

Dewan Housing Finance

Performance Highlights

Particulars (₹ cr)	1QFY18	4QFY17	% chg (qoq)	1QFY17	% chg (yoy)
NII	566	536	5.7	457	23.9
Pre-prov. profit	464	459	1.0	348	33.3
PAT	260	249	4.6	201	29.5

Source: Company, Angel Research

DHFL came out with yet another quarter of good results. AUM growth of 23% and PAT growth of 29.5% was in line with expectations. Stable credit cost and ability to hold on to strong NIM were the key highlights of the quarter.

Loan growth accelerated further and momentum is likely to remain strong; After a strong 20% growth in AUM in FY17, the growth rate has further accelerated with 22.7% growth during Q1FY18. We expect 23% AUM CAGR over next three years, backed by higher incremental demand from the Govt's push for affordable housing. DHFL is a major player, lending to the LIG/MIG segment and the environment remains conducive for it.

Individual home loans picked up during the quarter, while LAP & Project finance continued to aid to the growth momentum: The home loans segment which had seen slowdown in Q4FY17 witnessed some momentum and grew by 12.2% YoY & 5.1% QoQ. The LAP and project finance segment continued see strong off take and grew by 27.1% and 83.8% YoY. The loan mix remained more or less stable with Home Loans/ LAP/ Project Finance constituting 66%/17%/15% of the AUM.

Cost of funds witnessed further easing leading to stable NIM, despite competitive pricing; DHFL has been able to maintain a stable NIM at 3.05%, due to further easing of cost of funds, down 12 bps QoQ to 8.71%. This is for the fourth consecutive quarters that DHFL has reported NIM above 3%. The management remains fairly comfortable that the NIM will be maintained going ahead.

No Sign of stress on the book, despite strong growth; DHFL has maintained a stable asset quality despite aggressive growth in the LAP and Project finance. For the last six quarters the GNPA's has remained in the range of 0.94% to 0.98% and for Q1FY18 it stood at 0.97%. While some NBFCs have witnessed incrementally higher stress in the LAP portfolio, the company remains optimistic about the quality of its LAP book.

Outlook and valuation: DHFL received ₹ 1,969 cr, via selling its 50% stake in its life insurance business, thus boosting its CAR by ~400 bps. With 18.7% CAR we believe the HFC is well capitalized to grow its book by ~23% over next two years, leading to 30% growth in PAT. At the current levels the stock is valued at 1.5x FY2019E ABV. **We maintain BUY on the stock with a target price of ₹ 550.**

Key financials (standalone)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
NII	1,481	1,859	2,279	2,927
% chg	17.8	25.5	22.6	28.4
Net profit	729	927	1,171	1,556
% chg	17.4	27.1	26.3	32.8
NIM (%)	2.4	2.3	2.4	2.7
EPS (₹)	25.0	29.6	37.4	49.7
P/E (x)	18.2	15.4	12.2	9.2
P/ABV (x)	2.9	1.9	1.7	1.5
RoA (%)	1.3	1.3	1.3	1.5
RoE (%)	15.3	14.4	13.8	16.2

Source: Company, Angel Research; Note: CMP as of July 24, 2017 * The Reported PAT of DHFL for FY17 was ₹ 2,896.5 cr, which includes ₹ 1,969 cr from stake sale in Insurance JV

BUY

CMP	₹ 456
Target Price	₹ 550

Investment Period 12 months

Market Cap (₹ cr) 14,290

Beta 2.1

52 Week High / Low 479/214

Avg. Daily Volume 35,01,768

Face Value (₹) 10

BSE Sensex 32,246

Nifty 9,966

Reuters Code DWNH.BO

Bloomberg Code DEWH.IN

Shareholding Pattern (%)

Promoters 39.2

MF / Banks / Indian FIs 6.9

FII / NRIs / OCBs 25.1

Indian Public / Others 28.8

Abs. (%)	3m	1yr	3yr
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Sensex	8.7	14.8	22.7
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DHFL	9.4	102.7	153.3
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3-Year Daily Price Chart



Source: Company, Angel Research

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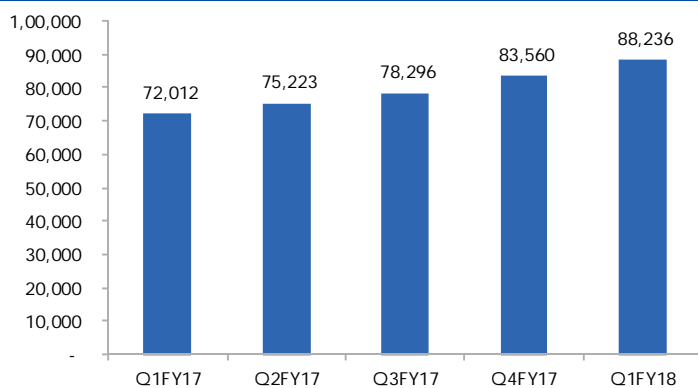
Exhibit 1: Quarterly Income Statement

Cr	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	% YoY	% QoQ
Interest Income	1,633	1,764	1,846	1,916	1,932	2,123	2,316	2,283	2,353	21.8	3.1
Interest Expenses	1,234	1,357	1,420	1,479	1,475	1,631	1,800	1,747	1,787	21.1	2.3
Nil	399	407	426	438	457	492	516	536	566	23.9	5.7
Other Income	20	48	39	50	27	45	51	95	55	103.7	-42.1
Total Income	419	455	465	488	484	537	567	631	621	28.3	-1.5
Operating Expenses	120	125	130	150	130	133	143	168	151	16.2	-10.1
Cost / Income %	28.6	27.5	28.0	30.8	26.9	24.8	25.2	26.6	24.3		
Depreciation	6	7	7	5	6	7	7	3	6	6.7	87.1
PPP	293	323	328	333	348	397	417	459	464	33.3	1.0
Provisions	32	45	48	50	45	45	45	83	83	84.4	-
PBT	261	278	280	283	303	352	372	376	381	25.7	1.2
Tax	88	97	95	93	102	120	127	127	120	18.1	-5.4
Tax Rate %	34	35	34	33	34	34	34	34	32		
Adj PAT	173	181	185	190	201	232	245	249	260	29.5	4.6
Extra Ordinary Gain								1,969			
Reported PAT	173	181	185	190	201	232	245	2,218	260	29.5	-88.3

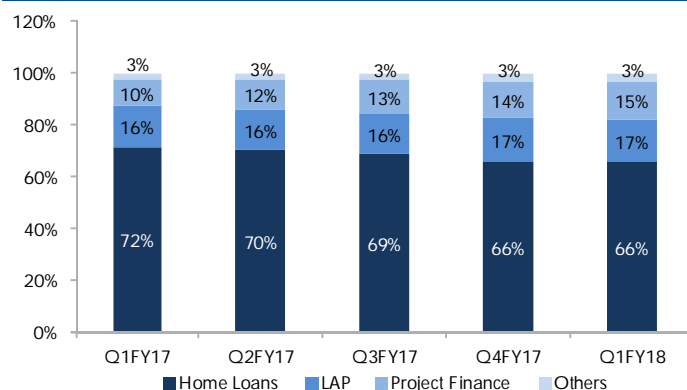
Source: Company, Angel Research

Loan growth accelerated further and momentum is likely to remain strong; After a strong 20% growth in AUM in FY17, the growth rate has further accelerated with 22.7% growth during Q1FY18. We expect 23% AUM CAGR over next three years, backed by higher incremental demand from the Govt's push for affordable housing. DHFL is a major player, lending to the LIG/MIG segment and the environment remains conducive for it. Nearly 2/3rd of DHFL's customers qualify for the interest subsidy scheme by the Pradhan Mantri Awas Yojna and this has already started showing positive impact on the growth and the company remains optimistic on the incremental growth in the quarters to come.

Individual home loans picked up during the quarter, while LAP & Project finance continued to aid to the growth momentum: The home loans segment which had seen slowdown in Q4FY17 witnessed some momentum and grew by 12.2% YoY & 5.1% QoQ. The LAP and project finance segment continued see strong off take and grew by 27.1% and 83.8% YoY. The loan mix remained more or less stable with Home Loans/ LAP/ Project Finance constituting 66%/17%/15% of the AUM.

Exhibit 2: AUM growth remained strong (₹ cr)


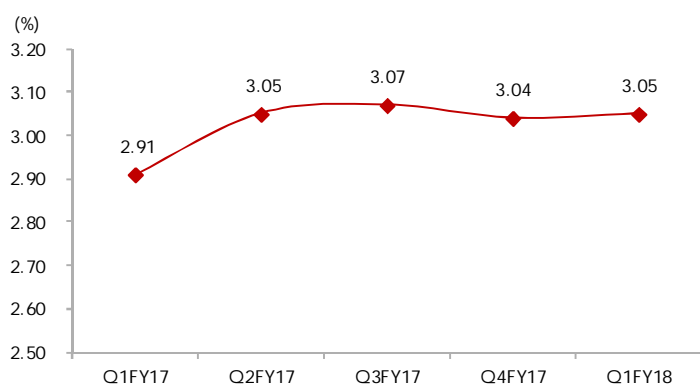
Source: Company, Angel Research

Exhibit 3: Loan Mix


Source: Company, Angel Research

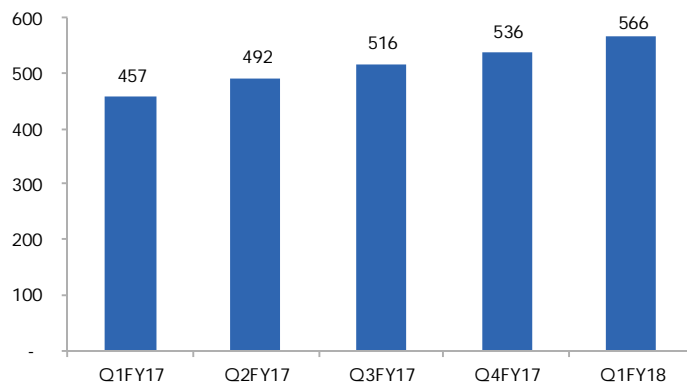
Cost of funds witnessed further easing leading to stable NIM, despite competitive pricing; DHFL has been able to maintain a stable NIM at 3.05%, due to further easing of cost of funds, down 12 bps QoQ to 8.71%. This is for the fourth consecutive quarters that DHFL has reported NIM above 3%. The management remains fairly comfortable that the NIM will be maintained going ahead. With surplus liquidity in hand the company has been able to get better pricing from banks for its borrowings and we expect another 30-40 bps drop in the average cost of funds in FY18. However, we believe the lower cost will be passed on to the borrowers as the competition in the individual home loans has picked up in recent quarters and hence we don't expect material gain in the NIM going ahead.

Exhibit 4: Stable NIM backed by lower cost of funds



Source: Company, Angel Research

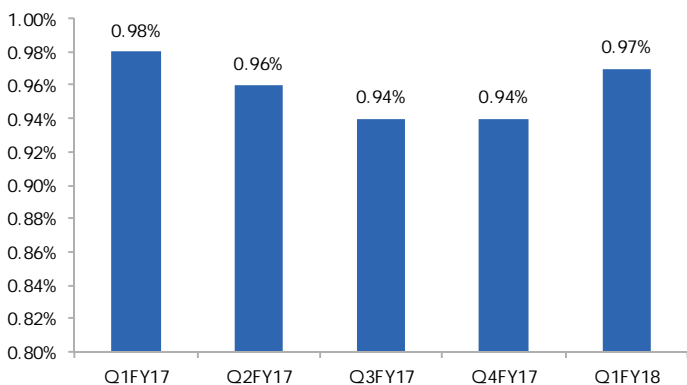
Exhibit 5: NII growth trend remains healthy (₹ cr)



Source: Company, Angel Research

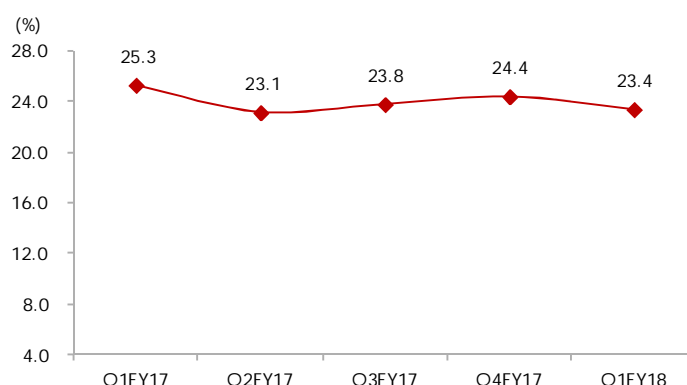
No Sign of stress on the book, despite strong growth; DHFL has maintained a stable asset quality despite aggressive growth in the LAP and Project finance. For the last six quarters the GNPA's has remained in the range of 0.94% to 0.98% and for Q1FY18 it stood at 0.97%. The GNPA's in the LAP/ Project Finance/SME segment for the company has been in the range of 1.5%-1.7%, while that of home loans has been about 0.5%-0.6%, which we think is not a point of worry. While the some NBFCs have witnessed incrementally higher stress in the LAP portfolio, the company remains optimistic about the quality of its LAP book.

Exhibit 6: Asset quality fairly stable



Source: Company, Angel Research

Exhibit 7: Cost / Income is trending down further



Source: Company, Angel Research

Outlook and valuation

DHFL received ₹1969 cr, via selling its 50% stake in its life insurance business, thus boosting its CAR by ~400 bps. With 18.7% CAR we believe the HFC is well capitalized to grow its book by ~23% over next two years, leading to 30% growth in PAT. At the current levels the stock is valued at 1.5x FY2019E ABV. **We maintain BUY on the stock with a target price of ₹550.**

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 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. The company has a presence in the education loans, and mutual funds segments through Avanse Education Loans, and DHFL Pramerica Asset Managers Pvt Ltd, respectively.

It is India's third largest private sector HFC with an AUM of ₹88,236 cr as on 30th June, 2017. The company has a well diversified loan book with housing loans accounting for the largest share at ~65.5, followed by LAP (16.6%), project loans (14.7%) and others (3.2%).

Exhibit 8: Income Statement (Standalone)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E
Net Interest Income	1,481	1,859	2,279	2,927
- YoY Growth (%)	17.8	25.5	22.6	28.4
Other Income	329	345	397	456
- YoY Growth (%)	24.0	4.7	15.0	15.0
Operating Income	1,810	2,204	2,676	3,383
- YoY Growth (%)	18.9	21.8	21.4	26.4
Operating Expenses	533	583	644	711
- YoY Growth (%)	12.4	9.5	10.4	10.5
Pre - Provision Profit	1,277	1,620	2,032	2,672
- YoY Growth (%)	21.9	26.9	25.4	31.5
Provision and Contingencies	175	218	284	350
- YoY Growth (%)	66.7	24.6	30.2	23.3
Profit Before Tax	1,102	1,402	1,748	2,322
- YoY Growth (%)	16.9	27.2	24.7	32.8
Provision for Taxation	373	475	577	766
- as a % of PBT	33.8	33.9	33.0	33.0
PAT	729	927	1,171	1,556
- YoY Growth (%)	17.4	27.1	26.3	32.8
Exception Item	-	1,969	-	-
Reported PAT	729	2,896	1,171	1,556

Source: Company, Angel Research

Exhibit 9: Balance Sheet (Standalone)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E
Share Capital	292	313	313	313
Reserve & Surplus	4,600	7,683	8,634	9,897
Net Worth	4,892	7,996	8,947	10,210
Borrowings	51,556	71,023	83,807	1,00,568
- Growth (%)	27.3	37.8	18.0	20.0
Other Liabilities & Provisions	11,405	13,280	6,385	9,122
Total Liabilities	67,853	92,298	99,139	1,19,901
Cash & Bank Balance	3,408	3,430	3,499	3,569
Investments	893	13,535	1,995	2,545
Advances	61,775	72,096	90,120	1,09,947
- Growth (%)	21.0	16.7	25.0	22.0
Fixed Assets	781	843	891	944
Other Assets	996	2,394	2,634	2,897
Total Assets	67,853	92,298	99,139	1,19,901

Source: Company, Angel Research

Exhibit 10: Key Ratios (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
Profitability ratios (%)				
NIMs (on AUM)	2.4	2.3	2.4	2.7
Cost to Income ratio	29.4	26.5	24.1	21.0
Cost to Asset ratio	0.9	0.7	0.7	0.6
ROA	1.3	1.3	1.3	1.5
ROE	15.3	14.4	13.8	16.2
CAR %	16.7	19.3	17.0	15.0
Asset Quality				
Gross NPAs (%)	0.9	0.9	1.0	1.0
Net NPAs (%)	0.6	0.6	0.6	0.6
Credit Cost (%)	0.3	0.3	0.4	0.4
Provision coverage(%)	38	38	37	40
Per Share Data (`)				
EPS	25.0	29.6	37.4	49.7
BV	168	255	286	326
ABVPS	155	242	268	305
DPS	8.0	4.0	6.0	8.0
Valuation Ratios				
PER (x)	18.2	15.4	12.2	9.2
P/BVPS (x)	2.7	1.8	1.6	1.4
P/ABVPS (x)	2.9	1.9	1.7	1.5
Dividend Yield	1.8	0.9	1.3	1.8
Dupont Analysis				
Interest Income	11.4	10.6	10.4	10.9
Interest Expenses	9.0	8.3	8.0	8.2
NII	2.4	2.3	2.4	2.7
Other Income	0.5	0.4	0.4	0.4
Total Income	3.0	2.8	2.8	3.1
Operating Expenses	0.9	0.7	0.7	0.6
PPP	2.1	2.0	2.1	2.4
Provisions	0.3	0.3	0.3	0.3
PBT	1.8	1.8	1.8	2.1
Tax	0.6	0.6	0.6	0.7
ROA	1.2	1.2	1.2	1.4
Leverage	12.9	12.4	11.3	11.4
ROE	15.3	14.4	13.8	16.2

Source: Company, Angel Research

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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)