

# Dewan Housing

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
26,430	7,879
Bloomberg	DEWH IN
Equity Shares (m)	128.2
M.Cap. (INR b) / (USD b)	42.4/0.7
52-Week Range (INR)	423/134
1, 6, 12 Rel. Per (%)	-1/25/89

**CMP: INR331**
**TP: INR540**
**Buy**
**Financials & Valuation (INR Billion)**

Y/E March	2015E	2016E	2017E
NII	12.8	15.5	18.9
PPP	10.6	12.9	15.8
Adj. PAT	6.5	8.0	9.8
EPS (INR)	50.8	62.0	76.5
EPS Gr. (%)	23.2	22.2	23.3
BV (INR)	314	359	416
RoAA (%)	1.4	1.3	1.3
RoE (%)	17.1	18.4	19.7
Payout (%)	20.9	20.9	20.9
<b>Valuations</b>			
P/E (x)	6.5	5.3	4.3
P/BV (x)	1.1	0.9	0.8
P/ABV (x)	1.1	0.9	0.8
Div. Yld (%)	3.0	3.7	4.6

- Dewan Housing Finance's (DEWH) 2QFY15 PAT grew 18% YoY and 3.5% QoQ to INR1.52b. Healthy AUM growth of +28% YoY (+5.3% QoQ), margin improvement of 5bp YoY to 2.75% and stable asset quality with GNPA's of 78bp were the key highlights of the quarter.
- Business growth momentum remained strong during the quarter, with sanctions and disbursements growing at a faster clip by +38% YoY (3.6% QoQ) to INR61.2b and +30% YoY to INR42.6b respectively. AUM grew 28% YoY (+5% QoQ) to INR493.5b, while the loan book grew ~25% YoY (+4% QoQ) to INR447b.
- During the quarter, DEWH securitized assets worth INR7.4b. Off balance sheet AUM stood at INR46b; off balance sheet AUM share in overall AUM stood at 9.4% v/s7.2% in 2QFY14.
- Asset quality remains healthy, with GNPA's of 78bp (improved 1bp QoQ), while NNPA's were nil with PCR of 107%.
- Reported margins stood at 2.75%, up 5bp YoY. The improvement in margins was driven by a) increasing proportion of non-housing portfolio (LAP and commercial) and b) increasing proportion of bonds and replacing the same with high cost bank deposits.
- **Valuation and view:** DEWH continues to perform well on growth, margins and asset quality fronts. We expect the loan growth to remain healthy at a CAGR of ~23% over FY15E-17E. Margins continue to hold well thus demonstrating pricing power. Asset quality remains among the best, with GNPA's of just 80bp and almost zero net NPA's. Strong visibility on business growth and margins, superior asset quality, healthy provision cover and healthy return ratios are key positives. The stock trades at an attractive valuation of 1.1x/0.9x FY15E/16E BV. Maintain **Buy** with a target price of INR540 (1.5x FY16E BV).

**DEWH: Quarterly performance**

(INR Million)

Y/E March	FY14				FY15				FY14	FY15E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	10,641	11,073	12,465	13,580	13,985	14,120	14,684	15,749	47,758	58,537
Interest Expenses	8,380	8,787	9,878	10,782	10,706	10,801	11,395	12,797	37,826	45,698
<b>Net Interest Income</b>	<b>2,261</b>	<b>2,286</b>	<b>2,587</b>	<b>2,798</b>	<b>3,279</b>	<b>3,319</b>	<b>3,290</b>	<b>2,951</b>	<b>9,932</b>	<b>12,839</b>
YoY Growth (%)	61.2	46.7	58.8	2.6	45.0	45.2	27.2	5.5	35.8	29.3
Fees and other income	433	599	549	591	281	387	600	983	2,172	2,251
<b>Net Income</b>	<b>2,694</b>	<b>2,885</b>	<b>3,136</b>	<b>3,389</b>	<b>3,560</b>	<b>3,706</b>	<b>3,890</b>	<b>3,934</b>	<b>12,104</b>	<b>15,090</b>
YoY Growth (%)	44.2	38.8	42.3	-12.5	32.1	28.5	24.0	16.1	20.8	24.7
Operating Expenses	854	1,060	917	1,222	1,086	1,226	1,210	1,039	4,053	4,561
YoY Growth (%)	27.0	41.7	12.3	-15.7	27.2	15.6	32.0	-15.0	9.9	12.5
<b>Operating Profits</b>	<b>1,840</b>	<b>1,825</b>	<b>2,219</b>	<b>2,167</b>	<b>2,474</b>	<b>2,480</b>	<b>2,680</b>	<b>2,895</b>	<b>8,051</b>	<b>10,529</b>
YoY Growth (%)	53.9	37.2	59.9	-10.5	34.4	35.9	20.8	33.6	27.1	30.8
Provisions	250	100	250	100	250	200	200	250	700	900
<b>Profit before Tax</b>	<b>1,590</b>	<b>1,725</b>	<b>1,969</b>	<b>2,067</b>	<b>2,224</b>	<b>2,280</b>	<b>2,480</b>	<b>2,645</b>	<b>7,351</b>	<b>9,629</b>
Tax Provisions	387	434	585	655	753	758	794	834	2,061	3,139
<b>PAT including extraordinary item</b>	<b>1,203</b>	<b>1,291</b>	<b>1,384</b>	<b>1,412</b>	<b>1,471</b>	<b>1,523</b>	<b>1,686</b>	<b>1,811</b>	<b>5,290</b>	<b>6,491</b>
YoY Growth (%)	54.6	50.4	51.7	-19.3	22.3	17.9	21.9	28.3	23.1	22.7
Cost to Income Ratio (%)	31.7	36.7	29.2	36.1	30.5	33.1	31.1	26.4	33.5	30.2
Tax Rate (%)	24.4	25.1	29.7	31.7	33.9	33.2	32.0	31.5	28.0	32.6

E: MOSL Estimates

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### **Business growth momentum remain strong; AUM growth +28% YoY**

- Business growth momentum remained strong during the quarter, with sanctions and disbursements grew at a faster clip by +38% YoY (3.6% QoQ) to INR61.2b and +30% YoY to INR42.6b, respectively. AUM grew 28% YoY (+5% QoQ) to INR493.5b, whereas loan book grew ~25% YoY (+4% QoQ) to INR 447b.
- The management remains confident of +25% AUM growth for next 3 years (AUM growth target of INR750b by FY17) however the on balance sheet growth will be capped at 18-20% in order to conserve capital.
- The proportion of non-housing loans (Commercial, LAP & Builders) in the overall mix increased to 23% v/s 21.4% in 1QFY15 and 18.7% in 2QFY14.
- The average ticket size for the outstanding loan book increased to INR1.1m v/s INR1m in 2QFY14.

### **Margin improve 5bp YoY; change in liability mix to drive further margin expansion**

- Reported margins stood at 2.75% up 6bp YoY; the improvement in margins was driven by a) increasing proportion of non-housing portfolio (LAP & commercial) and b) increasing proportion of bonds and replacing the same with high cost bank deposits.
- While Banks and FI continue to remain a dominate share in overall borrowings, during the quarter borrowing through this source is partially replaced by NCDs. Share of NCDs increased to 24% in 2QFY15 (20% in 4QFY14) and Bank and FI borrowings reduced to 64% (68% a year ago)

### **Asset quality remains healthy; PCR of +100%**

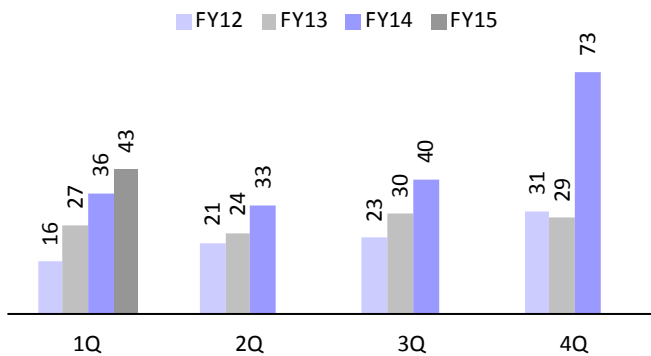
- Exposure to high-risk low-income customers; despite that DHFL's has been able to maintain strong asset quality. DHFL's gross NPA ratio was <1.6% over last 10 years.
- Asset quality remains healthy with the GNPA of 78bp (improved 1bp QoQ); NNPA were nil with PCR of 107%. Provisioning expenses (including for standard assets) were stable QoQ at INR200m.

### **Valuation and view**

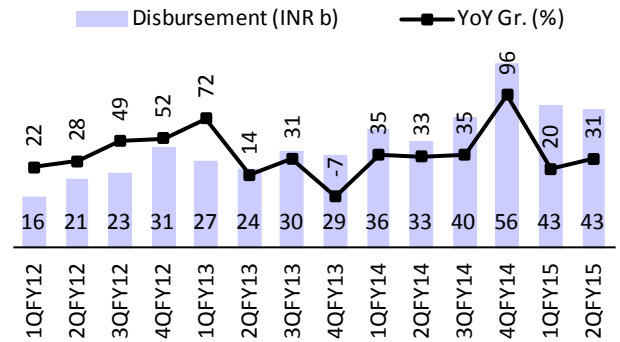
- DEWH continues to perform well on growth, margins and asset quality front. We expect the loan growth to remain healthy at a CAGR of ~23% over FY15-17. Margins continue to hold well demonstrating the pricing power. Asset quality remains one of the best with almost GNPA of just 78bp and almost zero net NPAs.
- Key concerns: 1) Debt / Equity ratio stands high at +11x, 2) Though the asset quality performance has remained healthy, it remains monitorable 3) Cost to income ratio remains higher than peers at 30%+
- Strong visibility on business growth and margins, superior asset quality, healthy provision cover and healthy return ratios are key positives. The stock trades at an attractive valuation of 1.1x/0.9x FY15/16E ABV. Maintain **Buy** with a price target of INR540 (1.5x FY16 BV).

## Story in charts

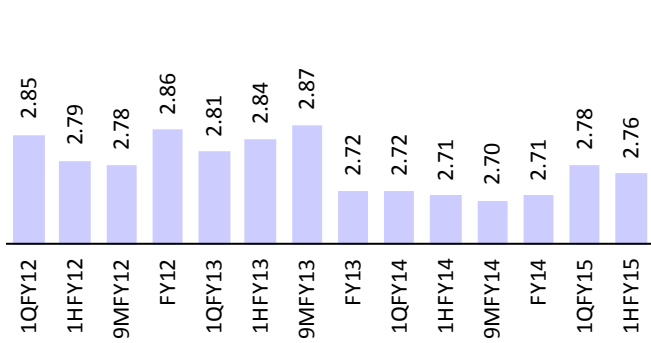
**Exhibit 1: Sanctions grew at healthy +38% YoY (INRb)**



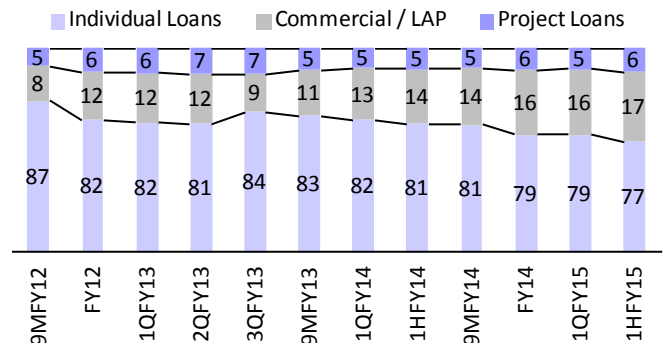
**Exhibit 2: Disbursement growth at +30% YoY**



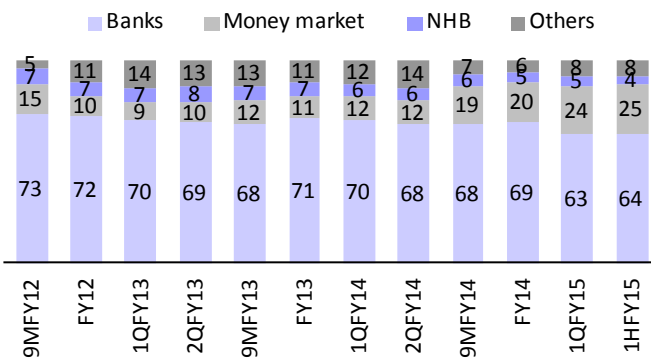
**Exhibit 3: Margins improve 5bp YoY (%)**



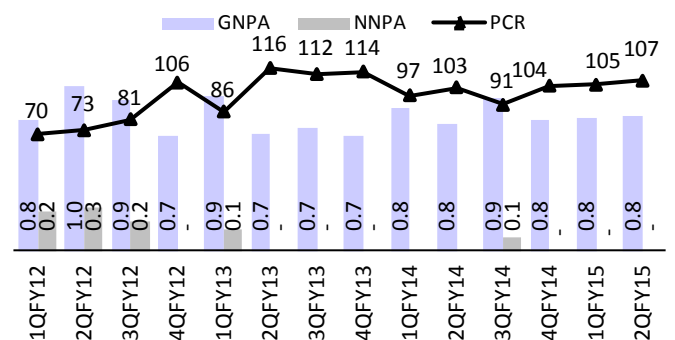
**Exhibit 4: AUM Mix: Non-retail now forms 23% of AUM**



**Borrowing from bonds increase 500bp TYD**



**Exhibit 5: Asset quality remain stable; PCR +100% (%)**



## EPS: MOSL forecast v/s consensus (INR)

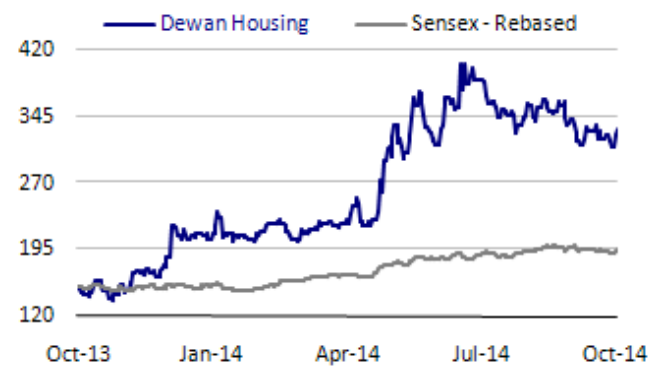
	MOSL Forecast	Consensus Forecast	Variation (%)
FY15	50.8	50.3	1.0
FY16	62.0	62.6	-1.0

## Shareholding pattern (%)

	Sep-14	Jun-14	Sep-13
Promoter	39.2	39.2	39.3
DII	4.9	5.5	9.5
FII	25.2	25.5	29.0
Others	30.8	29.8	22.2

Note: FII Includes depository receipts

## Stock performance (1-year)



## Financials: Valuation Matrix

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)		Dividend Yield (%) #
				FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	
ICICIB*	Buy	1,578	30.4	117.8	143.6	11.0	8.8	665	770	2.0	1.6	1.9	1.9	16.2	17.1	1.7
HDFCB	Buy	896	35.8	54.2	67.7	16.5	13.2	256	308	3.5	2.9	2.0	2.0	23.0	24.0	1.0
AXSB	Buy	423	16.6	36.7	43.3	11.5	9.8	220	256	1.9	1.7	1.8	1.7	17.9	18.1	1.1
KMB*	Neutral	1,014	13.0	47.0	57.3	21.6	17.7	319	375	3.2	2.7	1.8	1.9	13.6	14.6	0.1
YES	Buy	624	4.3	58.9	75.8	10.6	8.2	328	388	1.9	1.6	1.7	1.7	19.4	21.2	1.3
IIB	Buy	678	5.9	43.3	54.4	15.7	12.5	228	273	3.0	2.5	1.9	1.9	20.5	21.7	0.8
VYSB	Neutral	638	2.0	45.4	55.9	14.0	11.4	437	481	1.5	1.3	1.2	1.2	10.8	12.2	1.1
FB	Buy	141	2.0	12.9	15.4	10.9	9.1	99	111	1.4	1.3	1.2	1.1	13.6	14.6	1.6
J&KKB	Buy	137	1.1	25.2	28.4	5.4	4.8	152	174	0.9	0.8	1.3	1.3	17.6	17.4	2.9
SIB	Buy	25	0.6	4.3	5.3	5.9	4.8	30	34	0.8	0.7	0.9	0.9	15.0	16.5	2.8
<b>Private Aggregate</b>			<b>111.7</b>			<b>14.5</b>	<b>11.9</b>			<b>2.4</b>	<b>2.1</b>					
SBIN (cons)*	Buy	2,585	32.1	321.0	433.8	7.7	5.7	2,347	2,702	1.1	0.9	0.9	1.0	14.4	17.0	1.5
PNB	Buy	932	5.6	184.0	229.3	5.1	4.1	1,243	1,445	0.7	0.6	1.0	1.1	15.8	17.1	1.6
BOI	Neutral	268	2.9	60.1	76.0	4.5	3.5	478	545	0.6	0.5	0.5	0.6	13.3	14.8	2.3
BOB	Neutral	884	6.3	146.1	170.8	6.0	5.2	978	1,109	0.9	0.8	0.8	0.8	15.8	16.4	2.9
CBK	Buy	391	3.0	81.2	107.2	4.8	3.6	626	709	0.6	0.6	0.6	0.7	13.6	16.1	3.2
UNBK	Buy	220	2.3	40.2	48.7	5.5	4.5	330	370	0.7	0.6	0.6	0.7	12.8	13.9	2.4
OBC	Buy	264	1.3	55.6	73.1	4.7	3.6	504	560	0.5	0.5	0.6	0.7	11.5	13.8	3.4
INBK	Buy	165	1.3	28.1	32.0	5.9	5.1	288	312	0.6	0.5	0.6	0.6	10.1	10.7	2.8
CRPBK	Neutral	327	0.9	61.9	74.2	5.3	4.4	687	745	0.5	0.4	0.4	0.4	9.3	10.4	2.5
ANDB	Neutral	75	0.7	12.8	13.4	5.9	5.6	165	174	0.5	0.4	0.4	0.3	8.0	7.9	3.6
IDBI	Neutral	66	1.8	14.4	19.7	4.6	3.4	157	173	0.4	0.4	0.6	0.7	9.5	11.9	2.4
DBNK	Neutral	61	0.5	13.6	16.8	4.5	3.6	137	150	0.4	0.4	0.5	0.5	10.3	11.7	3.4
<b>Public Aggregate</b>			<b>60.0</b>			<b>7.2</b>	<b>5.7</b>			<b>0.8</b>	<b>0.8</b>					
HDFC*	Buy	1,021	26.6	40	47	15.9	11.7	166	193	3.8	2.9	2.5	2.5	24.4	25.5	1.6
LICHF	Buy	334	2.8	32	39	10.3	8.5	198	229	1.7	1.5	1.4	1.4	17.6	18.4	1.5
DEWH	Buy	331	0.7	68	85	4.8	3.9	367	431	0.9	0.8	1.5	1.5	20.0	21.3	3.2
IHFL	Buy	399	2.4	62	75	6.4	5.3	157	173	2.5	2.3	4.1	4.1	30.5	31.9	7.0
IDFC	Neutral	145	3.7	14	16	10.6	9.3	109	121	1.1	0.9	2.5	2.5	12.5	13.0	1.9
RECL	Buy	286	4.7	65	77	4.4	3.7	298	357	1.0	0.8	3.4	3.4	23.9	23.6	3.9
POWF	Buy	275	6.1	59	69	4.7	4.0	295	346	0.9	0.8	3.2	3.1	21.5	21.6	3.8
SHTF	Buy	900	3.4	90	105	10.0	8.5	514	604	1.8	1.5	2.6	2.8	18.5	19.5	0.9
MMFS	Neutral	282	2.6	19	23	14.6	12.5	116	132	2.4	2.1	2.7	2.7	17.8	18.3	1.3
BAF	Buy	2,648	2.2	208	245	12.7	10.8	1,123	1,328	2.4	2.0	2.9	2.8	20.1	20.0	1.3
<b>NBFC Aggregate</b>			<b>55.1</b>			<b>11.4</b>	<b>9.6</b>			<b>2.2</b>	<b>1.9</b>					

\*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

# Div Yield based on FY14 declared dividend; UR: Under Review

## Financials and valuations

Income Statement					Ratios				
(INR Million)									
Y/E March	2014	2015E	2016E	2017E	Y/E March	2014	2015E	2016E	2017E
Operating Income	46,705	58,537	70,911	86,879	<b>Spreads Analysis (%)</b>				
Interest Expended	37,826	45,698	55,417	67,976	Avg. Yield - Housing loans	12.4	12.8	12.6	12.4
<b>Net Interest Income</b>	<b>8,879</b>	<b>12,839</b>	<b>15,494</b>	<b>18,903</b>	Avg. Cost of Funds	10.5	10.4	10.1	9.9
Change (%)	30.9	44.6	20.7	22.0	Interest Spread on Housing loans	1.93	2.45	2.45	2.50
Fee Income	2,300	1,380	1,656	1,987	Net Interest Margin	2.36	2.81	2.74	2.70
Treasury Income	671	800	900	1,000	Net Interest Margin (On AUM)	2.20	2.54	2.42	2.35
Other Income	21	71	121	171					
<b>Net Income</b>	<b>11,871</b>	<b>15,090</b>	<b>18,171</b>	<b>22,062</b>	<b>Profitability Ratios (%)</b>				
Change (%)	23.7	27.1	20.4	21.4	RoAE	15.53	17.1	18.4	19.7
Operating Expenses	3,820	4,533	5,311	6,224	RoAA	1.34	1.36	1.35	1.33
<b>Operating Profit</b>	<b>8,051</b>	<b>10,557</b>	<b>12,860</b>	<b>15,838</b>	Int. Expended/Int.Earned	81.0	78.1	78.1	78.2
Change (%)	22.8	31.1	21.8	23.2	Other Inc./Net Income	25.2	14.9	14.7	14.3
Provisions	700	900	1,150	1,400					
% of average loans	0.2	0.2	0.2	0.2	<b>Efficiency Ratios (%)</b>				
<b>Extra ordinary Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	Fees/Operating income	28.6	13.1	12.9	12.5
<b>PBT</b>	<b>7,351</b>	<b>9,657</b>	<b>11,710</b>	<b>14,438</b>	Op. Exps./Net Income	32.2	30.0	29.2	28.2
Tax	2,061	3,139	3,747	4,620	Empl. Cost/Op. Exps.	46.1	45.1	46.2	47.3
Tax Rate (%)	28	33	32	32					
<b>Reported PAT</b>	<b>5,290</b>	<b>6,519</b>	<b>7,963</b>	<b>9,818</b>	<b>Asset-Liability Profile (%)</b>				
Change (%)	17.1	23.2	22.2	23.3	Loans/Borrowings Ratio	97.2	96.0	98.0	98.0
<b>Adjusted PAT</b>	<b>5,290</b>	<b>6,519</b>	<b>7,963</b>	<b>9,818</b>	Debt/Equity (x)	11.2	12.0	13.3	14.2
Change (%)	17.1	23.2	22.2	23.3	Gross NPA (INR Mn)	3,948	4,738	5,686	6,823
Minority Interest					Net NPA (INR Mn)	933	726	509	293
<b>PAT Post MI</b>	<b>5,290</b>	<b>6,519</b>	<b>7,963</b>	<b>9,818</b>					
Change (%)	17.1	23.2	22.2	23.3	<b>Valuations (Consolidated)</b>				
Proposed Dividend	1,202	1,367	1,670	2,059	Book Value (INR)	278	314	359	416
					Growth (%)	10.3	12.8	14.3	15.8
					Price-BV (x)	1.19	1.05	0.9	0.8
					Adjusted BV (INR)*	265	304	352	412
					Price-ABV (x)	1.25	1.09	0.9	0.8
					OPS (INR)	63	82	100	123
					Growth (%)	22.6	31.1	21.8	23.2
					Price-OP (x)	5.3	4.0	3.3	2.7
					EPS (INR)	41.2	50.8	62.0	76.5
					Growth (%)	16.9	23.2	22.2	23.3
					Price-Earnings (x)	8.0	6.5	5.3	4.3
					Dividend Per Share	8.8	10.0	12.3	15.1
					Dividend Yield (%)	2.7	3.0	3.7	4.6
					E: MOSL Estimates *				

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