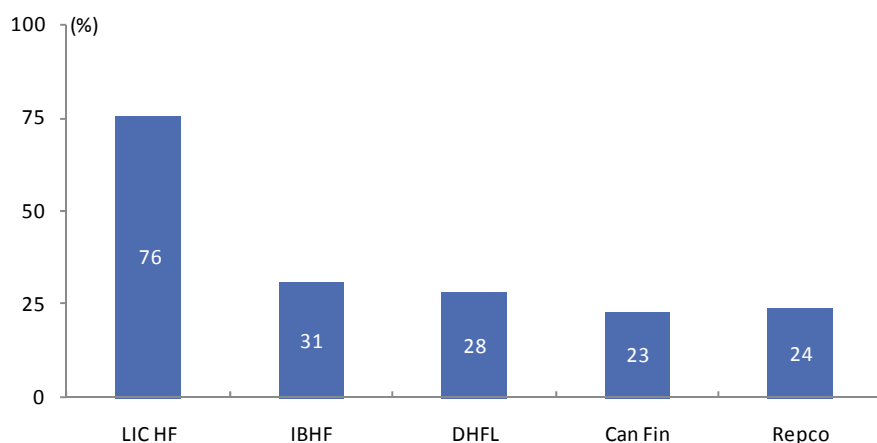


### ... which has driven a decline in borrowings cost in recent quarters



Source: Company, India Infoline Research

### Like most other HFCs, DHFL has significant headroom to increase its bond borrowings



Source: Company, India Infoline Research.

Cost of funds %	FY11	FY12	FY13	FY14	FY15
Banks and FI's	10.0	11.4	11.0	11.0	10.8
NHB	7.6	7.6	8.0	8.0	7.9
Multilateral Agencies	9.7	9.9	10.1	9.8	9.5
Fixed Deposits	9.3	9.8	10.0	10.7	8.6
Capital Markets	9.5	10.0	10.6	10.6	10.3
<b>WACB (end)</b>	<b>9.7</b>	<b>10.9</b>	<b>10.6</b>	<b>10.6</b>	<b>10.3</b>

Source: Company, India Infoline Research

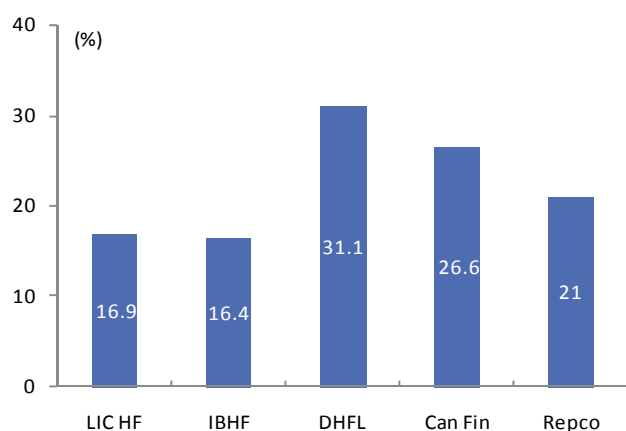
### Cost to income to provide some operating leverage as DHFL scales up

DHFL operates via a large distribution network of 364 company operated centers across India and at 372 locations through alliances with banks. 50% of the loans originated via bank alliances are retained on the book while remaining ownership is with the bank. Company is currently operating at high cost/income level of 31-32% due to substantial investment in network expansion and incurrence of significant legal cost. The ratio is much higher than peers and should correct gradually in the coming years as newer branches become more productive. Management is also focused on calibrating the pace of branch addition and driving business through alliances. This should allow DHFL to manage its costs and realize operating leverage benefits which will translate into better profitability. We forecast cost/income ratio to decline 270bps over FY15-FY17 to 28.4%.

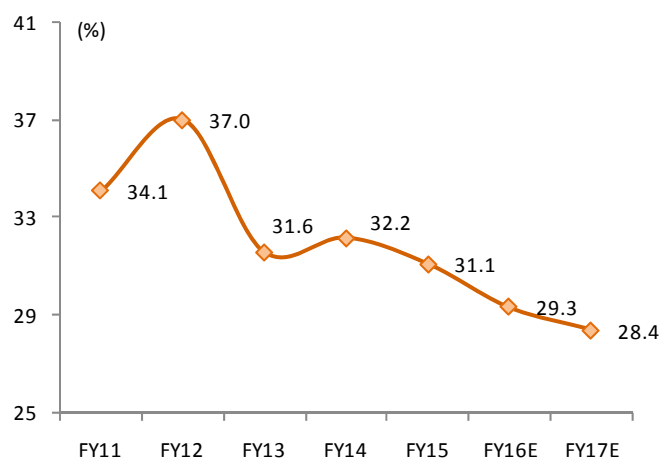
...large distribution network of 364 company operated branches and 372 locations through alliances..

Management is also focused on calibrating the pace of branch addition and driving business through alliances...

#### Higher cost/income ratio as compared to peers

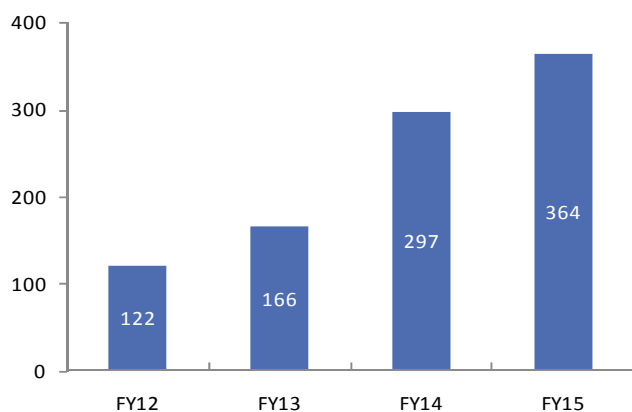


#### ... to moderate towards industry levels

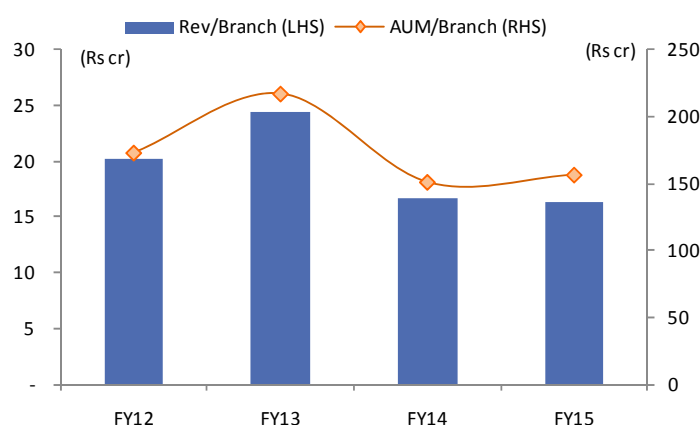


Source: Company, India Infoline Research

#### Branch network has expanded quickly...



#### Branch productivity to recover



Source: Company, India Infoline Research

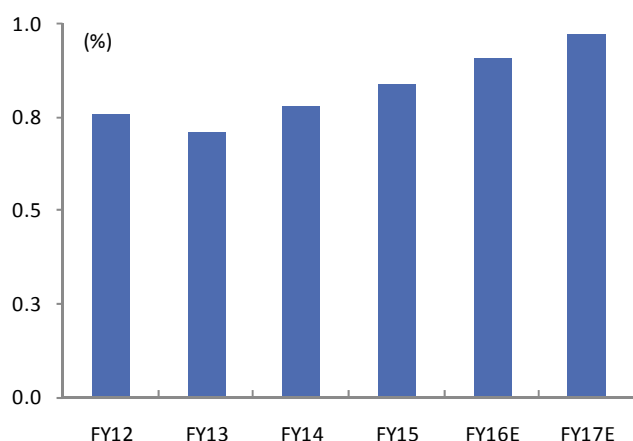
### Best-in-industry asset quality underpin benign credit costs

The asset quality of DHFL is best in class with GNPA at 0.84% and NNPA at 0% as on FY15. DHFL has consistently maintained GNPA's at sub-1% levels while keeping excess of 100% provisioning on it. Asset quality has not seen any stress even as the share of higher yielding LAP and project finance loans have increased indicating a strong underwriting process. DHFL's consistency in maintaining NNPA's at 0% has been critical in helping it secure AAA rating from credit rating agencies. We expect asset quality to witness only a marginal uptick barring any negative surprises in projects loans portfolio which individual exposures are lumpy. However, as per the company, there are no imminent signs of stress currently in this portfolio.

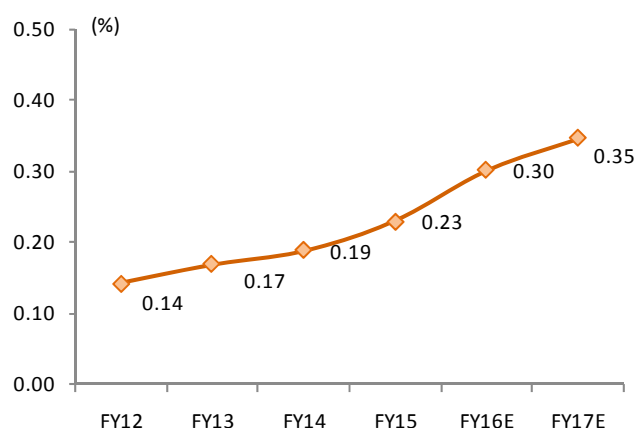
...consistently maintained GNPA's at sub-1% levels while providing excess of 100% provisioning...

We expect asset quality to witness only a marginal uptick barring any negative surprises in projects loans portfolio...

#### GNPAs to remain stable in the range of 0.8-1%



#### Credit cost could witness a slight uptick



Source: Company, India Infoline Research

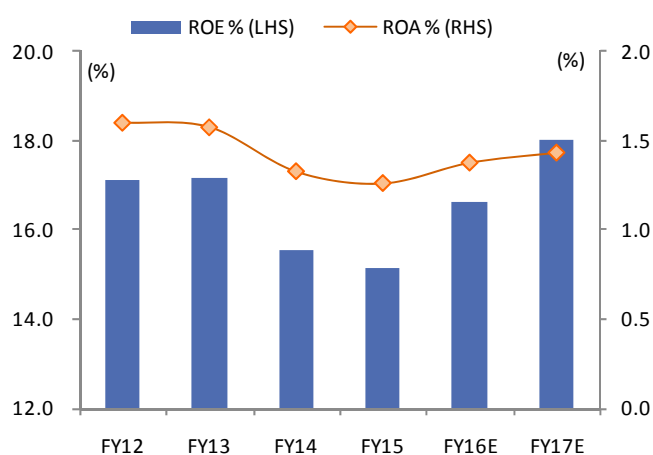
### Significant room for valuation to re-rate; Initiate coverage with a BUY

DHFL's RoA is set improve marginally driven by operating leverage and sustain at 1.4-1.5% in the longer run. As the recently raised equity capital (Rs8.2bn via QIP in Feb 2015) will be optimally leveraged for growth over the next couple of years, RoE is estimated to cross 17% in FY17. Company is estimated to deliver a strong 26% pa earnings growth over FY15-17. Stock valuation at 1x FY17 P/ABV is at substantial discount to the mean of peers and this implies a significant re-rating potential in the medium term. We initiate coverage on DHFL with a BUY rating and 12-month price target of Rs570.

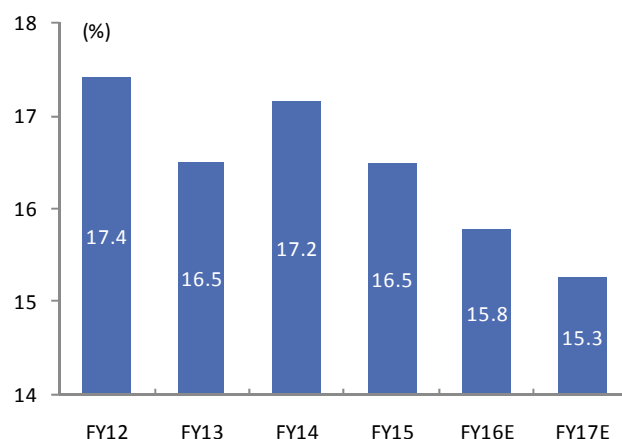
Stock valuation at 1x FY17 P/ABV is at substantial discount to the mean of peers...

...implies a significant re-rating potential in the medium term

#### RoE to improve as company optimizes leverage...



#### CAR should remain adequate up to FY17...



Source: Company, India Infoline Research



## Financials

### Income statement

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Income from Operations	4,968	5,979	7,238	8,572
Interest expense	(3,783)	(4,460)	(5,287)	(6,173)
<b>Net interest income</b>	<b>1,185</b>	<b>1,519</b>	<b>1,951</b>	<b>2,399</b>
Non-interest income	2	3	3	4
<b>Total op income</b>	<b>1,187</b>	<b>1,522</b>	<b>1,954</b>	<b>2,403</b>
Total op expenses	(382)	(474)	(574)	(682)
<b>Op profit (pre-prov)</b>	<b>805</b>	<b>1,048</b>	<b>1,381</b>	<b>1,720</b>
Provisions	(70)	(105)	(170)	(237)
<b>Profit before tax</b>	<b>735</b>	<b>943</b>	<b>1,210</b>	<b>1,483</b>
Taxes	(206)	(322)	(407)	(498)
<b>Net profit</b>	<b>529</b>	<b>621</b>	<b>804</b>	<b>985</b>

### Balance sheet

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Equity Capital	128	146	146	146
Reserves	3,447	4,490	5,167	5,999
<b>Shareholder's funds</b>	<b>3,575</b>	<b>4,636</b>	<b>5,312</b>	<b>6,145</b>
Long-term borrowings	32,628	36,889	44,571	54,053
Deferred tax liabilities	1	89	107	128
Long-term provisions	0	432	518	621
<b>Total Non-current liabilities</b>	<b>32,629</b>	<b>37,409</b>	<b>45,195</b>	<b>54,803</b>
Short Term Borrowings	0	3,637	4,394	5,329
Trade Payable	0	0	0	0
Other current liabilities	7,655	8,920	10,778	13,070
Short term provisions	0	36	36	36
<b>Total Current liabilities</b>	<b>7,655</b>	<b>12,593</b>	<b>15,208</b>	<b>18,436</b>
<b>Total Equities and Liabilities</b>	<b>43,859</b>	<b>54,638</b>	<b>65,715</b>	<b>79,383</b>
<b>Assets</b>				
Fixed Assets	988	985	1,034	1,086
Non-current investments	307	611	661	711
Long-term loans and advances	38,746	48,789	59,327	71,778
DTA (Net)	211	225	270	324
<b>Total Non-current assets</b>	<b>40,252</b>	<b>50,609</b>	<b>61,291</b>	<b>73,897</b>
Trade Receivables	0	192	192	192
Cash and cash equivalents	983	676	584	951
Short-term loans and advances	1,850	2,722	3,309	4,004
Other current assets	774	439	339	339
<b>Total Current assets</b>	<b>43,859</b>	<b>54,638</b>	<b>65,715</b>	<b>79,383</b>

### Key ratios

Y/e 31 Mar	FY14	FY15	FY16E	FY17E
<b>Growth matrix (%)</b>				
Net interest income	25.8	28.2	28.4	23.0
Total op income	23.7	28.2	28.4	23.0
Op profit (pre-provision)	22.7	30.2	31.7	24.6
Net profit	17.0	17.4	29.4	22.6
Advances	19.7	26.9	21.6	21.0
Borrowings	21.6	24.2	20.8	21.3
Total assets	22.5	24.6	20.3	20.8

### Profitability Ratios (%)

NIM	3.2	3.3	3.4	3.5
Non-int inc/Total inc	0.2	0.2	0.2	0.2
Return on Avg Equity	15.5	15.1	16.2	17.2
Return on Avg Assets	1.3	1.3	1.3	1.4

### Per share ratios (Rs)

EPS	41.3	42.6	55.2	67.6
Adj.BVPS	279.3	318.2	364.6	421.8
DPS	8.0	6.0	7.5	9.0

### Other key ratios (%)

Loans/Borrowings	1.0	1.0	1.1	1.0
Cost/Income	32.2	31.1	29.3	28.4
CAR	17.2	16.5	15.8	15.3
Tier-I capital	11.9	12.5	11.8	11.3
Gross NPLs/Loans	0.8	0.8	0.9	1.0
Credit Cost	0.9	0.9	1.0	1.0
Net NPLs/Net loans	0.0	0.0	0.0	0.0
Tax rate	28.0	34.1	33.6	33.6
Dividend yield	1.8	1.4	1.7	2.0

## 'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

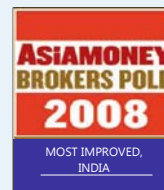
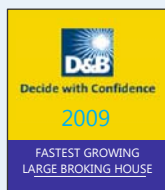
## 'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

## 'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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