28 January 2015

Update | Sector: Financials

Dewan Housing

BSE Sensex	S&P CNX
29,559	8,914

CMP: INR472 **TP: INR724 (+53%)** **Buy**

Stock Info

Bloomberg	DEWH IN
Equity Shares (m)	128.2
52-Week Range (INR)	502/198
1, 6, 12 Rel. Per (%)	10/17/80
M.Cap. (INR b)	64.0
M.Cap. (USD b)	1.0

Financial Snapshot (INR b)

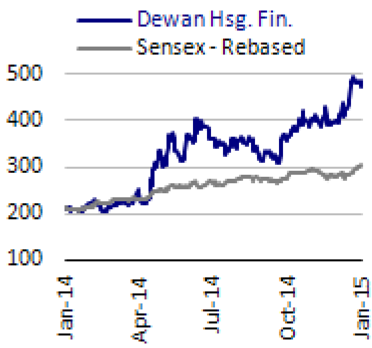
Y/E Mar	2015E	2016E	2017E
NII	13.6	17.1	21.0
PPP	10.3	13.3	16.7
PAT	6.3	8.1	10.1
EPS (INR)	48.9	62.8	78.9
EPS Gr. (%)	18.8	28.3	25.6
BV (INR)	313	358	417
RoAA (%)	1.3	1.4	1.4
RoE (%)	16.6	18.7	20.4
Payout (%)	20.9	20.9	20.9
Valuations			
P/E (x)	9.7	7.6	6.0
P/BV (x)	1.5	1.3	1.1
P/ABV (x)	1.6	1.3	1.1
Div. Yield (%)	2.1	2.6	3.3

Shareholding pattern (%)

	Dec-14	Jun-14	Dec-13
Promoter	39.6	39.2	39.3
DII	0.3	4.9	9.4
FII	20.6	25.2	23.1
Others	39.5	30.8	28.3

FII Includes depository receipts

Stock Performance (1-year)



Well positioned for next cycle

Key beneficiary of government thrust towards affordable housing

- **DEWH has registered 10 year loan CAGR of 43% and has now become a sizeable player with AUM of over INR520b and 3.8% mortgage market share.**
- **Given the huge unmet demand for affordable housing and concomitant housing finance, we expect 27% CAGR in DEWH's AUM over FY14-17.**
- **Easing wholesale rates and rating upgrade for DEWH's debt instruments would help lower its cost of funds and aid margins.**
- **Valuations at 1.1x FY17E ABV appear attractive, given the visibility on business growth, superior asset quality and improving return ratios. Reiterate Buy.**

Pan India player with presence across customer segment

DEWH has become a dominant financier with pan India presence catering to underserved low-middle income (LMI) segment, capitalizing well on the untapped opportunity the company has registered 10 year loan CAGR of 43% and has now become a 3rd largest housing finance company with AUM of over INR526b and 3.8% mortgage market share. Government's thrust on LMI segment will expand the business pie and DEWH is well positioned to capture the opportunity given core expertise in the segment. Led by increasing ticket size and market share gains, we expect DEWH's AUM to grow at a CAGR of 27% over FY14-17.

Rating upgrade to AAA, easing wholesale rates bode well for margins

Ratings upgrade by CARE to AAA will provide wider access to debt market and will help replace high cost bank borrowings (60% of total borrowings) with lower cost bonds. The combination of increasing borrowings via bonds and likely reduction in banks base rates will help reduce cost of funds by 20bp. Also, rising share of non-retail book (loans against property, developer funding) will aid margin expansion.

Focusing on fee income to recover opex; expect gradual decline in C/I

DEWH has cost-to-income (C/I ratio) of 32% against 15-18% for peers like IHFL, GRUH and Repco, and 10-12% for large HFCs like HDFC and LICHF. DEWH's high opex can be attributed to higher other expenses, which has been high due to acquisitions costs and higher advertising and promotion spends. With the acquisition expenses behind, we expect improvement in C/I. Also, DEWH is looking to improve its operating leverage by undertaking cost rationalization. It is (a) improving productivity, (b) rationalizing branch network, (c) centralizing back-end operations. Cost reduction initiatives coupled with economies of scale to drive down C/I ratio by 500bp to 27% by FY17.

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Asset quality to remain healthy; GNPA to remain below 1%

DEWH maintains high asset quality standards despite its focus on the LMI segment. Its GNPA ratio was <1.6% over FY03-12 and NNPA was zero for 9MFY15. Close surveillance and initiation of prompt remedial action in borrowed accounts has ensured high quality of assets. With interest rates headed down and property prices remaining stable, we expect asset quality to remain stable. A strong record of impeccable asset quality performance across cycles provides comfort.

Insurance business turns profitable; to be value driver in medium term

DEWH entered the life insurance business through a joint venture called DHFL Pramerica Life Insurance (DPLI), with US-based Prudential Financial. Post the acquisition by DEWH, the company has reported 72% APE growth in 1HFY15 and has turned profitable. DEWH's vast mortgage customer base offers an attractive opportunity for the company and could be a value driver for DEWH over medium term. We try to assess the likely value of insurance business for DEWH; Based on appraisal value method DEWH's 50% stake in DPIL could conservatively add INR49 per share; however we would wait for more clarity before factoring this in our target price.

Growth visibility high; valuations compelling – Reiterate Buy

DEWH continues to perform well on growth and asset quality front. While margins have inched up, Ratings upgrade coupled with reduction in base /wholesale rates are likely to aid margins. Moreover management's commitment to bring down cost structure can provide delta to earnings. We expect AUM CAGR of 27%over FY14-17, and estimate RoA/RoE at 1.4%/20% for FY17. Better than expected growth and cost control should provide upsides to our RoA/RoE estimates. Valuations at 1.3x/1.1x FY16/17E ABV is attractive and at significant discount to peers (refer exhibit 1). Strong visibility on business growth, superior asset quality and improving return ratios. Reiterate **Buy** with target price of INR724, valuing stock at 1.75x FY17E adjusted book value.

Exhibit 1: Housing Finance Companies Valuation Matrix

	CMP (INR)	Market Cap (INRb)	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
			FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
HDFC	1,345	1,920	31.7	24.8	19.1	7.1	5.8	4.6	2.4	2.5	2.5	25.6	23.8	24.8
LICHF	495	245	18.6	15.2	12.6	2.9	2.5	2.2	1.4	1.4	1.4	16.6	17.6	18.4
DEWH	**472**	**64**	**9.7**	**7.5**	**6.0**	**1.6**	**1.3**	**1.1**	**1.3**	**1.4**	**1.4**	**16.6**	**18.7**	**20.4**
IHFL	620	209	11.7	9.8	8.1	3.3	2.9	1.9	3.6	3.6	3.6	31.0	32.0	33.4
Gruh*	276	106	47.6	38.9	30.0	13.1	10.9	8.8	3.1	2.5	2.5	30.3	29.2	31.3
Repco *	653	42	30.1	23.7	19.2	5.0	4.2	3.6	2.4	2.4	2.3	17.5	18.6	20.0

* Consensus estimates

Source: Company, MOSL

Pan India lender; dominant in LMI segment

Expanding business pie and market share gains to drive growth

- **DEWH is a prominent pan Indian mortgage lender with presence across customer segment, with dominant position in LMI segment**
- **There is huge unmet demand for affordable housing, which is attracting developers' attention, given the government's thrust on this segment.**
- **Given DEWH's expertise in this niche segment, we expect DEWH to be a key beneficiary of the resultant increase in demand for housing finance.**
- **Led by increasing ticket size and mortgage market share gain we expect DEWH's AUM to register 27% CAGR over FY14-17.**

Pan India player with presence across the customer segment

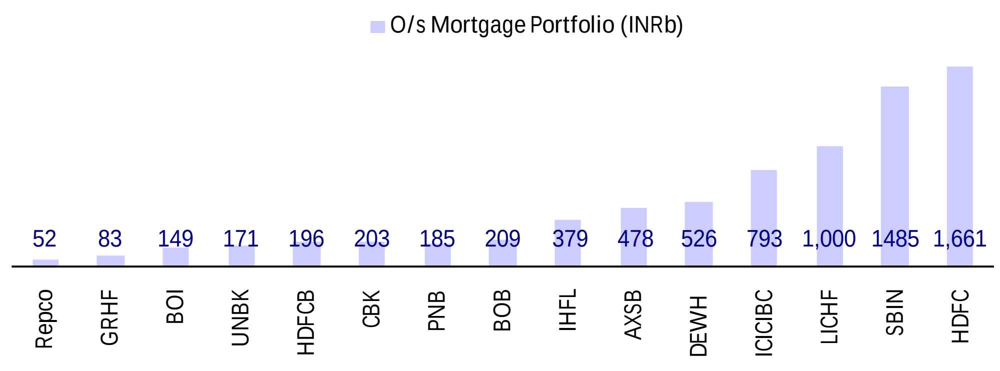
DEWH is a prominent pan Indian mortgage lender with presence across customer segment, with dominant position in the LMI segment in tier 2 &3 cities. The strategy to focus on LMI segment has worked well in DEWH's favor as most tier I cities are widely catered by banks and large HFCs. Also, as per the National Sample Survey, self-employed forms 34% of the work force but form ~10% of the loans – the segment has been ignored by large banks and large HFCs due to difficulty in credit appraisal, lack of proper documentation, intense KYC checks, NPL volatility and aggressive follow-ups needed post disbursement.

LMI customer segments are largely underserved by leading HFCs/banks, offering humungous growth opportunity, imparting DEWH adequate pricing power as well. DEWH has capitalized well on this opportunity as 80% of its loan book is outside large metros where competition from banks, especially the more efficient private sector players, is relatively low.

Third largest HFCs with AUM of over INR500b

With an outstanding home loan portfolio of INR526b, DEWH is India's fifth largest mortgage lender and the third largest HFC. DEWH has a presence in 367 locations across India. DEWH has strategic housing loan distribution and syndication arrangements with public and private sector banks. The tie-ups include Punjab & Sindh Bank, United Bank, Central Bank of India and Yes Bank Limited. DEWH has generated more than INR17b through these alliances.

Exhibit 2: DEWH is the 3rd largest HFC and 5th largest mortgage player in India (INRb)



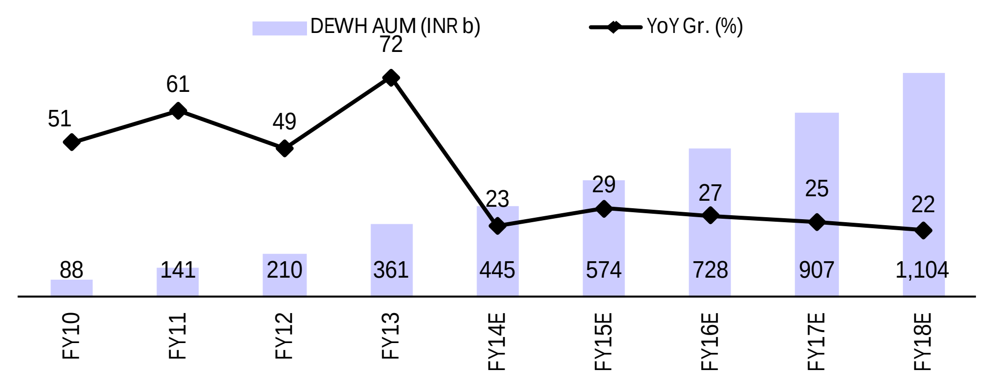
Source: Company, MOSL

Key beneficiary of government's affordable housing thrust

There is a housing shortfall of 18.78m units in urban areas and 43.67m units in rural areas. Most of the shortage is for the economically weak and low income groups. Given the government's and the regulators' thrust on this segment, real estate developers are increasingly focusing on affordable housing. Being the largest home loan provider in the LMI segment, DEWH should witness strong growth.

The supply of home loans for the low income group is constrained due to (a) banks' inability to accurately assess credit risk associated with low income borrowers, (b) (b) lack of land titles, and (c) uncertainty of repossession. Given its expertise in the niche LMI segment, we expect DEWH to be a significant beneficiary of the demand-supply mismatch in this segment.

Exhibit 3: AUMs to reach INR1T by FY18

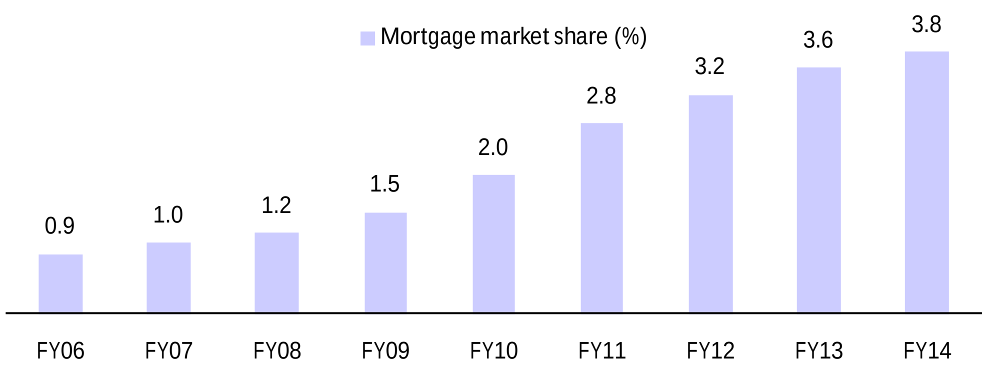


Source: Company, MOSL

Expect 27% CAGR in AUM over FY14-17, led by market share gains

DEWH has registered 10 year loan CAGR of 43% and has now become a sizeable player with AUM of INR526b and 3.8% mortgage market share. Government's thrust on LMI segment will expand the business pie and DEWH is well positioned to capture the opportunity given core expertise in the segment, moreover increasing ticket size and market share gains, we expect DEWH's AUM to grow at a CAGR of 27% over FY14-17, to INR90b.

Exhibit 4: Market share improved from 0.9% in FY06 to 3.8% in FY14



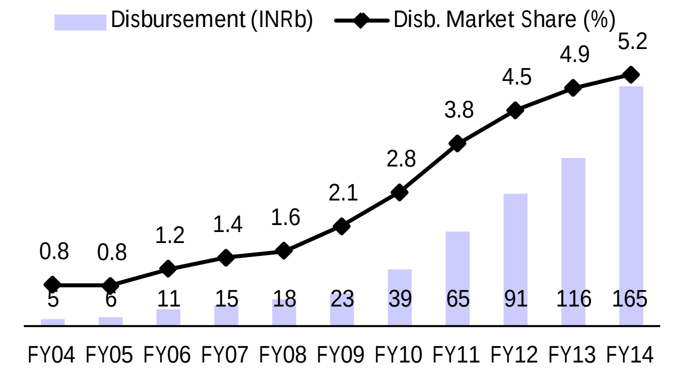
Source: MOSL, Company

DEWH improved its market share from 0.6% in FY08 to 3.8% in FY14 which led to strong AUM growth of 50% during this period. Acquisition of First Blue Home

Finance (which was 35% of DEWH then) helped in increasing the market share further. Going ahead, we expect market share gain as DEWH would be growing at 27% v/s industry growth of 18-20%.

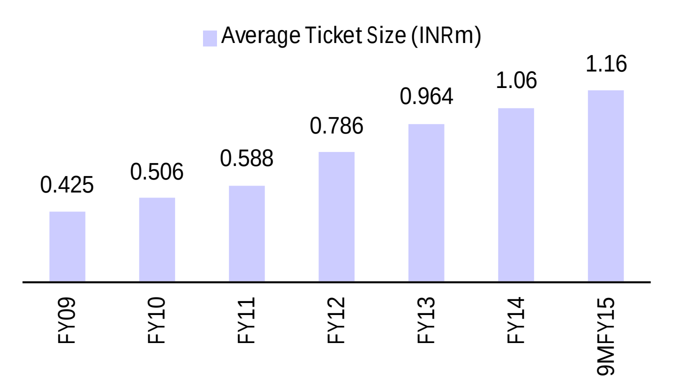
Though DEWH is focused on the LMI segment, with rising real estate prices, its average ticket size has increased. Further, it acquired First Blue Home Finance (FBHF), which caters to middle and high income customers. This has helped push up average ticket size. DEWH's share in disbursements has also been increasing, which too has helped augment growth.

Exhibit 5: Increasing disbursement market share



Source: Company, MOSL

Exhibit 6: Average ticket size doubled in last 5 years

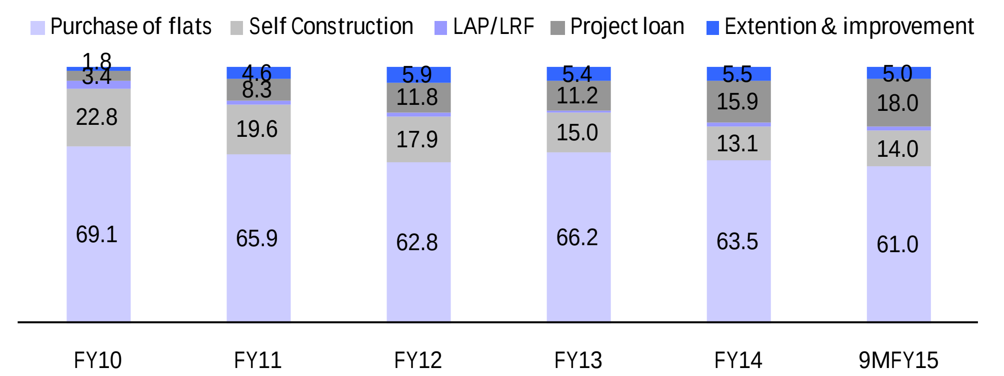


Source: Company, MOSL

Non-retail book to grow reach 25% of overall loan book

The composition of DEWH's loan book has changed in favor of loans against property (LAP) over the last couple of years. The share of LAP has increased from 5% in FY10 to 16% in FY14, and the management intends to increase it to 20% over the next couple of years. Also DEWH want to increase the proportion of high yielding developer loan portfolio from existing 5% to 10% by FY17.

Exhibit 7: Composition of loan book



Source: Company, MOSL

Rating upgrade, easing wholesale rates bode well

Cost of funds to decline, margins to expand

- **Credit rating upgrade by CARE to AAA will help reduce DEWH's cost of funds by ~20bp, as it will help replace high cost bank borrowings through bonds.**
- **Likely reduction in banks base rates augurs well as bank borrowings constitute 60% of borrowings**
- **Also, rising share of non-retail book (loans against property, developer funding) coupled with higher securitization will lead to margin expansion.**

Rating upgrade to help reduce cost of funds

Recently, CARE upgraded its rating on DEWH's NCD from AA+ to AAA. Similarly, it upgraded its ratings on DEWH's fixed deposits, long-term bank facilities, subordinated debt, and perpetual debt. The average spread gap between AAA and AA+ rated NCDs is 50bp. This should help the company to reduce its cost of funds by 20bp.

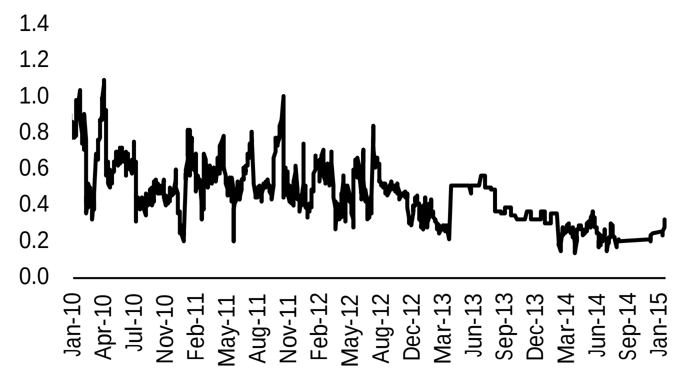
Exhibit 8: Credit Ratings

Nature of Borrowing	CARE	Brikwork	ICRA	CRISIL
Short-Term Debt / Commercial Paper				A+
Fixed Deposits	AAA	BWR FAAA		
Subordinated Debt	AA	BWR AAA		
Non-Convertible Debentures	AAA	BWR AAA		
Perpetual Debenture	AA-	BWR AAA		
Long-term Bank Loans	AAA			
Structured Obligations	AAA		AAA(SO)	AAA (SO)

Source: Company, MOSL

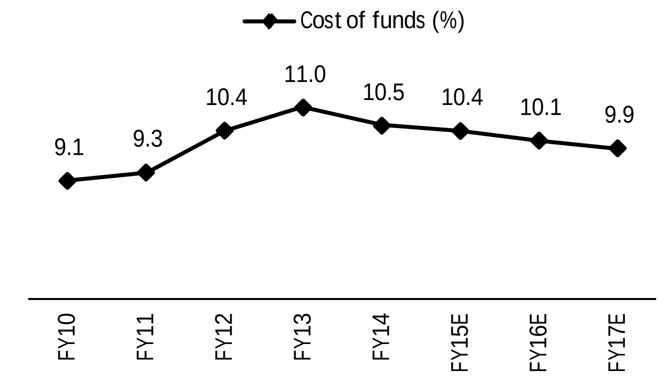
Unlike large HFCs like HDFC, LICHF and IHFL, DEWH has high dependence on bank funding as 60% of its funding is through banks; only 20% comes from NCDs. Dependence on high cost bank loans is a key reason for higher cost of funds. However, with rating upgrade, DEWH will be able to mobilize funds via NCDs at lower cost.

Exhibit 9: Spreads gap b/w AAA &AA NCDs is 50bp



Source: Company, MOSL

Exhibit 10: Ratings upgrade to help reduce CoF by 20bp

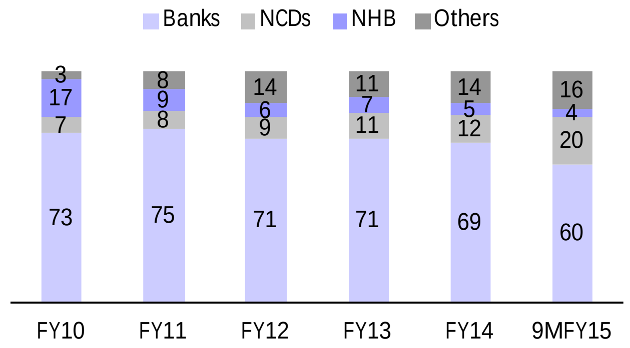


Source: Company, MOSL

Proportion of borrowings through bonds to go up

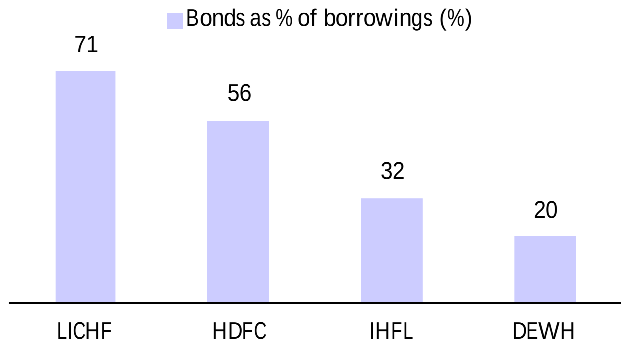
DEWH relies heavily on banks and NHB for its funding requirements (in 9MFY15, 64% of its borrowings were from banks + NHB). Hence, DEWH's cost of funds is higher than its peers. We expect DEWH to gradually increase the proportion of bond borrowings and lower the proportion of bank funding to diversify its funding mix.

Exhibit 11: Trend in borrowing mix (%)



Source: Company, MOSL

Exhibit 12: DEWH has lowest proportion of bonds v/s peers

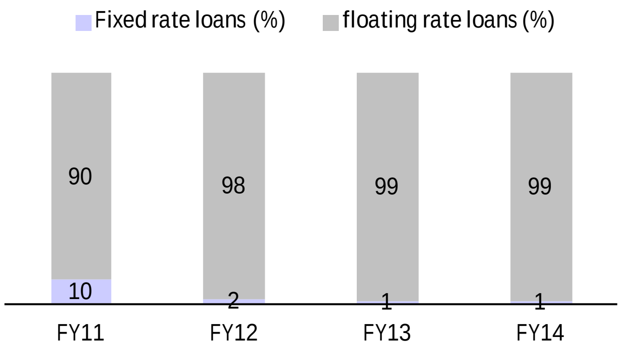


Source: Company, MOSL

The share of fixed rate borrowings has been increasing and stood 33% in FY14 versus 21% in FY09 due to increase in proportion of bond funding (12% of funding in FY14 versus 8% in FY09). Since the company intends to increase the proportion of bond funding, we expect proportion of fixed rate borrowings to increase.

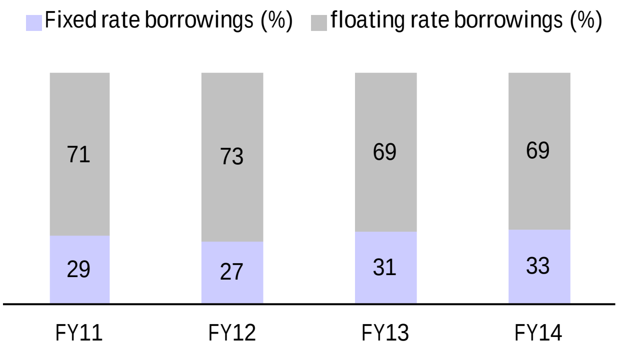
On the loan book front, DEWH has raised the proportion of floating rate loans from 86% in FY09 to 99% in FY14. This allows it to effectively pass on interest rate movement to the customer.

Exhibit 13: Fixed/floating rate loans mix (%)



Source: Company, MOSL

Exhibit 14: Fixed/ floating rate borrowings mix

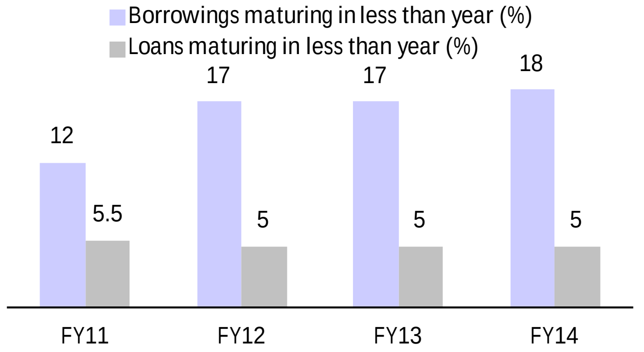


Source: Company, MOSL

Securitization to gain prominence

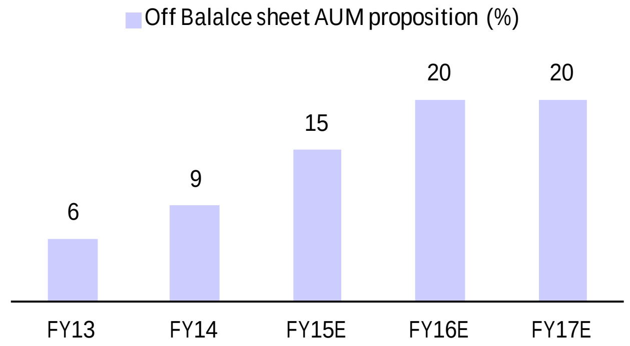
DEWH has increased the proportion of off balance sheet assets from almost nil in FY11 to 10% in FY14, which it intends to increase further to 20% by FY17. Sell down of loan assets helps to conserve capital, DEWH also earns an attractive spread of 125bp on assignment and 200bp on securitization.

Exhibit 15: ALM positioned for falling rate



Source: Company, MOSL

Exhibit 16: Increasing securitization to help



Source: Company, MOSL

Asset-liability position suited to declining interest rate environment

DEWH has 5% of its loans maturing in less than a year versus 18% of borrowings maturing in less than a year. The negative mismatch in the less than a year bucket indicates suitable asset-liability position for a declining interest rate environment.

Margins to expand from hereon

Margins expansion over FY14-17, driven by (a) moderation in wholesale funding rates (assuming a declining interest rate environment), (b) increasing proportion of NCDs, leading to lower funding costs, as the decline in bond yields is likely to be sharper than the decline in bank rates, (c) pick-up in higher yield LAP and developer loan book (yield on LAP 200bp higher than individual home loans; yield on developer loans 400-500bp higher than individual loans). We expect 27% CAGR in NII over FY14-17.

Focusing on fee income to recover opex

Expect 5pp decline in cost-to-income by FY17

- **DEWH has cost-to-income (C/I ratio) of 32% against 15-18% for peers like IHFL, GRUH and RHFL, and 10-12% for large HFCs like HDFC and LICHF.**
- **While the C/I ratio has seen some improvement recently (32% in 3QFY15), incrementally, DEWH is looking to improve its operating leverage by undertaking cost rationalization.**
- **We expect DEWH's C/I ratio to decline to 27% by FY17.**

Looking to improve operating leverage through cost rationalization

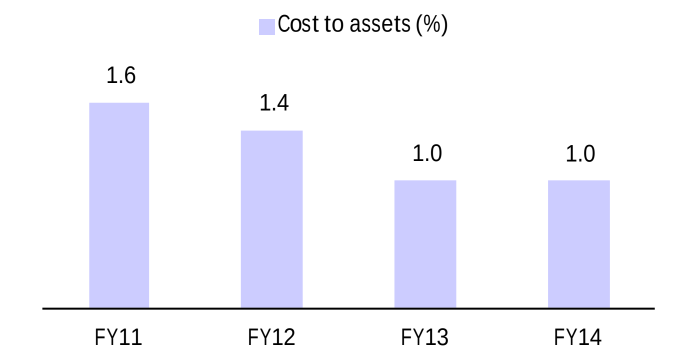
DEWH has cost-to-income (C/I ratio) of 32% against 15-18% for peers like IHFL, GRUH and RHFL, and 10-12% for large HFCs like HDFC and LICHF. While the C/I ratio has seen some improvement recently (32% in 3QFY15), incrementally, DEWH is looking to improve its operating leverage by undertaking cost rationalization by (a) improving productivity, (b) rationalizing branch network, (c) centralizing back-end operations.

Higher other expenses leading to higher opex

As a percentage of assets, DEWH's employee expenses are in line with peers (like Repco - with same average ticket size) at 45bp. However, at 52bp, its other expenses are significantly higher than all the peers. This is the key reason for its overall costs being higher.

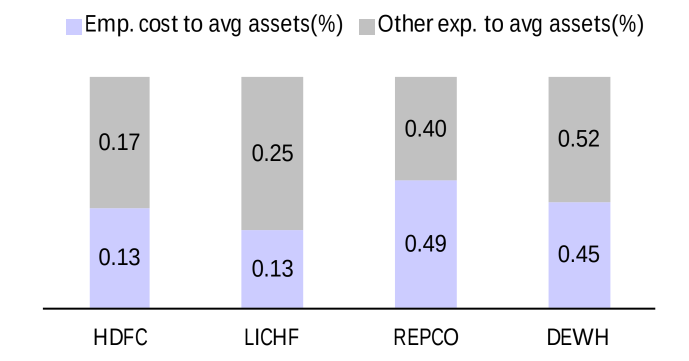
DEWH's high other expenses can be attributed mainly to the surge in 'legal and professional charges' to ~INR600m in FY14. As a percentage of assets, its 'legal and professional charges' stand at 15bp against 6bp for GRUHF and 3bp for REPCO. Also, DEWH rapid organic and inorganic expansion required higher advertising and promotion spends.

Exhibit 17: Cost to assets are higher than peers



Source: Company, MOSL

Exhibit 18: Other expenses are highest for DEWH



Source: Company, MOSL

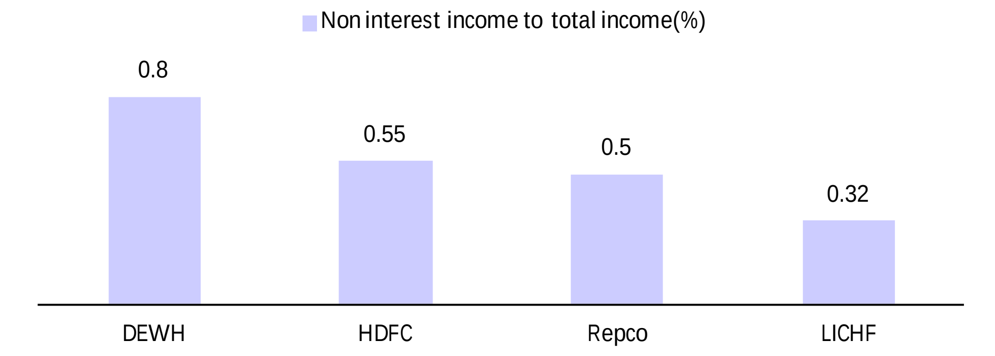
Expect moderation, with acquisition expenses behind

DEWH acquired First Blue in FY11 and the Insurance stake in FY14, which led to high legal and professional charges for the last three years. With most of the acquisition expenses behind, we expect moderation in legal and professional charges.

Focusing on growing fee income through value-added services

DEWH is focusing on growing fee income through three fee-based verticals that complement its core business. By cross-selling various products including insurance, property services, and technical services to customers, the company retains its existing customer base and generates additional fee-based income.

Exhibit 19: DEWH has highest Non-interest income to total assets



Source: Company, MOSL

Life insurance sales: DEWH sells life insurance policies of its group company, DHFL Pramerica Life Insurance (DPLI), to its home loan customers. The insurance policy would cover the amount of loan outstanding in event of demise of the customer. DEWH earns a fixed commission on insurance sales.

Property services: DEWH offers property marketing and sales services to individual consumers as well as developers, primarily in tier-II and tier-III cities. It markets third-party projects to prospective buyers, for which it receives fee income / commission. It also provides home loans to these buyers, thus growing its loan book.

Technical consultancy & management services: DEWH provides technical consultancy and management services relating to real estate to individual consumers and developers (lacking technical competence), primarily in tier-II and tier-III cities. For many of such projects, it also provides property services.

Increase in capital work in progress

DEWH has reported INR5.34b increase in capital work in progress FY14 (from INR2.6bn in FY13 to INR7.9bn in FY14). The increase was on account of purchase of office premise (DHFL House) to house all its businesses (viz., life insurance, AMC, among others) under one roof. Management has indicated that all contractual obligations pertaining to this have been met and no further investment is expected. Moreover, ~50% of the property will be used by the DHFL Group and balance will either be sold or rented. Existing office premise at HDIL Towers will be sold which may release some capital. While increase in fixed assets is a resulting higher depreciation expense; however some of it will be off-set by saving from rental expenses.

Asset quality to remain healthy

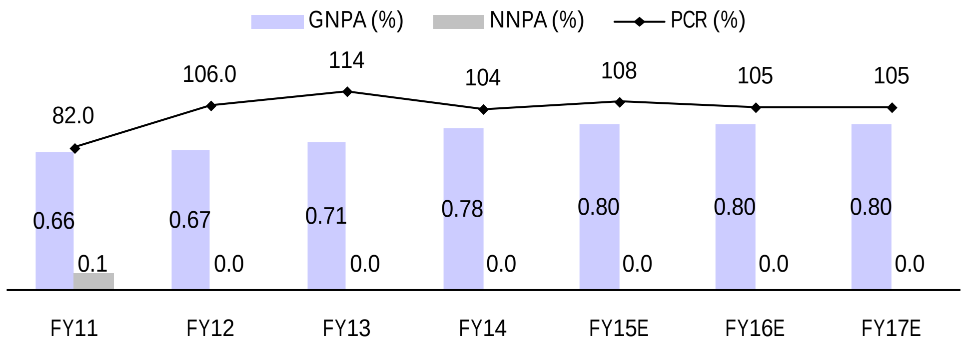
GNPA to remain below 1%

- **DEWH maintains high asset quality standards despite its focus on the LMI segment. Its GNPA ratio was <1.6% over FY03-12 and NNPA was zero for 1HFY15.**
- **Close surveillance and initiation of prompt remedial action in borrowed accounts has ensured high quality of assets.**
- **With interest rates headed down and property prices remaining stable, we expect asset quality to remain stable.**
- **A strong record of impeccable asset quality performance across cycles provides comfort.**

'Secure' business, focus on lending to 'end user' lowers asset quality risk

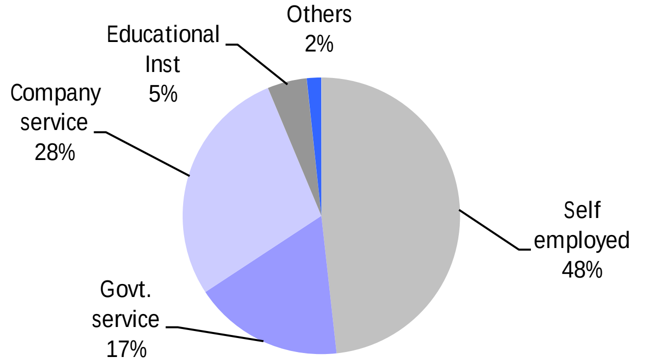
DEWH has exposure to high-risk low-income customers. Despite this, it has been able to maintain strong asset quality. Its GNPA has been <1.6% for the last 10 years and NNPA was zero as of 9MFY15. Its domain expertise and cardinal principle of lending only to 'end users' enable it to sustain asset quality. DEWH has a diversified customer base. Nearly 65% of its customers are salaried and 21% are self-employed. Of the total, 23% are government employees. With majority of the customer base being salaried, DEWH is assured of regular cash flows for a large part of its customer base and it is able to maintain healthy asset quality.

Exhibit 20: Asset quality remains healthy



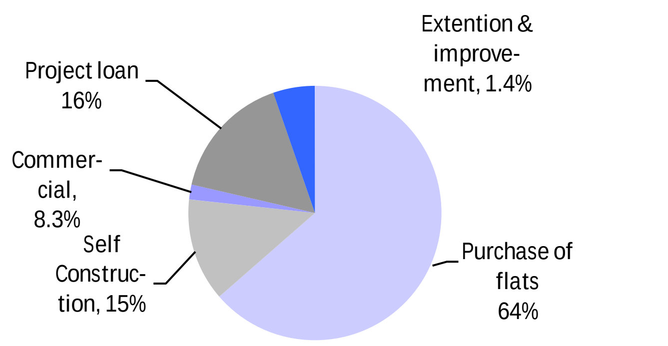
Source: Company, MOSL

Exhibit 21: Customer's composition



Source: Company, MOSL

Exhibit 22: Portfolio composition



Source: Company, MOSL

Domain expertise, close surveillance aids asset quality performance

Unlike several other financiers, DEWH carries out the credit appraisal and loan sanctioning activities on its own. This gives it better control over asset quality. DEWH has an innovative incentive structure for its employees, whose variable pay depends not only on the incremental business they bring, but also on the quality of the assets they have brought into its portfolio. This has helped to strengthen its appraisal process further and to take quick remedial action when needed.

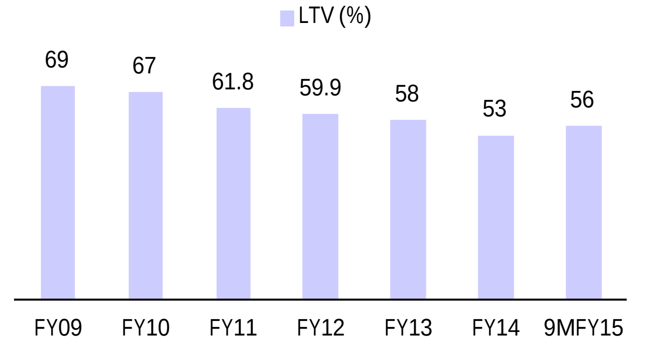
Provision coverage ratio healthy

DEWH has been maintaining healthy provision coverage ratio. As at the end of 9MFY15, its provision coverage ratio was 108% as compared with 45% for its close peer, LIC Housing Finance.

Conservative lending norms provide comfort

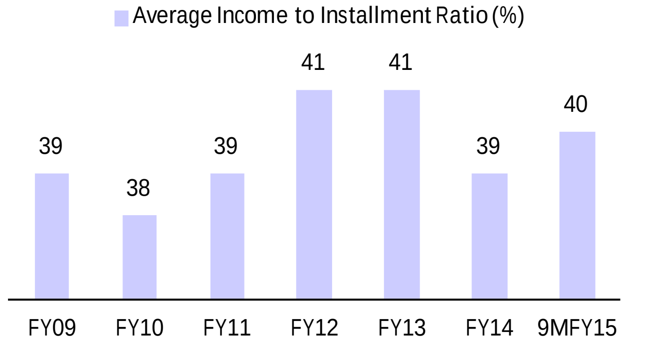
The company has also been conservative in its approach to lending; with average loan to value ratio of 56% and average income to installment ratio of 40% ensures adequate comfort on the portfolio.

Exhibit 23: LTV of less than 60%



Source: Company, MOSL

Exhibit 24: Avg. income to installment remains comfortable



Source: Company, MOSL

Apart from adopting conservative processes, DEWH has also (a) strengthened its core IT operations for quicker processing of applications and early detection of probable frauds, (b) adopted new and improved risk management systems, and (c) proactively made effective use of SARFAESI for faster recovery of bad debts.

Life insurance business has turned around

Insurance business could add significant value over medium term

- **DEWH entered the life insurance business through a joint venture called DHFL Pramerica Life Insurance (DPLI), with US-based Prudential Financial.**
- **Post DEWHs' acquisition the business has turned profitable and capital infusion of INR 320m over next 4 years ensures capital light model for DEWH.**
- **Insurance business could become a big value driver in the medium term**

Acquisition of DLF's stake in DPLI a sound decision

DEWH entered the life insurance business through a joint venture called DEWH Pramerica Life Insurance (DPLI) with US-based Prudential Financial. DEWH owns 50% in the company (an NBFC cannot own over 50% in a life insurance company), while two other promoter entities (Yardstick developer and Resources reality) own 12% each. DPLI has over 3,000 agents, 30 distributors, and 140,000 policies in force.

DPLI, which began operations in FY09, was a late entrant in the life insurance business in India. Initially, it was a JV between Prudential Financial and DLF. In FY14, DEWH and its promoter bought DLF's stake, and the company was renamed from DLF Pramerica Life Insurance to DEWH Pramerica Life Insurance.

DEWH bought 50% stake from DLF at a token amount of NR1, DEWH' & promotors subsequently infused INR 241m and INR 115m respectively into the venture. DEWH's strong distribution reach and customer base helped it to get this stake at negligible value. Moreover, DEWH will not not have to contribute significant capital (DEWH will be infusing INR320m over the next four years), this will ensure a capital lite model for DEWH. Its partner, Prudential Financial has agreed to infuse an additional INR4b into the business.

Business has turned around post association with DEWH

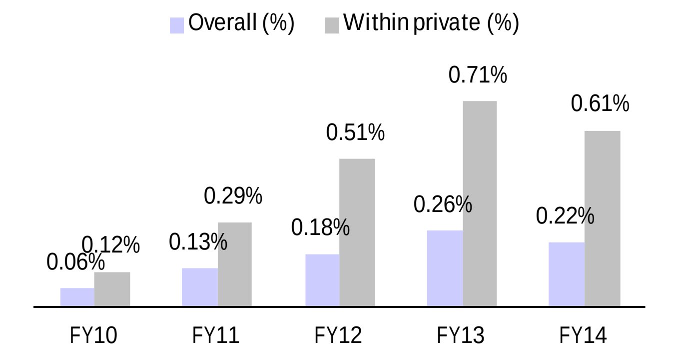
With DLF as the JV partner, DPLI could not gain significant market share. However, with DEWH stepping in, its performance has improved significantly. During 1HFY15 company reported 72% increase in APE. This can largely be attributed to DEWH's wide distribution reach of over 300 branches and its large pool of mortgage customer base, which adds significant value to the business.

Leveraging DEWH's strong franchise: DPLI has access to DEWH's 300+ branches and large exising mortgage customer base. This will help the company to improve its new business premium (NBP) growth. The management expects NBP to grow 3x in FY15. While DPLI is initially leveraging on DEWH's franchise to grow its group insurance business, it will gradually expand its individual product portfolio and agency channel. DEWH provides vast pool of mortgage customer base to which it targets selling single premium group product, Mortgage Reducing Term Assurance (MRTA).

Strong growth in new business to improve operating expense ratio: In FY14, DPLI had an operating expense ratio of 79%, significantly higher than peers. However, with the business performing well, driven by strong new business growth, we expect DPLI's operating expense ratio to improve significantly. In APE terms it has market share of 60bps among private insurers in FY14. During 1HFY15 company reported 72% increase in APE and we expect the company to deliver 80% APE growth in FY15.

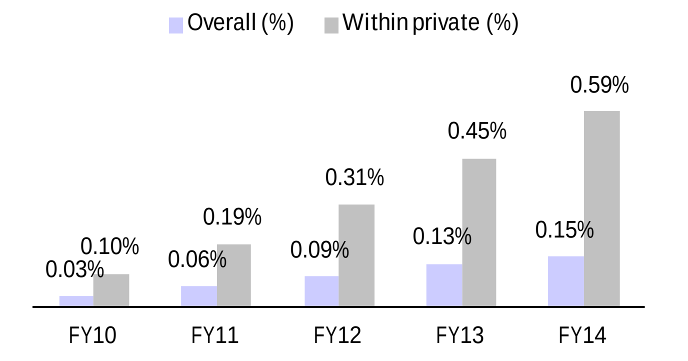
Highest solvency ratio: Prudential has infused INR4.5b of capital in the last six months, post which DPLI's solvency margin stands at over 1,200%. With focus on pure protection products (MRTA), GAAP profitability will also improve sharply. This will further strengthen the company's solvency.

Exhibit 25: APE Market Share



Source: Company, MOSL

Exhibit 26: NBP Market Share (%)



Source: Company, MOSL

DEWH's insurance stake could conservatively add INR 49

Based on appraisal value method, we conservatively value the life insurance business at INR12.6bn on FY17E. We are assigning multiple of 11x to new business premium, arriving at structural value of INR5.2bn on FY17E. DEWH's 50% interest translates into value of INR6.3b i.e. INR49 per share. However these valuations could be conservative considering the growth potential for this business, moreover as and when any stake transfer to the joint venture partner happens, providing the reference value to this business that no could pose upside to our valuations. We would wait for more details before incorporating this in our numbers. Key assumptions a) APE growth of 80% in FY15 and 25% for FY16/17 b) NBAP margins of 11%.

Exhibit 27: DPLI Valuation Summary (INRm)

	FY15E	FY16E	FY17E
APE	**2,019**	**2,524**	**3,155**
Growth YoY (%)	80	25	25
NBAP Margin (%)	11.0	11.0	11.0
NBAP	222.1	277.7	347.1
NBAP Multiple (x)	15	15	15
Structural value	**3,332**	**4,165**	**5,206**
Networth	**7,350**	**7,383**	**7,425**
Appraisal Value	**10,682**	**11,548**	**12,631**
DEWH's 50% stake	**5,341**	**5,774**	**6,316**
No of shares (m)	128	128	128
Value per share (INR)	42	45	49

Source: Company, MOSL

Growth visibility high; valuations compelling

Reiterate Buy; target price of INR724 indicates 53% upside

- **DEWH is trading at 1.1x FY17E adjusted book is a steep discount to peers**
- **Strong growth outlook, improvement in margins and reduction in opex can lead to narrowing of this gap.**
- **We reiterate Buy, our target price of INR724 (1.75x FY17E ABV) indicates 53% upside.**

DEWH is trading at 1.1x FY17E adjusted book is a steep discount compared to other housing finance companies which are trading in excess of 2.5x. This is due to lower return rations ratios (RoEs of 17% v/s +20% of peers) dragged by low margins and high cost structure and risk perception about the group.

The rating upgrade to (AAA by CARE) will enable it to reap benefit of lower funding cost, which along with higher yields (as it caters to an under-served higher yielding segment) will provide further leg up to margin. Moreover management is commitment to bring down the costs structure by improving productivity, rationalizing branch network, centralizing back-end operations.

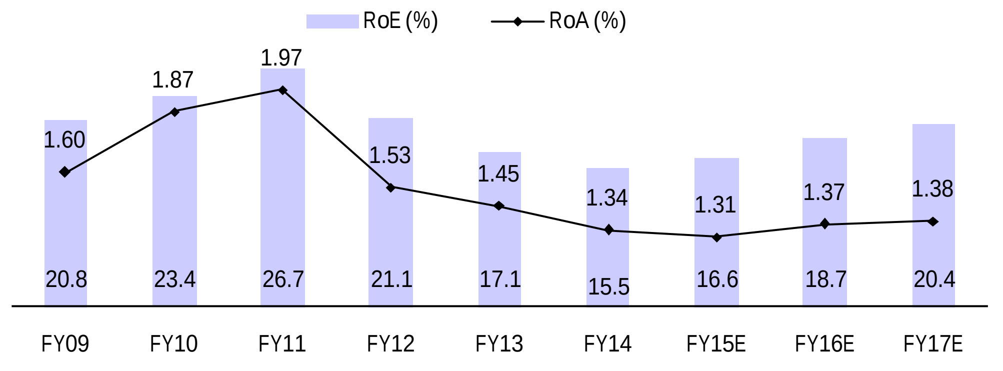
DEWH enjoys several long-term earnings growth drivers:

1. Strong presence in relatively less competitive tier-II and tier-III cities
2. Presence across customer segments
3. Wide reach- Only LMI focused HFC with pan India presence
4. Rising average ticket size and market share gains
5. Robust asset quality
6. Falling cost of funds

DEWH continues to perform well on growth and asset quality front. While margins have inched up, Ratings upgrade coupled with reduction in base /wholesale rates are likely to provide further leg up to margins. Moreover management's commitment to bring down cost structure can provide delta to earnings.

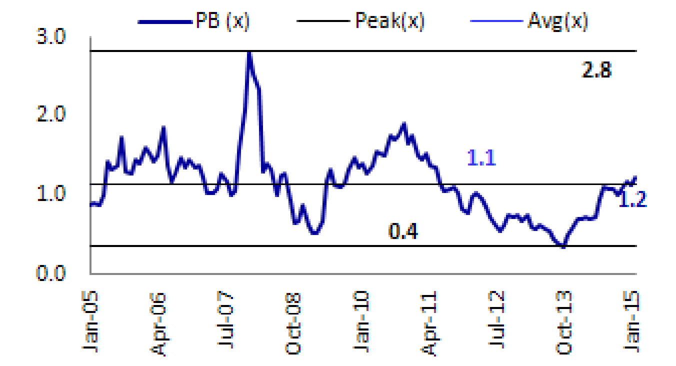
We expect AUM CAGR of 27% over FY14-17, and estimate RoA/RoE at 1.4%/20% for FY17. Better than expected growth and cost control should provide upsides to our RoA/RoE estimates. Current valuations at 1.3x/1.1x FY16/17E ABV appear low, given the visibility on business growth and superior asset quality and improving return ratios. The stock trading at a discount to its 5-year average P/BV of 1.3x also at a significant discount to other HFCs (all trading above 2.5x P/B). Strong growth outlook, improvement in margins and reduction in cost can lead to narrowing of this gap. Maintain Buy with a price target of INR724 (1.75x FY17 ABV).

Exhibit 28: RoEs to inch back to 20% by FY17



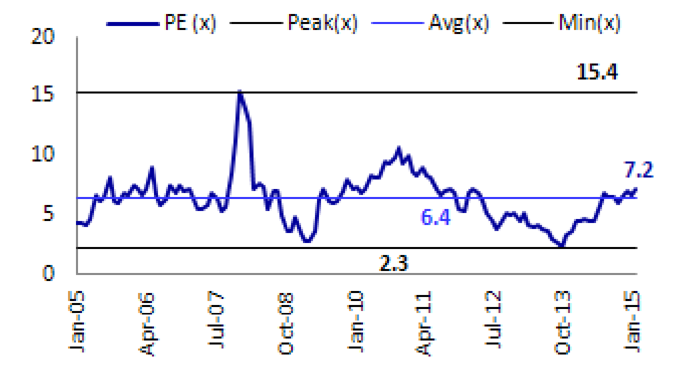
Source: Company, MOSL

Exhibit 29: 1 year forward Price/Book



Source: Company, MOSL

Exhibit 30: 1 year forward Price/earnings



Source: Company, MOSL

Risks

NPL risk in non-retail segment

DEWH proposes to increase share of developer loans from 6% to 10% and loan against property 5% to 10% by FY17. While these segments attract higher yields but subsequently pose risk of higher NPLs.

Slowdown in real estate sector

Slowdown in the real estate sector can impact DEWH's growth and earnings. Moreover, it could result increase in default rates.

Strong growth, although capital can be constrain

DEWH has a high leverage of 12.3x, as per our estimates DEWH will reach have a leverage of +14x by FY17E. Considering change in loan mix and increase in leverage DEWH may have to infuse capital (either via stake sale in insurance venture or by doing fresh issuance) in order to maintain healthy growth momentum.

Financials and valuations

Income Statement (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Interest Income	9,158	18,456	28,633	37,977	46,705	59,062	72,064	88,648
Interest Expended	7,006	13,901	23,496	31,194	37,826	45,487	55,014	67,671
Net Interest Income	**2,152**	**4,555**	**5,138**	**6,783**	**8,879**	**13,575**	**17,050**	**20,976**
Fee Income	786	1,495	2,395	1,992	2,300	690	828	994
Treasury Income	467	987	1,091	644	671	800	900	1,000
Other Income	21	90	275	177	21	71	121	171
Net Income	**3,426**	**7,126**	**8,899**	**9,596**	**11,871**	**15,136**	**18,899**	**23,141**
Change (%)	61.7	108.0	24.9	7.8	23.7	27.5	24.9	22.4
Operating Expenses	1,204	2,562	3,349	3,039	3,820	4,835	5,597	6,461
Operating Profit	**2,222**	**4,564**	**5,551**	**6,557**	**8,051**	**10,301**	**13,302**	**16,680**
Change (%)	61.9	105.4	21.6	18.1	22.8	27.9	29.1	25.4
Provisions	89	214	463	450	700	850	1,100	1,350
% of average loans	0.12	0.15	0.20	0.2	0.2	0.2	0.2	0.2
Extra ordinary Income	**0**	**354**	**250**	**0**	**0**	**0**	**0**	**0**
PBT	**2,133**	**4,704**	**5,338**	**6,107**	**7,351**	**9,451**	**12,202**	**15,330**
Tax	549	1,131	1,304	1,588	2,061	3,166	4,137	5,197
Tax Rate (%)	26	24	24	26	28	34	34	34
Reported PAT	**1,584**	**3,574**	**4,034**	**4,519**	**5,290**	**6,285**	**8,066**	**10,133**
Change (%)	63.2	125.6	12.9	12.0	17.1	18.8	28.3	25.6
Adjusted PAT	**1,584**	**3,220**	**3,784**	**4,519**	**5,290**	**6,285**	**8,066**	**10,133**
Change (%)	72.9	103.3	17.5	19.4	17.1	18.8	28.3	25.6
Minority Interest	34	283	315					
PAT Post MI	**1,550**	**2,937**	**3,468**	**4,519**	**5,290**	**6,285**	**8,066**	**10,133**
Change (%)	72.3	89.5	18.1	30.3	17.1	18.8	28.3	25.6
Proposed Dividend	365	521	478	720	1,202	1,318	1,691	2,125

Balance Sheet (INR Million)

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Share Capital	850	1,044	1,168	1,282	1,284	1,284	1,284	1,284
Reserves & Surplus	8,019	14,512	19,159	31,089	34,465	38,853	44,700	52,243
Net Worth (Excl Pref shares)	**8,569**	**15,556**	**20,327**	**32,371**	**35,750**	**40,137**	**45,985**	**53,527**
Net Worth (Incl Pref shares)	8,869	15,556	20,327	32,371	35,750	40,137	45,985	53,527
Minority Interest	288	2,525	1,927	0	0	0	0	0
Borrowings	**93,055**	**206,897**	**246,717**	**322,527**	**398,749**	**484,496**	**610,311**	**756,786**
Change (%)	50.7	122.3	19.2	30.7	23.6	21.5	26.0	24.0
Total Liabilities	**102,211**	**224,978**	**268,971**	**354,898**	**434,498**	**524,633**	**656,296**	**810,313**
Investments	**1,149**	**6,877**	**2,141**	**2,750**	**5,759**	**6,047**	**6,349**	**6,667**
Change (%)	21.1	562.7	-46.8	-36.3	71.9	19.7	18.2	17.4
Loans	**91,813**	**199,304**	**254,694**	**342,219**	**410,155**	**512,694**	**635,741**	**788,318**
Change (%)	49.6	117.1	27.8	34.4	19.9	25.0	24.0	24.0
Net Fixed Assets	2,176	2,354	2,582	4,379	9,877	10,371	10,890	11,434
Goodwill	0	3,452	3,495	0	0	0	0	0
Net Current Assets	7,074	12,991	6,059	5,549	8,707	-4,479	3,316	3,894
Total Assets	**102,211**	**224,978**	**268,971**	**354,898**	**434,498**	**524,633**	**656,296**	**810,313**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2010	2011	2012	2013	2014	2015E	2016E	2017E
Spreads Analysis (%)								
Avg. Yield - Housing loans	12.0	12.7	12.6	12.7	12.4	12.8	12.6	12.5
Avg. Cost of Funds	9.1	9.3	10.4	11.0	10.5	10.3	10.1	9.9
Interest Spread on Housing loans	2.9	3.4	2.2	1.76	1.93	2.50	2.50	2.55
Net Interest Margin (On AUM)	2.8	3.1	2.2	2.27	2.20	2.66	2.70	2.75
Profitability Ratios (%)								
RoAE	23.4	26.7	21.1	17.1	15.5	16.6	18.7	20.4
RoAA	1.9	2.0	1.53	1.45	1.34	1.31	1.37	1.38
Int. Expended/Int.Earned	76.5	75.3	82.1	82.1	81.0	77.0	76.3	76.3
Other Inc./Net Income	37.2	36.1	42.3	29.3	25.2	10.3	9.8	9.4
Efficiency Ratios (%)								
Op. Exps./Net Income	35.1	35.9	37.6	31.7	32.2	31.9	29.6	27.0
Empl. Cost/Op. Exps.	36.3	39.9	35.5	46.3	46.1	40.8	40.5	40.4
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	101.4	103.8	96.9	94.2	97.2	94.5	96.0	96.0
Debt/Equity (x)	10.9	13.3	12.1	10.0	11.2	12.1	13.3	14.1
Valuations (Consolidated)								
Book Value (INR)	104	149	174	252	278	313	358	417
Growth (%)	27.7	42.6	16.8	45.1	10.3	12.3	14.6	16.4
Price-BV (x)	4.5	3.2	2.7	1.9	1.70	1.51	1.3	1.1
Adjusted BV (INR)*	104.5	115.9	144.1	236	265	303	351	413
Price-ABV (x)	4.5	4.1	3.3	2.0	1.78	1.56	1.3	1.1
OPS (INR)	27.1	43.7	47.5	51	63	80	104	130
Growth (%)	18.5	61.4	8.7	7.6	22.6	27.9	29.1	25.4
Price-OP (x)	17.4	10.8	9.9	9.2	7.5	5.9	4.6	3.6
EPS (INR)	18.9	28.1	29.7	35.2	41.2	48.9	62.8	78.9
Growth (%)	27.1	48.8	5.6	18.7	16.9	18.8	28.3	25.6
Price-Earnings (x)	25.0	16.8	15.9	13.4	11.5	9.6	7.5	6.0
Dividend Per Share	3.0	3.5	3.5	5.0	8.8	9.7	12.4	15.6
Dividend Yield (%)	0.6	0.7	0.7	1.1	1.9	2.1	2.6	3.3

E: MOSL Estimates *

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