

Dewan Housing Finance

Performance Highlights

Particulars (₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)
NII	492	457	7.7	407	20.9
Pre-prov. profit	396	348	13.8	323	22.7
PAT	232	201	15.2	181	27.9

Source: Company, Angel Research

Dewan Housing Finance Corporation Limited (DHFL) reported 28.5% growth in PAT at ₹231.5cr for the quarter, better than our expectations. Strong growth in loans, decline in cost of funds and resultant NIM improvement, together with cost rationalization were the key factors that have supported the earnings growth.

Loan growth remained strong: DHFL reported a 19.7% yoy growth in AUM to ₹75,223cr. In absolute terms, the AUM grew by ₹3,211cr qoq. While sanctions remained moderate, up by only 10% yoy, disbursements growth accelerated to 32% compared to 26% in 1QFY17. During the quarter, the company securitized loans worth ₹2,223 cr compared to ₹1,152cr in 1QFY17 and securitized portfolio accounted for 13% of the AUM.

DHFL continued to aggressively expand Project loan book: Loans to individuals reported a moderate growth of 12% yoy (70% of the AUM). However, DHFL continued to aggressively expand its project loan book, primarily the loans to projects, which went up by 129% yoy and accounted for 11.5% of the AUM compared to 9.8% qoq.

Asset quality remained stable: Though in 1QFY17, we saw a marginal increase in GNPA's, DHFL has been able to contain its asset quality during the quarter and GNPA's stood at 0.96% vs 0.98% qoq. Despite aggressive growth in the non retail loan book in the recent quarters, DHFL has been able to maintain strong asset quality and we don't expect any change in trend in the near term.

NIM expanded backed by low cost of funds: During 2QFY17, DHFL successfully raised ₹14,000cr via NCDs at a very competitive rate and hence, it has been able to reduce its cost of funds by 23 bps qoq. This has helped in improving its NIM by 14 bps qoq to 3.05%. While in the near term the margins will remain stable, we believe the company could pass on some benefits of lower cost to gain market share and thereby further try to accelerate its loan book.

Outlook and valuation: DHFL's 1HFY17 performance has been in line with expectations on all counts. Going ahead, we expect it to post a healthy AUM CAGR of 21% over FY2015-18E, which is likely to translate in earnings CAGR of 23%, over the same period. The stock price has seen sharp run-up in the last two quarters and despite of that is trading at a discount to other HFCs. At the current level, the stock is valued at 1.5x FY2018E ABV. **We have revised our target price to ₹350 and maintain ACCMULATE on the stock.**

Key financials (standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	1,256	1,664	2,050	2,500
% chg	41.5	32.5	23.2	21.9
Net profit	620	729	879	1,111
% chg	17.8	17.6	20.6	26.3
NIM (%)	2.8	2.9	2.9	2.9
EPS (₹)	21.3	24.9	28.1	35.5
P/E (x)	15.3	13.1	11.6	9.2
P/ABV (x)	2.3	2.0	1.7	1.5
RoA (%)	1.3	1.2	1.2	1.2
RoE (%)	15.1	15.0	15.6	16.5

Source: Company, Angel Research; Note: CMP as of October 27, 2016

ACCMULATE

CMP	₹325
Target Price	₹350

Investment Period	12 months
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Stock Info	
Sector	HFC
Market Cap (₹ cr)	10,162
Beta	1.7
52 Week High / Low	337/141
Avg. Daily Volume	1,690,705
Face Value (₹)	10
BSE Sensex	27,196
Nifty	8,615
Reuters Code	DWNH.BO
Bloomberg Code	DEWH.IN

Shareholding Pattern (%)	
Promoters	37.4
MF / Banks / Indian FIs	3.9
FII / NRIs / OCBs	29.5
Indian Public / Others	29.2

Abs. (%)	3m	1yr	3yr
Sensex	(0.4)	2.4	35.0
DHFL	46.2	39.3	347.9

3-Year Daily Price Chart



Source: Company, Angel Research

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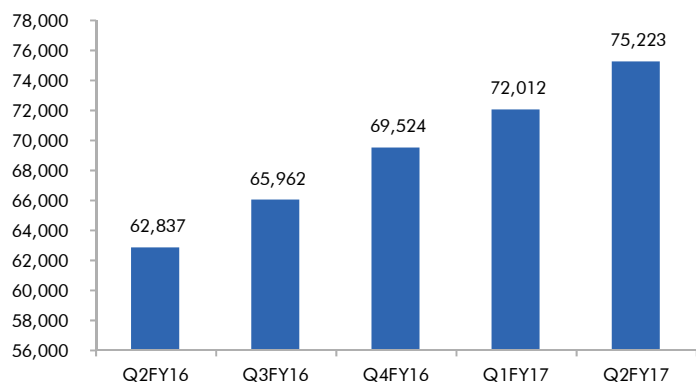
Exhibit 1: 2QFY2017 performance (standalone)

Particulars (₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)	1HFY17	1HFY16	% chg
Interest earned	2,123	1,932	9.9	1,764	20.4	4,055	3397	19.4
Interest expenses	1,631	1,475	10.6	1,357	20.2	3,106	2591	19.9
Net interest income	492	457	7.7	407	20.9	949	806	17.8
Non Interest Income	44	27	63.0	48	(8.3)	71	68	4.3
Operating income	536	484	10.7	455	17.8	1020	874	16.7
Operating expenses	133	130	2.3	125	6.4	263	245	7.4
Depreciation	7	6	13.5	7	(2.7)	13	12.7	0.9
Pre-prov. profit	396	348	13.8	323	22.7	744	616	20.8
Provisions & cont.	45	45	-	45	-	90	77	16.9
PBT	351	303	15.9	278	26.3	654	539	21.3
Prov. for taxes	120	102	17.3	97	23.3	222	185	19.8
PAT	232	201	15.2	181	27.9	433	354	22.1
EPS (₹)	7.4	6.9	7.4	6.2	19.2	13.8	12.1	13.8
Effective tax rate (%)	34.1	33.7		34.9		33.9	34.30	

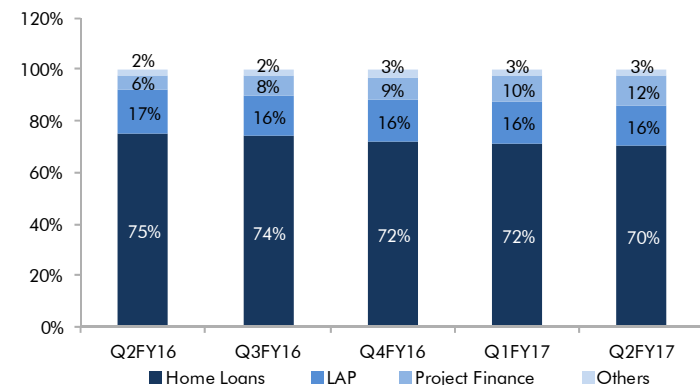
Source: Company, Angel Research

Loan growth remained strong during the quarter also: DHFL reported a 19.7% yoy growth in AUM to ₹75,223cr. In absolute terms, the AUM grew by 4.5% qoq to ₹3,211cr. While sanctions remained moderate by only 10% yoy, disbursements growth accelerated to 32% compared to 26% in Q1FY17. During the quarter, the company securitized loans worth ₹2,223cr compared to ₹1,152cr in Q1FY17 as well as securitized portfolio accounted for 13% of the AUM. Lower cost of funds and well capitalized balance sheet should help the company in accelerating its loan book in the next couple of quarters.

DHFL continued to aggressively expand Project loan book: Loans to individuals reported a moderate growth of 12% yoy (70% of the AUM). However, DHFL continued to aggressively expand its project loan book, primarily the loans to projects, which went up by 129% yoy and accounted for 11.5% of the AUM compared to 9.8% qoq. Though growth in the project segments has been very aggressive in the last few quarters, DHFL's funding at entire project level rather than working capital funding makes it much safer compared to what it is perceived to be.

Exhibit 2: AUM growth remained strong


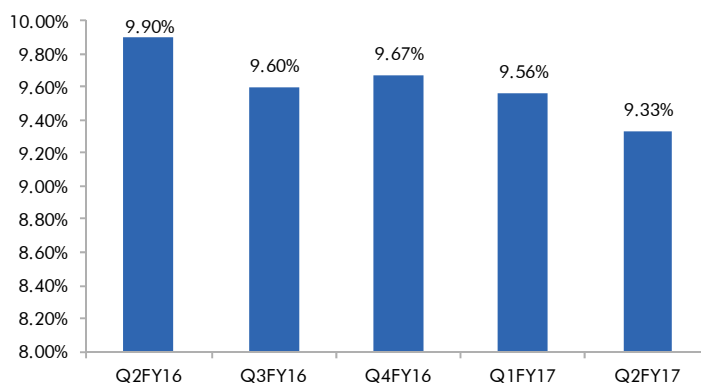
Source: Company, Angel Research

Exhibit 3: Loan Mix


Source: Company, Angel Research

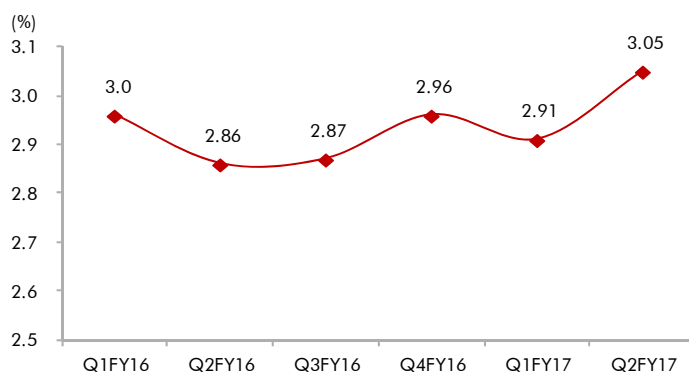
NIM expanded backed by low cost of funds: During Q2FY17, DHFL successfully raised ₹14,000cr via NCDs at a very competitive rate and hence, it has been able to reduce its cost of funds by 23bps qoq. This has helped in improving its NIM by 14 bps qoq to 3.05%. While in the near term the margins will remain stable, we believe the company could pass on some benefits of lower cost to gain market share and thereby further try to accelerate its loan book.

Exhibit 4: Reduction in cost of funds



Source: Company, Angel Research

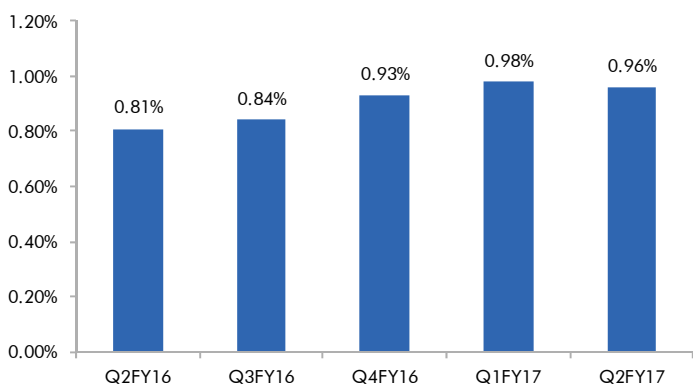
Exhibit 5: Sharp rise NIM due to low cost of funds



Source: Company, Angel Research

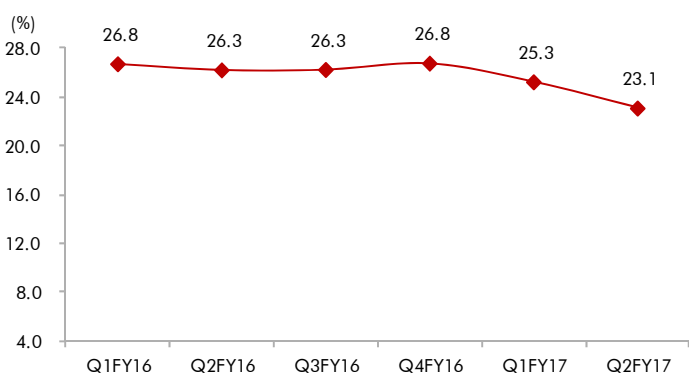
Asset quality stable for yet another quarter: DHFL has maintained stable asset quality over the last few quarters. During Q1FY16, the company witnessed some pressure on asset quality when the GNPA's went up to 0.98% from 0.93% in Q4FY16. However, the current quarter has again been stable as far as asset quality is concerned. Despite strong growth in the recent quarters and lending to the LMI segment, which is perceived to be a risky segment, the company has been able to maintain stable asset quality and hence, we don't expect any deterioration in the asset quality in the near term.

Exhibit 6: Asset quality remained stable



Source: Company, Angel Research

Exhibit 7: Cost / Income is trending down



Source: Company, Angel Research

Outlook and valuation

The performance of DHFL in the first two quarters' has been in line with the expectations on all counts. Going ahead, we expect the company to post a healthy AUM CAGR of 21% over FY2015-18E, which is likely to translate in earnings CAGR of 23%, over the same period. The stock price has seen sharp run-up in the last two quarters and despite of that is trading at a discount to other HFCs. At the current level, the stock is valued at 1.5x FY2018E ABV. **We have revised our target price to ₹350 and maintain an ACCMULATE on the stock.**

Company Background

Dewan Housing was established in 1984 by Late Shri Rajesh Kumar Wadhawan. DHFL is a dominant player in niche markets (tier II & III cities) with strong foothold in the low and middle income (LMI) segment. After the acquisition and merger of First Blue Home Finance, DHFL now caters also to the middle and upper middle income groups. The company operates in the mortgage financing business where the growth and asset quality have remained healthy over the past few years.

The company has emerged as a one-stop-shop for its customers' financial needs, extending beyond home loans. The company has a presence in the education loans, life insurance, and mutual funds segments through Avanse Education Loans, DHFL Pramerica Life Insurance and DHFL Pramerica Asset Managers Pvt Ltd, respectively.

It is India's third largest private sector HFC with an AUM of ₹75,223cr as on 30th October, 2016. The company has a well diversified loan book with housing loans accounting for the largest share of 70%, followed by LAP (15.7%), project loans (11.5%) and loans to SME (2.6%) (as of 30th October, 2016).

Income statement (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Nil	678	888	1,256	1,664	2,050	2,500
- YoY Growth (%)	70.0	30.9	41.5	32.5	23.2	21.9
Other Income	280	296	265	164	175	188
- YoY Growth (%)	11.7	5.8	(10.5)	(38.3)	7.1	7.4
Operating Income	958	1,184	1,522	1,828	2,225	2,688
- YoY Growth (%)	47.5	23.6	28.5	20.1	21.7	20.8
Operating Expenses	304	384	480	550	616	691
- YoY Growth (%)	22.3	26.2	25.2	14.5	12.0	12.1
Pre - Provision Profit	654	801	1,041	1,278	1,609	1,997
- YoY Growth (%)	63.1	22.4	30.1	22.7	25.9	24.1
Prov. & Cont.	45	66	99	175	274	311
- YoY Growth (%)	89.9	47.7	48.7	77.4	56.2	13.5
Profit Before Tax	609	734	943	1,102	1,335	1,686
- YoY Growth (%)	61.4	20.5	28.4	16.9	21.1	26.3
Prov. for Taxation	159	206	322	373	456	575
- as a % of PBT	26.1	28.1	34.1	33.8	34.1	34.1
PAT	459	527	620	729	879	1,111
- YoY Growth (%)	60.9	14.8	17.8	17.6	20.6	26.3

Balance sheet (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Share Capital	128	128	146	292	313	313
Reserve & Surplus	3,109	3,447	4,490	4,725	5,934	6,849
Loan Funds	27,441	33,890	40,526	49,800	61,730	76,519
- Growth (%)	61.9	23.5	19.6	22.9	24.0	24.0
Other Liab. & Prov.	5,172	6,465	9,557	13,115	14,901	18,246
Total Liabilities	35,850	43,930	54,718	67,933	82,878	1,01,928
Investments	275	721	1,006	1,249	1,524	4,080
Advances	32,403	38,651	48,789	60,572	73,898	88,677
- Growth (%)	77.5	19.3	26.2	24.2	22.0	20.0
Fixed Assets	438	988	985	1,222	1,491	1,834
Other Assets	2,735	3,569	3,938	4,889	5,965	7,336
Total Assets	35,850	43,930	54,718	67,933	82,878	1,01,928

Ratio analysis (standalone)

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profitability ratios (%)						
NIMs	2.6	2.4	2.8	2.9	2.9	2.9
Cost to Income Ratio	31.7	32.4	31.6	30.1	27.7	25.7
RoA	1.6	1.3	1.3	1.2	1.2	1.2
RoE	17.4	15.5	15.1	15.0	15.6	16.5
Asset Quality (%)						
Gross NPAs	0.73	0.8	1.0	1.1	1.17	1.3
Net NPAs	0.48	0.5	0.7	0.8	0.82	0.8
Provision Coverage	34.2	33.5	28.7	31.5	33.1	38.6
Per Share Data (₹)						
EPS	17.9	20.5	21.3	24.9	28.1	35.5
ABVPS (75% cover.)	118.7	129.0	143.7	162.0	187.8	216.4
DPS	1.0	1.6	1.1	0.6	0.7	0.9
Valuation Ratios						
PER (x)	18.2	15.8	15.3	13.1	11.6	9.2
P/ABVPS (x)	2.7	2.5	2.3	2.0	1.7	1.5
Dividend Yield	0.3	0.5	0.3	0.2	0.2	0.3
DuPont Analysis						
NII	2.4	2.2	2.5	2.7	2.7	2.7
(-) Prov. Exp.	0.2	0.2	0.2	0.3	0.4	0.3
Adj. NII	2.2	2.1	2.3	2.4	2.4	2.4
Treasury	0.0	0.0	0.0	0.0	0.0	0.0
Int. Sens. Inc.	2.2	2.1	2.4	2.4	2.4	2.4
Other Inc.	0.9	0.7	0.5	0.3	0.2	0.2
Op. Inc.	3.2	2.8	2.9	2.7	2.6	2.6
Opex	1.1	1.0	1.0	0.9	0.8	0.7
PBT	2.1	1.8	1.9	1.8	1.8	1.8
Taxes	0.6	0.5	0.7	0.6	0.6	0.6
RoA	1.6	1.3	1.3	1.2	1.2	1.2
Leverage	10.9	11.7	12.0	12.7	13.4	13.7
RoE	17.1	15.5	15.1	15.0	15.6	16.5

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Dewan Housing Finance

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)