

## Dewan Housing Finance

### Performance Highlights

Particulars (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)
<b>NII</b>	<b>486</b>	<b>465</b>	<b>4.6</b>	<b>405</b>	<b>19.9</b>
Pre-prov. profit	333	328	1.4	286	16.4
<b>PAT</b>	<b>190</b>	<b>186</b>	<b>2.0</b>	<b>162</b>	<b>16.9</b>

Source: Company, Angel Research

For 4QFY2016, Dewan Housing Finance Ltd (DHFL) reported a 17% growth in PAT to ₹190cr, which is lower than our expectation. The miss was on account of lower-than-expected loan growth; however, on other operating parameters the company's performance remained satisfactory.

**Loan growth remained decent:** DHFL reported a 17.3% growth in loans during the quarter. The AUM grew by 22% yoy to ₹69,524cr, which is on including securitized assets. Sanctions and disbursements remained strong, growing by 32% and 22%, respectively. Total sanctions in FY2016 stood at ₹37,606cr up 32%, while disbursements went up by 22% for the same period.

**Project loans growing faster than overall loans:** Loans to individuals grew by 17% (72% of the AUM) during FY2016. DHFL aggressively expanded its non-individual loan book during FY2016, primarily comprising of loans to projects, which grew by 83% and accounted for ~9% of the AUM vs 6%(FY15) The Management intends to take this share to ~16-17% of AUM over the next few years. Though project loans are perceived to be risky, DHFL's low tickets size of ~₹25cr and higher yield on the project loans should take care of any incremental slippages.

**Asset quality continues to be stable:** DHFL has been able to maintain a stable asset quality over the last few quarters with GNPA's at 0.93% at the end of 4QFY2016 vs 0.95% as at the end of 4QFY2015. Lower slippages have resulted in stable provisioning at ₹50cr for 4QFY2016 vs ₹48cr for 3QFY2015. On a yoy basis, provision was up 43%; however, looking at the 83% growth in project loans where the provisioning requirements are high, this does not seem to be a cause of concern. NPA from the individual loan segment stood at 0.74% while that from the non-individual segment stood at 1.2% (LAP, Project Loans and SME combined); we don't expect any deterioration in the asset quality in the near term.

**Margins as well as return ratios likely to remain stable:** Though yield has come down, the overall cost of funds has also come down accordingly and hence DHFL has been able to improve its NIM for FY2016 to 2.96% vs 2.85% (for FY2015). With rising share of project loans the company should be able to retain its NIM above 2.9% and hence deliver ROA of 1.2% and ROE of 16% by FY2018. DHFL also 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 move.

**Outlook and valuation:** We expect the company to post a healthy loan book CAGR of 21% over FY2015-18E, which is likely to translate in earnings CAGR of 22% over the same period. The stock currently trades at 0.9x FY2018E ABV. **We maintain our BUY on the stock with a 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	17s.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)	9.2	7.9	6.6	5.7
P/ABV (x)	1.4	1.2	1.1	0.9
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 May 6, 2016

## BUY

CMP	₹197
Target Price	₹270

Investment Period	12 months
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#### Stock Info

Sector	HFC
Market Cap (₹ cr)	5,735
Beta	1.6
52 Week High / Low	268/140
Avg. Daily Volume	16,37,452
Face Value (₹)	2
BSE Sensex	25,229
Nifty	7,733
Reuters Code	DWNH.BO
Bloomberg Code	DEWH.IN

#### Shareholding Pattern (%)

Promoters	34.9
MF / Banks / Indian Fls	2.6
FII / NRIs / OCBs	33.6
Indian Public / Others	28.9

Abs. (%)	3m	1yr	3yr
Sensex	2.6	(7.9)	29.0
DHFL	12.4	(9.9)	127.7

#### 3-Year Daily Price Chart



Source: Company, Angel Research

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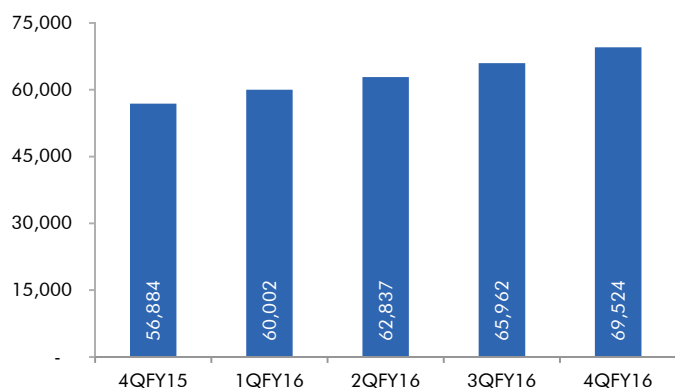
**Exhibit 1: 4QFY2016 performance (standalone)**

Particulars (₹ cr)	4QFY16	3QFY16	% chg (qoq)	4QFY15	% chg (yoy)	FY2016	FY2015	% chg
Interest earned	1,964	1,884	4	1,581	24	7,312	5,979	22
Interest expenses	1,479	1,420	4.1	1,175	25.8	5,490	4,460	23.1
<b>Net interest income</b>	<b>486</b>	<b>465</b>	<b>4.6</b>	<b>405</b>	<b>19.9</b>	<b>1,822</b>	<b>1,519</b>	<b>19.9</b>
Non-interest income	2	1	117.1	2	24.6	5	3	82.4
<b>Operating income</b>	<b>488</b>	<b>466</b>	<b>4.8</b>	<b>407</b>	<b>19.9</b>	<b>1,827</b>	<b>1,522</b>	<b>20.0</b>
Operating expenses	155	137	13.0	121	28.1	550	474	15.9
<b>Pre-prov. profit</b>	<b>333</b>	<b>328</b>	<b>1.4</b>	<b>286</b>	<b>16.4</b>	<b>1,277</b>	<b>1,048</b>	<b>21.9</b>
Provisions & cont.	50	48	4.2	35	42.9	175	105	66.7
<b>PBT</b>	<b>283</b>	<b>280</b>	<b>0.9</b>	<b>251</b>	<b>12.7</b>	<b>1,102</b>	<b>943</b>	<b>16.9</b>
Prov. for taxes	93	95	(1.2)	89	5.2	373	322	15.9
<b>PAT</b>	<b>190</b>	<b>186</b>	<b>2.0</b>	<b>162</b>	<b>16.9</b>	<b>729</b>	<b>621</b>	<b>17.4</b>
EPS (₹)	13.0	12.7	2.0	22.3	(41.7)	50.0	85.3	(41.4)
Cost-to-income ratio (%)	31.8	29.5		29.7		30.1	31.1	
Effective tax rate (%)	33.0	33.7		35.4		33.8	34.1	

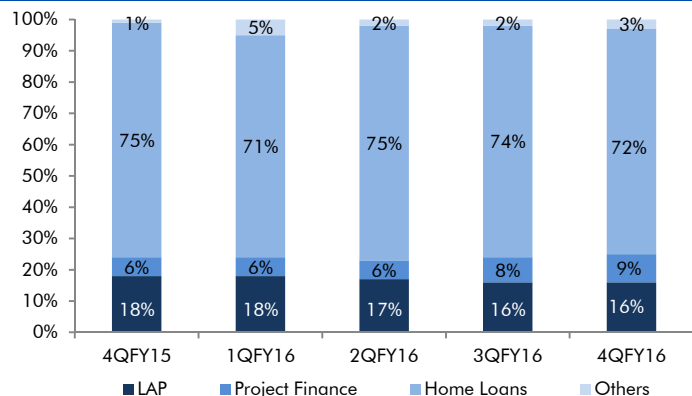
Source: Company, Angel Research

**Loan growth remained decent:** DHFL reported a 17.3% growth in loans during the quarter, while on including securitized assets the AUM grew by 22% yoy to ₹69,524cr. Sanctions and disbursements remained strong, growing by 32% and 22%, respectively. Total sanctions in FY2016 stood at ₹37,606cr up 32% while disbursements went up by 22% yoy for the full year FY2016.

**Project loans growing faster than overall loan:** Loans to individuals grew by 17% (72% of the AUM) during FY2016. DHFL aggressively expanded its non-individual loan book during FY2016, primarily comprising of loans to projects, which grew by 83% and accounted for ~9% of the AUM compared to 6% as of FY2015 end. The Management intends to take this share to ~16-17% of AUM over the next few years. Though project loans are perceived to be risky, DHFL's low tickets size of ~₹25cr and higher yield on the project loans should take care of any incremental slippages.

**Exhibit 2: AUM growth remained strong**


Source: Company, Angel Research

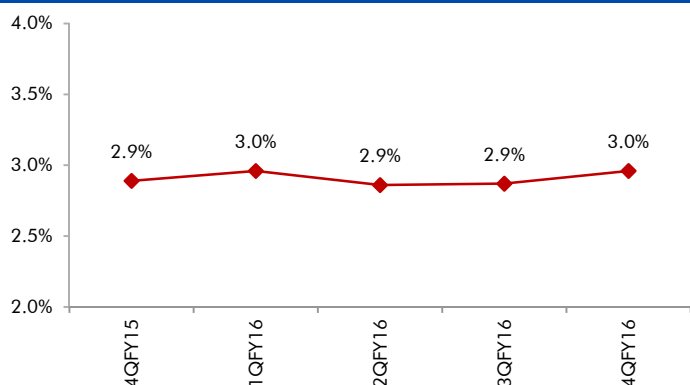
**Exhibit 3: Loan Mix**


Source: Company, Angel Research

### Margins as well as return ratios likely to remain stable

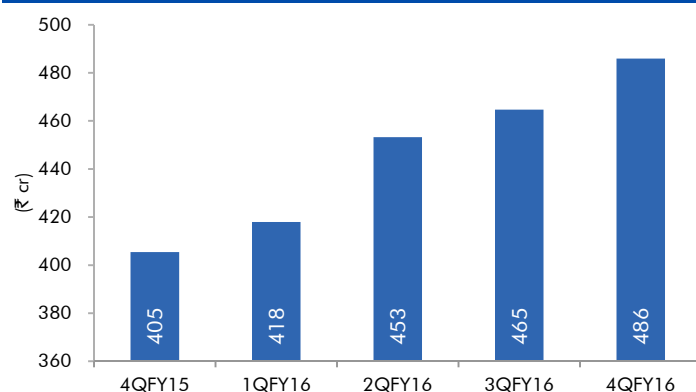
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**Exhibit 4: NIM remained healthy**



Source: Company, Angel Research

**Exhibit 5: NII growth trend**

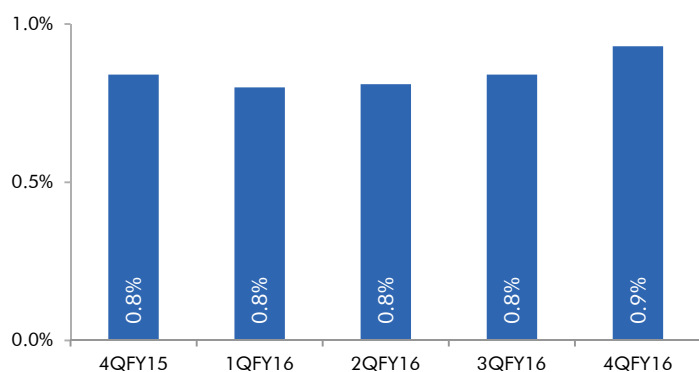


Source: Company, Angel Research

### Asset quality continues to be stable:

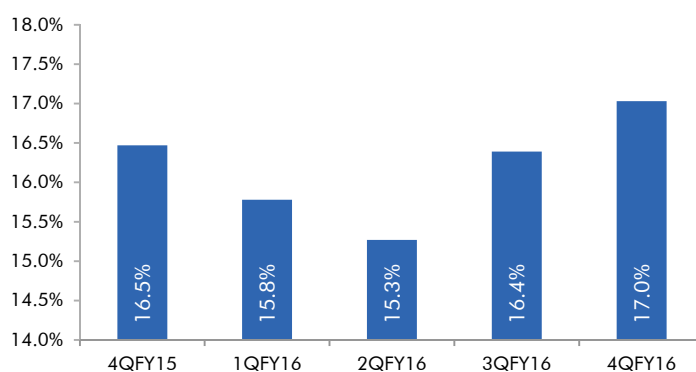
DHFL has been able to maintain a stable asset quality over the last few quarters with GNPA's at 0.93% at the end of 4QFY2016 vs 0.95% as at the end of 4QFY2015. Lower slippages have resulted in stable provisioning at ₹50cr for 4QFY2016 vs ₹48cr for 3QFY2015. On a yoy basis, provision was up 43%; however, looking at the 83% growth in project loans where the provisioning requirements are high, this does not seem to be a cause of concern. NPA from the individual loan segment stood at 0.74% while that from the non-individual segment stood at 1.2% (LAP, Project Loans and SME combined); we don't expect any deterioration in the asset quality in the near term.

**Exhibit 6: Gross NPAs remains comfortable**



Source: Company, Angel Research

**Exhibit 7: CAR remains comfortable**



Source: Company, Angel Research

## Outlook and valuation

We expect the company to post a healthy loan book CAGR of 21% over FY2015-18E, which is likely to translate in earnings CAGR of 22%, over the same period. The stock currently trades at 0.9x FY2018E ABV. **We maintain BUY on the stock, with a 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. 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.

The company is India's third largest private sector housing finance company with an AUM of ₹69,524cr as of December 31, 2015. The company has a well diversified loan book with housing loans accounting for the largest share at 77%, followed by LAP (16%), project loans (5%) and loans to SMEs (2%) (as of December 31, 2015).

DHFL 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 and 357 locations through alliance partners across India 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>	678	888	1,256	1,664	2,050	2,500
- 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)	11.0	9.6	9.2	7.9	6.6	5.7
P/ABVPS (x)	1.7	1.6	1.4	1.3	1.1	0.9
Dividend Yield	0.5	0.8	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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Disclosure of Interest Statement	Dewan Housing Finance
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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