

RETAIL EQUITY RESEARCH

Dewan Housing Finance Corporation (DHFL) NBFC

BSE CODE: 511072

NSE CODE: DHFL

Bloomberg CODE: DEWH:IN

SENSEX: 30,251

BUY

Rating as per Largcap

12months investment period

CMP Rs442 TARGET Rs506 RETURN 15% 12th May, 2017

Strong business at attractive valuation

Dewan Housing Finance Corporation (DHFL) primarily provides housing finance to individuals, especially in the lower and lower-middle-income groups in Tier II, III and IV cities. The company also offers non-housing loans such as loan against properties (LAP), SME and developer loans.

- Assets Under Management (AUM) increased at a healthy pace of 20% YoY mainly driven by wholesale loan book.
- Net Interest Income (NII) continued to increase at a strong pace of 22% YoY supported by 6 bps YoY expansion in net interest margin (NIM) to 2.6%.
- We expect DHFL's AUM to grow at a CAGR of 20% over FY17-19E mainly led by higher growth in developer loan book.
- We expect net profit to increase at 18% CAGR over FY17-19E backed by stable margin and improving operating efficiency.
- Given the company's strong position in affordable housing finance space coupled with attractive valuation, we maintain BUY rating on the stock with a revised target price of Rs506 (1.7x FY19E P/ABV.)

Healthy business momentum continues

Post demonetization, disbursements gained traction again with 11.2% YoY and 23.2% QoQ growth in Q4FY17. AUM grew by 20% YoY (in line with our expectation) mainly driven by non-core home loan book (↑43% YoY) which includes project loans, loan against property (LAP) and SME loans. Thus, its share in total loan book increased to 34% from 28% as of FY16. Core retail home loan book continued to grow at a modest pace of 7% YoY, thus taking its share down to 66% from 72% in FY16. Management plans to cap the share of LAP+SME lending at 20% and project loans to 16% going forward. We expect DHFL's AUM to grow at a CAGR of 20% over FY17-19E mainly led by higher growth in wholesale loan book.

Stake sale in life insurance improved capitalization as well as book value

DHFL sold its entire 50% stake in DPLI (DHFL Pramerica Life Insurance) to its wholly owned subsidiary DHFL Investments (DIL) for a consideration of Rs2,001 cr, thus booking capital gains of Rs1,969cr in Q4FY17. The transaction has added Rs63 per share to DHFL's networth. Further, it also helped the company to strengthen its capital adequacy ratio (CAR) by more than 300 bps (19.3% as of FY17). We believe that it will help the company to drive business for the next 2-3 years without any further dilution.

Strong operating performance

NII continued to increase at a healthy pace of 22.4% YoY (in line with our expectation) supported by 6 bps YoY improvement in NIM to 2.6% as the cost of borrowing continues to fall under declining interest rate scenario. However, we expect NIM to remain stable at current level over FY17-19E given hyper-competitive housing finance markets. DHFL has shown remarkable improvement on operating efficiency front with 452 bps YoY improvement in cost to income ratio to 27.2%. Provisions increased at a much faster pace of 66% YoY as the company decided to add more to contingency provisions. Although the company reported 10.7x increase in net profit due to exceptional gain, the adjusted net profit also increased at a strong pace of 30.9% YoY. We expect net profit to increase at a CAGR of 18% over FY17-19E backed by a stable margin and improving operating efficiency.

Asset quality continues to remain robust

Asset quality continues to show strong resilience as Gross non-performing asset (NPA) ratio declined marginally by 1 bp QoQ to 0.9%. Gross NPA ratio of DHFL have been consistently below ~1% over the last seven years. Further, given lower loan-to-value (LTV) and instalment to income ratio (IIR) coupled with stringent risk management, we don't expect any major hiccups in home loans asset quality going ahead. However, given rise in proportionate of developer loans, we are building in slightly higher Gross NPA (1.2% by FY19E) going forward.

Outlook & Valuation

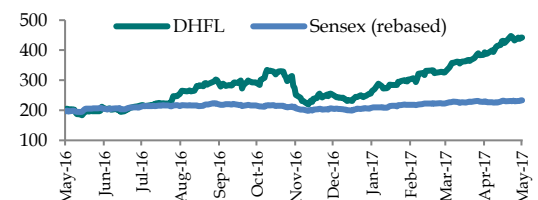
DHFL is bound to be a key beneficiary of government's initiative to promote affordable housing given its presence in tier II/III cities and lower ticket size. We believe its gradual transformation to a core mortgage player with strong growth and healthy return ratios would result in further re-rating. Moreover, DHFL still trades at a significant discount (1.5x FY19E P/ABV) to other HFCS (>2.0x FY19E P/ABV). We expect this gap to further narrow given the company's strong growth trajectory. Hence, we continue to maintain BUY rating on the stock with a revised upward target price of Rs506 (1.7x FY19E P/ABV).

Company Data

Market Cap (cr)	Rs13,837		
Outstanding Shares (cr)	31.3		
Free Float	58%		
Dividend Yield	0.9		
52 week high	Rs455		
52 week low	Rs183		
6m average volume (cr)	0.3		
Beta	1.8		
Face value	Rs10		
Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	39.3	39.3	39.3
FII's	29.5	26.4	25.3
MFs/Insti	3.9	6.0	7.2
Public	27.3	28.4	28.2
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	45.8%	75.8%	124.1%
Absolute Sensex	6.8%	12.8%	18.2%
Relative Return*	39.1%	63.0%	105.9%

*over or under performance to benchmark index



Standalone (Rs.cr)	FY17	FY18E	FY19E
Net Interest Income	2,000	2,381	2,856
Growth (%)	20%	19%	20%
NIM (%)	2.6	2.6	2.6
Pre Pro Profit	1,620	1,933	2,323
Growth (%)	27%	19%	20%
Adj. Net Profit	927	1,088	1,289
Growth (%)	27%	17%	18%
Adj. EPS	29.6	34.7	41.2
Growth (%)	18%	17%	18%
P/E	4.8	12.7	10.7
P/BV	1.7	1.6	1.4
P/ABV	1.8	1.7	1.5
RoE (%)	44.5	12.9	13.7
RoA (%)	3.6	1.1	1.1

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Interest Income	2,283	1,916	19.2	2,316	(1.4)
Interest Expense	1,747	1,479	18.2	1,800	(2.9)
Net Interest Income	536	438	22.4	515	3.9
Non-Interest Income	95	50	87.6	51	85.4
Total Net Income	630	488	29.1	566	11.3
Operating Expenses	172	155	10.8	150	14.7
Employee Cost	66	61	6.7	66	(1.0)
Other Operating Exp.	106	94	13.5	83	27.2
Total Income	2,378	1,967	20.9	2,367	0.5
Total Expenditure	1,919	1,634	17.5	1,950	(1.6)
Pre-Provisioning profit	459	333	37.7	417	10.0
Provisions	83	50	66.0	45	84.4
Exceptional Items	1,969	0	-	0	-
Profit Before Tax	2,345	283	728.5	372	530.9
Tax	127	93	36.4	127	0.3
Net Profit	2,218	190	1069.2	245	806.0
EPS - Diluted (Rs)	73.1	7.3	907.9	8.2	794.4

Business Performance (Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Sanctioned	13,149	12,774	2.9	9,459	39.0
Disbursed	8,699	7,821	11.2	7,059	23.2
Loan	72,096	61,775	16.7	68,961	4.5
AUM	83,560	69,524	20.2	78,296	6.7
Borrowings	81,340	61,104	33.1	76,780	5.9

Key Ratios (%)	Q4FY17	Q4FY16	YoY bps	Q3FY17	QoQ bps
Net Interest Margin	2.6	2.6	6	2.7	(4)
Cost of Borrowing	8.8	9.8	(93)	9.3	(45)
Yield on AUM	11.3	11.3	(3)	12.1	(78)
Cost to Income	27.2	31.8	(452)	26.4	81
Debt to Equity	10.2	12.2	(201)	12.8	(265)
Capital Adequacy	19.3	16.7	260	16.3	303
Tier I Capital	14.9	13.0	195	11.7	323
Gross NPA	0.9	0.9	1	1.0	(1)
Provision Coverage	105.3	101.7	356	101.5	380
RoE (Ann.)	14.2	15.0	(83)	16.7	(249)
RoA (Ann.)	1.1	1.2	(5)	1.2	(13)

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Interest Income	2,369	2,810	2,381	2,856	0.5	1.7
Pre-Provisioning Profit	1,877	2,235	1,933	2,323	3.0	3.9
Net Profit	1,057	1,236	1,088	1,289	2.9	4.3
EPS (Rs)	33.8	39.5	34.7	41.2	2.8	4.2

Source: Company, Geojit Research

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	5,839	7,159	8,654	10,263	12,169
Interest Expense	4,460	5,490	6,654	7,882	9,312
Net Interest Income	1,380	1,669	2,000	2,381	2,856
% Change	38.9	21.0	19.8	19.0	20.0
Non-Interest Income	142	157	204	245	294
Net Income	1,522	1,827	2,204	2,626	3,151
Operating Expenses	474	550	583	692	827
Total Income	5,982	7,317	8,857	10,507	12,463
Total Expenditure	4,934	6,040	7,237	8,574	10,140
Pre-Provisioning Profit	1,048	1,277	1,620	1,933	2,323
% Change	30.2	21.9	26.9	19.3	20.2
Provisions	105	175	218	285	370
Exceptional Items	0	0	1,969	0	0
Profit Before Tax	943	1,102	3,372	1,648	1,953
Tax	322	373	475	560	664
<i>Tax Rate (%)</i>	34	34	14	34	34
Net Profit	621	729	2,896	1,088	1,289
% Change	17.4	17.4	297.2	(62.4)	18.5
No. of Shares (cr)	15	29	31	31	0
EPS (Rs)	21.3	25.0	92.5	34.7	41.2
% Change	3.5	17.2	270.1	(62.4)	18.5

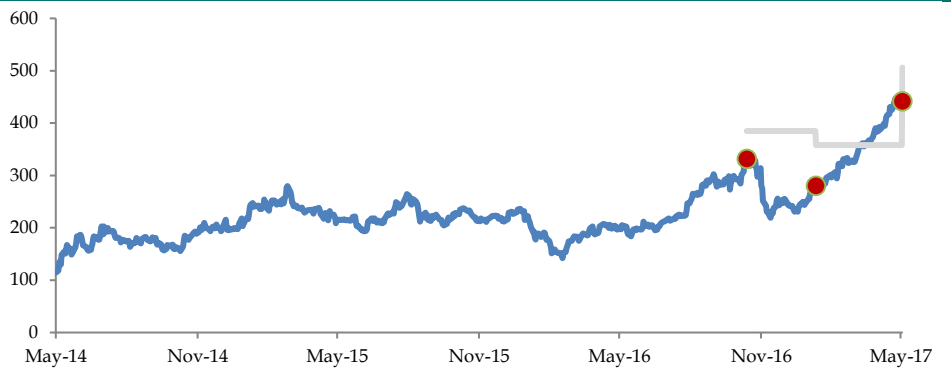
Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Capital	146	292	313	313	313
Reserves & Surplus	4,490	4,725	7,683	8,574	9,630
Borrowings	40,526	51,556	71,023	82,483	95,343
Provisions	466	654	715	886	1,098
Other Liabilities	9,011	10,626	12,565	14,478	16,586
Total Liabilities	54,638	67,853	92,298	106,735	122,970
Assets					
Fixed Assets	985	781	843	910	982
Investments	1,006	893	13,535	10,448	5,163
Advances	51,040	61,775	72,096	89,021	109,842
Other Assets	931	996	2,394	2,547	2,810
Cash & Bank Balances	676	3,408	3,430	3,809	4,174
Total Assets	54,638	67,853	92,298	106,735	122,970

Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
EPS	21.3	25.0	92.5	34.7	41.2
DPS	6.0	6.0	4.0	5.2	6.2
BV	159.1	171.9	255.3	283.8	317.5
ABV	135.3	159.7	241.8	265.3	293.9
Valuation (%)					
P/E	20.7	17.7	4.8	12.7	10.7
P/BV	2.8	2.6	1.7	1.6	1.4
P/ABV	3.3	2.8	1.8	1.7	1.5
Div. Yield	1.4	1.4	0.9	1.2	1.4
Spreads (%)					
Yield on Funds	11.5	11.3	11.3	11.2	11.0
Cost of Funds	10.1	10.0	9.3	9.0	9.0
Capital (%)					
CAR	16.6	16.7	19.3	18.8	18.3
Tier I	12.5	13.0	14.9	14.4	13.9
Tier II	4.0	3.8	4.4	4.4	4.4
Asset (%)					
GNPA	1.0	0.9	0.9	1.1	1.2
NNPA	0.7	0.6	0.6	0.7	0.7
PCR					
Management (%)					
Debt/Equity	31.1	30.1	26.5	26.4	26.3
Cost/ Income					
Earnings (%)					
NIM	2.7	2.6	2.6	2.6	2.6
ROE	15.1	15.1	44.5	12.9	13.7
ROE	1.3	1.2	3.6	1.1	1.1
ROA	21.3	25.0	92.5	34.7	41.2

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
21 October 2016	BUY	385
19 January 2017	BUY	358
12 May 2017	BUY	506

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
			To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

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