

## Dewan Housing Finance Corporation

### Performance Highlights

Particulars (₹ cr)	1QFY17	4QFY16	% chg (qoq)	1QFY16	% chg (yoy)
<b>NII</b>	<b>483</b>	<b>486</b>	<b>(0.6)</b>	<b>418</b>	<b>15.5</b>
Pre-prov. profit	348	333	4.5	293	18.6
<b>PAT</b>	<b>201</b>	<b>190</b>	<b>6.2</b>	<b>173</b>	<b>16.2</b>

Source: Company, Angel Research

For 1QFY2017, Dewan Housing Finance Corporation (DHFL) reported a 16% growth in PAT to ₹201cr, which is in line with our expectation. There has been a decline in the company's cost structure after many quarters, which we believe is sustainable and would add to earnings growth going ahead. At the operating level, the performance remained decent.

**Loan growth remains decent:** The company's AUM as of 1QFY2017 end was up 20% on a yoy basis at ₹72,012cr. While sanctions grew by a moderate 12% yoy, disbursements at ₹6,215cr witnessed a strong 26% yoy growth during the quarter. The company securitized loans worth ₹1,152cr during the quarter and the portfolio of securitized loans accounted for 12% of the total AUM.

**Project loans growing faster than the overall loan portfolio:** Loans to individuals which account for ~71.5% of the AUM, grew by 15.2% yoy during the quarter. The company continued to aggressively expand its non-individual loan book, which is evident from the 93% yoy growth in loans to projects. The segment accounted for 9.8% of the AUM compared to 9% at the end of 4QFY2016 and vs 6.1% in 1QFY2016. We believe the company will continue to expand the high yielding developer loan book in the near term.

**Asset quality marginally weakened but still comfortable:** DHFL has been able to maintain a stable asset quality over the last few quarters. During the quarter under review, GNPA's rose to 0.98% vs 0.93% as at the end of 4QFY2016. On a yoy basis, provisions were up 41%, which we feel is reasonable, looking at the strong growth in non-individual loan book which is subject to stricter regulatory norms in terms of provisioning. NPAs from the individual loans segment stood at 0.74% while that from the non-individual segment stood at 1.24% (LAP, Project Loans, and SME combined). We don't expect any deterioration in asset quality in the near term.

**Margins as well as return ratios likely to remain stable:** Though the cost of funds has declined, the yield too has come down in the last quarter due to competitive intensity. This resulted in the NIM declining to 2.91% compared to 2.96% in 4QFY2016. We believe increasing exposure to the high yielding project loans and LAP portfolio will enable the company to maintain its NIM above 2.9% levels.

**Outlook and valuation:** We expect the company to post a healthy loan book CAGR of 20% over FY2015-18E which is likely to translate in an earnings CAGR of 21.3% over the same period. Despite a 19% run up in the stock price since we initiated coverage, the stock is still attractively valued at a little above 1x FY2018E ABV. **We maintain our BUY on the stock and retain our target price of ₹270.**

#### Key financials (standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
<b>NII</b>	<b>1,256</b>	<b>1,664</b>	<b>2,050</b>	<b>2,500</b>
% chg	41.5	32.5	23.2	21.9
<b>Net profit</b>	<b>620</b>	<b>729</b>	<b>866</b>	<b>1,084</b>
% chg	17.8	17.7	18.5	25.3
NIM (%)	2.8	2.9	2.9	2.9
<b>EPS (₹)</b>	<b>21.3</b>	<b>24.9</b>	<b>29.7</b>	<b>34.6</b>
P/E (x)	10.6	9.0	7.6	6.5
P/ABV (x)	1.6	1.4	1.2	1.0
RoA (%)	1.3	1.2	1.1	1.2
RoE (%)	15.1	14.7	15.4	16.2

Source: Company, Angel Research; Note: CMP as of July 25, 2016

### BUY

CMP	₹225
Target Price	₹270

Investment Period	12 months
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#### Stock Info

Sector	HFC
Market Cap (₹ cr)	6,568
Beta	1.6
52 Week High / Low	268/140
Avg. Daily Volume	2,002,386
Face Value (₹)	10
BSE Sensex	28,095
Nifty	8,635
Reuters Code	DWNH.BO
Bloomberg Code	DEWH.IN

#### Shareholding Pattern (%)

Promoters	34.9
MF / Banks / Indian FIs	2.6
FII / NRIs / OCBs	32.2
Indian Public / Others	30.3

Abs. (%)	3m	1yr	3yr
Sensex	7.6	(2.5)	38.0
DHFL	9.8	(4.7)	192.2

#### 3-Year Daily Price Chart



Source: Company, Angel Research

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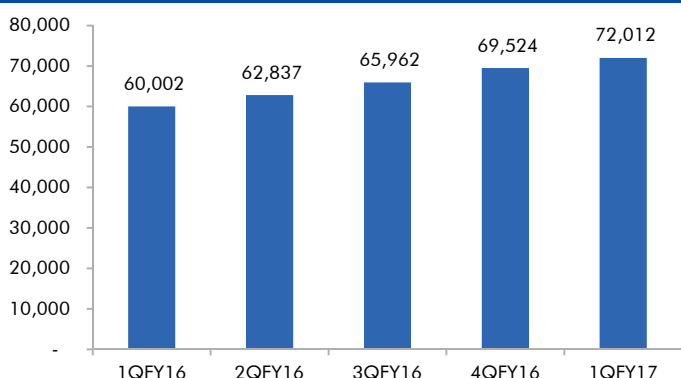
**Exhibit 1: 1QFY2017 performance (standalone)**

Particulars (₹ cr)	1QFY17	4QFY16	% chg (qoq)	1QFY16	% chg (yoy)	FY2016	FY2015	% chg
Interest earned	1,958	1,964	(0.3)	1,652	19.0	7,312	5,979	22.0
Interest expenses	1,475	1,479	(0.2)	1,234	19.5	5,490	4,460	23.1
<b>Net interest income</b>	<b>483</b>	<b>486</b>	<b>(0.6)</b>	<b>418</b>	<b>15.5</b>	<b>1,822</b>	<b>1,519</b>	<b>19.9</b>
Non-interest income	1	2	(50.0)	1	10.6	5	3	82.4
<b>Operating income</b>	<b>484</b>	<b>488</b>	<b>(0.8)</b>	<b>419</b>	<b>15.5</b>	<b>1,827</b>	<b>1,522</b>	<b>20.0</b>
Operating expenses	136	155	(12.2)	126	8.4	550	474	15.9
<b>Pre-prov. profit</b>	<b>348</b>	<b>333</b>	<b>4.5</b>	<b>293</b>	<b>18.6</b>	<b>1,277</b>	<b>1,048</b>	<b>21.9</b>
Provisions & cont.	45	50	(10.0)	32	40.6	175	105	66.7
<b>PBT</b>	<b>303</b>	<b>283</b>	<b>7.0</b>	<b>261</b>	<b>15.9</b>	<b>1,102</b>	<b>943</b>	<b>16.9</b>
Prov. for taxes	102	93	8.7	88	15.2	373	322	15.9
<b>PAT</b>	<b>201</b>	<b>190</b>	<b>6.2</b>	<b>173</b>	<b>16.2</b>	<b>729</b>	<b>621</b>	<b>17.4</b>
EPS (₹)	6.9	6.5	6.2	5.9	16.1	24.9	21.3	16.9
Cost-to-income ratio (%)	28.1	31.8		30.0		30.1	31.1	
Effective tax rate (%)	33.5	33.0		33.7		33.8	34.1	

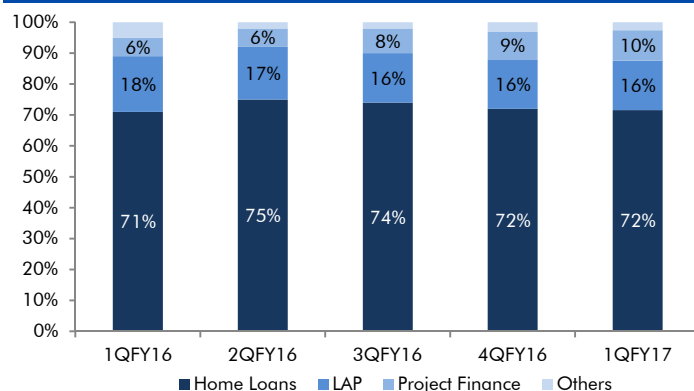
Source: Company, Angel Research

**Loan growth remained decent:** The company's AUM as of 1QFY2017 end was up 20% on a yoy basis at ₹72,012cr. While sanctions grew by a moderate 12% yoy, disbursements at ₹6,215cr witnessed a strong 26% yoy growth during the quarter. The company securitized loans worth ₹1,152cr during the quarter and the portfolio of securitized loans accounted for 12% of the total AUM.

**Project loans continued to grow faster than overall loan:** Loans to individuals which account for ~71.5% of the AUM, grew by 15.2% yoy during the quarter. The company continued to aggressively expand its non-individual loan book, which is evident from the 93% yoy growth in loans to projects. The segment accounted for 9.8% of the AUM compared to 9% as at the end of 4QFY2016 and vs 6.1% in 1QFY2016. We believe the company will continue to expand the high yielding developer loan book in the near term.

**Exhibit 2: AUM growth remains strong**


Source: Company, Angel Research

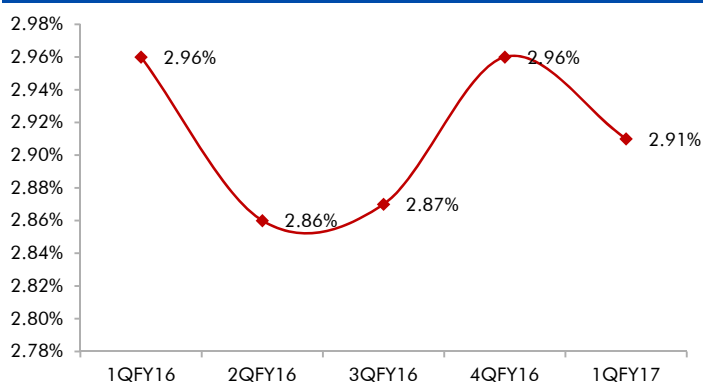
**Exhibit 3: Loan Mix**


Source: Company, Angel Research

**Margins as well as return ratios likely to remain stable:** Though the cost of funds has declined, the yield too has come down in the last quarter due to competitive intensity. This resulted in the NIM declining to 2.91% compared to 2.96% in 4QFY2016. We believe increasing exposure to the high yielding project loans and LAP portfolio will enable the company to maintain its NIM above 2.9% levels. We estimate the company to deliver a ROA of 1.2% and ROE of 16% by FY2018.

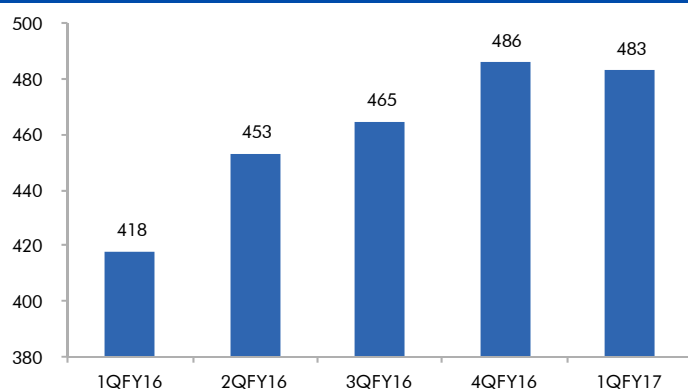
The company received a refund of ₹250cr from a developer after a change in the latter's construction plans who now expects to complete the construction in 2-3 years. The release of funds and completion of the building would be a positive development for the company.

**Exhibit 4: Marginal decline in NIM**



Source: Company, Angel Research

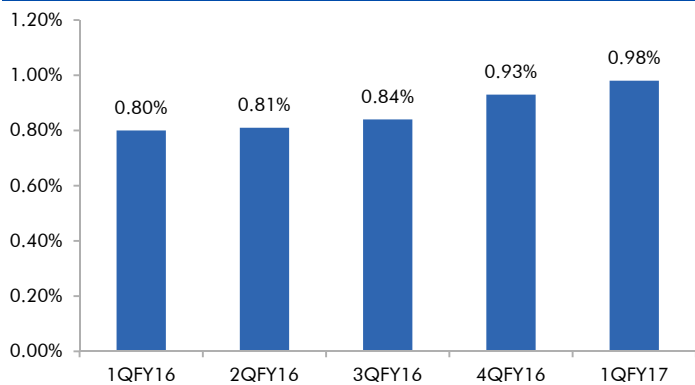
**Exhibit 5: NII growth trend remains healthy**



Source: Company, Angel Research

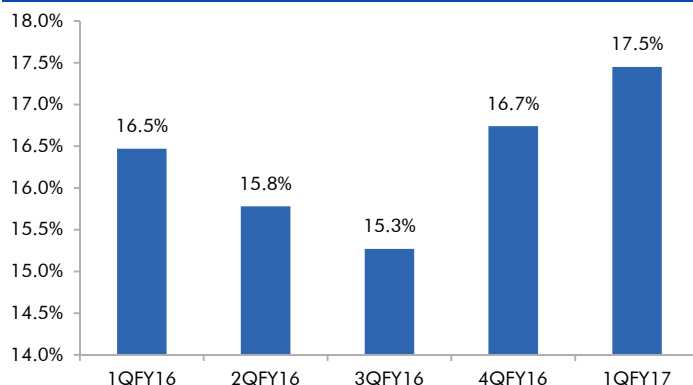
**Asset quality marginally weakened but still comfortable:** DHFL has been able to maintain a stable asset quality over the last few quarters. During the quarter under review, GNPA's rose to 0.98% vs 0.93% as at the end of 4QFY2016. On a yoy basis, provisions were up 41%, which we feel is reasonable, looking at the strong growth in non-individual loan book which is subject to stricter regulatory norms in terms of provisioning. NPAs from the individual loans segment stood at 0.74% while that from the non-individual segment stood at 1.24% (LAP, Project Loans, and SME combined). We don't expect any deterioration in asset quality in the near term.

**Exhibit 6: Asset quality weakened marginally**



Source: Company, Angel Research

**Exhibit 7: Adequately Capitalised**



Source: Company, Angel Research

## Outlook and valuation

We expect the company to post a healthy loan book CAGR of 20% over FY2015-18E which is likely to translate into an earnings CAGR of 21.3% over the same period. Despite a 19% run up in the stock price since we initiated coverage, the stock is still attractively valued at a little above 1x FY2018E ABV. We maintain our BUY on the stock and retain our target price of ₹270.

## Company Background

DHFL was established in 1984 by late Shri Rajesh Kumar Wadhawan. The company is a dominant player in niche markets (tier II & III cities) with strong foothold in the limited competition low and middle income (LMI) segment. After the acquisition and merger of First Blue Home Finance, DHFL also now caters to the middle and upper middle income group. 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. It has a presence in 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 housing finance company with an AUM of ~ ₹72,000cr (as on June 30, 2016). The company has a well diversified loan book with housing loans accounting for the largest share at 72%, followed by LAP (16%), project loans (9.8%) and loans to SME (2.6%) (as of June 30, 2016).

The company currently has a strong distribution network with pan-India presence and 2 international representative offices in the UK and the UAE. It operates via a large distribution network of 362 company operated centers across India and 357 locations through alliance partners with the distribution network focused primarily on tier II and tier III locations.

**Income statement (standalone)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Nil</b>	<b>678</b>	<b>888</b>	<b>1,256</b>	<b>1,664</b>	<b>2,050</b>	<b>2,500</b>
- YoY Growth (%)	70.0	30.9	41.5	32.5	23.2	21.9
<b>Other Income</b>	<b>280</b>	<b>296</b>	<b>265</b>	<b>164</b>	<b>175</b>	<b>188</b>
- YoY Growth (%)	11.7	5.8	(10.5)	(38.3)	7.1	7.4
<b>Operating Income</b>	<b>958</b>	<b>1,184</b>	<b>1,522</b>	<b>1,828</b>	<b>2,225</b>	<b>2,688</b>
- YoY Growth (%)	47.5	23.6	28.5	20.1	21.7	20.8
<b>Operating Expenses</b>	<b>304</b>	<b>384</b>	<b>480</b>	<b>550</b>	<b>637</b>	<b>731</b>
- YoY Growth (%)	22.3	26.2	25.2	14.5	15.8	14.7
<b>Pre - Provision Profit</b>	<b>654</b>	<b>801</b>	<b>1,041</b>	<b>1,278</b>	<b>1,588</b>	<b>1,957</b>
- YoY Growth (%)	63.1	22.4	30.1	22.7	24.3	23.2
<b>Prov. &amp; Cont.</b>	<b>45</b>	<b>66</b>	<b>99</b>	<b>175</b>	<b>274</b>	<b>311</b>
- YoY Growth (%)	89.9	47.7	48.7	77.4	56.2	13.5
<b>Profit Before Tax</b>	<b>609</b>	<b>734</b>	<b>943</b>	<b>1,102</b>	<b>1,314</b>	<b>1,646</b>
- YoY Growth (%)	61.4	20.5	28.4	16.9	19.2	25.3
<b>Prov. for Taxation</b>	<b>159</b>	<b>206</b>	<b>322</b>	<b>373</b>	<b>449</b>	<b>562</b>
- as a % of PBT	26.1	28.1	34.1	33.8	34.1	34.1
<b>PAT</b>	<b>459</b>	<b>527</b>	<b>620</b>	<b>729</b>	<b>866</b>	<b>1,084</b>
- YoY Growth (%)	60.9	14.8	17.8	17.6	18.7	25.3

**Balance sheet (standalone)**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Share Capital	128	128	146	292	292	313
Reserve & Surplus	3,109	3,447	4,490	4,725	5,456	6,850
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	15,400	18,246
<b>Total Liabilities</b>	<b>35,850</b>	<b>43,930</b>	<b>54,718</b>	<b>67,933</b>	<b>82,878</b>	<b>1,01,928</b>
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
<b>Total Assets</b>	<b>35,850</b>	<b>43,930</b>	<b>54,718</b>	<b>67,933</b>	<b>82,878</b>	<b>1,01,928</b>

**Ratio analysis (standalone)**

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Profitability ratios (%)</b>						
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	28.6	27.2
RoA	1.6	1.3	1.3	1.2	1.1	1.2
RoE	17.4	15.5	15.1	15.1	16.1	16.8
<b>Asset Quality (%)</b>						
Gross NPAs	0.73	0.8	1.0	1.1	1.2	1.3
Net NPAs	0.48	0.5	0.7	0.8	0.8	0.8
Provision Coverage	34.2	33.5	28.7	31.5	33.1	38.6
<b>Per Share Data (₹)</b>						
EPS	17.9	20.5	21.3	24.9	29.7	34.6
ABVPS (75% cover.)	118.7	129.0	143.7	162.0	184.0	215.3
DPS	1.0	1.6	1.1	0.6	0.8	0.9
<b>Valuation Ratios</b>						
PER (x)	12.6	11.0	10.6	9.0	7.6	6.5
P/ABVPS (x)	1.9	1.7	1.6	1.4	1.2	1.0
Dividend Yield	0.4	0.7	0.5	0.3	0.4	0.4
<b>DuPont Analysis</b>						
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	0.8
PBT	2.1	1.8	1.9	1.8	1.7	1.8
Taxes	0.6	0.5	0.7	0.6	0.6	0.6
<b>RoA</b>	<b>1.6</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>1.2</b>
Leverage	10.9	11.7	12.0	12.7	14.0	14.3
<b>RoE</b>	<b>17.1</b>	<b>15.5</b>	<b>15.1</b>	<b>15.1</b>	<b>16.1</b>	<b>16.8</b>

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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)