

Dewan Housing Finance Corporation Ltd

Sector: Finance / Small Cap | Earnings Update – 4QFY18

BUY

4 May 2018

Background: Dewan Housing Finance Corporation (DHFL) promoted by the Wadhwan group, commenced operations in 1984. DHFL with a total AUM of INR 1,111bn is the 3rd largest housing finance company with a market share of nearly~ 4% and operates through a network spread across in 349 locations. It is the only Housing Finance Company with focus on LMI customer segment. Distribution footprint is primarily spread across Tier II / III cities and outside the municipal limits of the Metros with customized product offerings such as Purchase of New House Property, Purchase of Resale House Property, Extension & Improvement etc.

Sensex	34,957
Nifty	10,634
Price	INR 635
Target Price	INR 743
Recommendation	BUY
52 Week High/Low	INR 680/387
Bloomberg / Reuters	DEWH IN / DWNH.BO
Equity (shares in mn)	313.70
Mkt. Cap in bn	INR 199.04/ \$ 2.98
Avg. Daily Vol. ('000)	4601.08
Avg. Daily Vol. (mn)	INR 2919.85 / \$ 43.77

Healthy growth in Disbursements led by LAP & Project Loans; asset quality intact

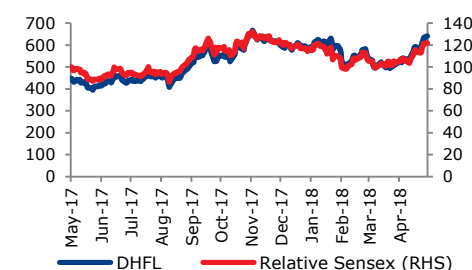
- DHFL's AUM grew to INR 1.11tn in 4QFY18 (32.9%YoY, 9.7% QoQ). Disbursements continued to grow sharply at 81.3%YoY and 45.4% QoQ. Off balance sheet AUM stood at 17% of total AUM as of 4QFY18. Going forward, the management expects loan book to grow by 20-24% p.a, while disbursements would grow by 28-30% p.a till FY20E, predominantly driven by focus on affordable housing and SME segment.
- Growth in loan portfolio was largely led by SME (77.3%YoY), LAP segments (56.4%YoY) and Project Loans (42.4%YoY) whereas Home loans segment showed a steady growth of 22.9%YoY. Consequently, their share in the overall portfolio was noted at Home loans: 61%, Project Loans: 15 %, LAP: 20% and SME: 4%.
- Borrowing stood at INR 927.2bn, with the mix largely unchanged sequentially; banks accounting for 42% of total borrowings, followed by capital markets (40%) and others (18%). While cost of funds was largely stable QoQ/YoY at 8.84%, calculated yield on AUM declined 35bp QoQ (-130bp YoY) to 10.0%.
- DHFL's NII showed a healthy growth of 24.4%YoY to INR 6.67bn for the quarter. NIMs fell marginally by 1bp YoY to 3.03% (remained flat QoQ). The company has taken a 20bps increase in prime lending rate from April 2018 and expects NIM to remain in the range of 3- 3.05% till FY20E.
- Asset Quality continued to remain stable with GNPA's intact at 0.96%. The company has taken a prudent stand by providing INR 1.3bn, keeping the PCR at 110.6%. Despite higher provisioning (56.6%YoY growth), DHFL reported a strong PAT growth of 25.8% YoY at INR 3.12bn. The cost to income ratio continued to improve as it decreased by 90bps YoY to 26.3%.The management has guided for a further 50-60bps dip in C/I by FY19E, on account of operating efficiency setting in.
- With Housing Finance industry witnessing growth momentum owing to reforms like, RERA and various subsidizing schemes in affordable housing, the company expects to grow its portfolio to INR 2tn (at CAGR of 19-16%) over the next 3-4 years, while continuing to keep Home loans as their core focus and trying to reduce the cost of borrowings.
- The board declared a dividend of INR 2.5/sh, which along with the interim dividend of INR 3/sh yields 0.9% at CMP.

Shareholding	Mar-17	Dec-17	Mar-18
Promoters (%)	39.29	39.23	39.23
FII (%)	25.32	20.81	19.92
DII (%)	7.17	10.20	9.52
Others (%)	28.22	29.76	31.33
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Net Int Inc	24.2	32.7	36.4
Other Inc	4.8	0.5	0.5
Pre Pro Profit	21.7	25.8	28.6
PAT	11.6	16.1	18.8
EPS	37.0	51.3	59.9
EPS growth(%)	(60.0)	38.9	16.6
P/E	17.2	12.4	10.6
P /BV	2.4	2.1	1.8
Div Yield (%)	0.5	0.6	0.6
ROA (%)	1.1	1.3	1.3
ROE (%)	13.9	16.8	16.9
Tier – 1 (%)	14.9	13.5	13.0
CAR (%)	16.5	17.2	17.0

Performance %	1M	3M	12M
DHFL	18.4	21.4	42.3
Sensex	5.2	0.1	17.4



Valuation:

The stock is currently trading at P/BV of 1.8X, P/E of 10.6X FY20E. Healthy growth in loan book, improving cost of funds on account of change in borrowing mix, improving cost efficiency and stable asset quality paints a positive picture for DHFL, hence we maintain BUY rating and upgrade the target price to INR 743 (Prev. Target of INR 721), assigning a P/BV 2.1X of FY20E.

Risks: Stress in project loans; pressure on yields owing to competition; growth in disbursements not translating to growth in AUM.

Results Summary 4QFY18

Y/E March (INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Net Interest Income	6670.0	5360.0	24.4%	6426.6	3.8%
Other Income	1610.0	943.0	70.7%	1138.0	41.5%
Pre Provisioning Profit	6098.7	4585.7	33.0%	5617.4	8.6%
Adj. PAT	3124.0	2482.5	25.8%	3059.5	2.1%
Cost / Income (%)	26.3	27.2		24.1	
Gross NPA (%)	1.0	0.9		1.0	
Prov Coverage ratio (%)	110.6	0.9		113.5	
CAR (%)	15.3	19.1		16.3	

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