

Dewan Housing Finance Corporation Ltd

BUY

Sector: Finance / Small Cap | Event Update

24 September 2018

Background: Dewan Housing Finance Corporation (DHFL) promoted by the Wadhwan group, commenced operations in 1984. DHFL with a total AUM of INR 1,209bn is the 3rd largest housing finance company with a market share of nearly~ 4% and operates through a network spread across in 352 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	36,842
Nifty	11,143
Price	INR 352
Target Price	INR 743
Recommendation	BUY
52 Week High/Low	INR 692/275
Bloomberg / Reuters	DEWH IN / DWNH.BO
Equity (shares in mn)	313.70
Mkt. Cap in bn	INR 110.27/ \$ 1.53
Avg. Daily Vol. (^000)	6229.44
Avg. Daily Vol. (mn)	INR 2189.96 / \$ 30.35

Stock corrects over concerns on tightening liquidity; but Management reiterates positive ALM

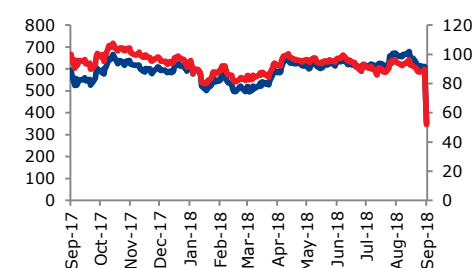
- After the news of a secondary debt market deal spread in the equity markets, wherein DHFL's Commercial papers (CP) were sold at 11% yield (yield at the time of origination was ~9.2%) by DSP Mutual fund, stock prices of DHFL corrected by ~42% on Friday. The mutual fund opted selling DHFL's paper due to high redemption pressure from investors, as the fund had significant exposure to IL&FS.
- After a series of defaults from IL&FS, investors are now turning risk averse, which was further aggravated by a rating downgrade by ICRA. This coupled with raising concerns over tightening liquidity in the system, created a panic situation in the market and investors chose to exit from companies (especially NBFCs and HFCs), that had any exposure to CPs.
- DHFL's management held a conference call, to clarify that DHFL's asset liability management is positive over the 0-1 year, 1-2 years and 2-3 years horizons and its exposure to CPs is the lowest at just ~ 8% of their borrowings which will be maturing in a phased manner. The highlights of the call are as follows:
 - The company has not defaulted in any kind of repayments and has enough liquidity to meet obligations till March 2019.
 - The management has explicitly stated that DHFL has no relationship with IL&FS, whether direct or indirect.
 - Promoters have not pledged their shares and hence stand un-encumbered. Also, none of its credit ratings are under a watch and DHFL continues to enjoy AAA ratings.
 - The marginal cost of borrowing for the company in Apr- July 2018 was at 8.65%. They recently issued bonds worth INR 110bn, with 3/5/7 years maturity at a coupon of 9.1-9.3%.
 - The company has ~INR 100bn due for repayment till March 2019, whereas the recoveries due from assets are worth ~INR 250bn.
 - The company at this point is well capitalized, with CRAR at 15.5%. The portion of securitized book stands at 15-17% of AUM, which augurs well to fund the growth going ahead.
 - Since the company has no liquidity constraints till March 2019, the management doesn't expect any increase in the cost of borrowings. That said, any increase will be passed on to the customers as 99.11% of loans are floating rate loans. In the liabilities front only 7% are at floating rates.
 - The management's endeavor will be to maintain the NIMs at 3-3.85% levels.
 - The company has lowest delinquencies, robust credit underwriting standards and a very strong collections & recovery team. The GS-3 continues to be at 0.93% and the management sees no stress in the developer portfolio, going ahead.

Shareholding	Jun-17	Mar-18	Jun-18
Promoters (%)	39.24	39.23	39.23
FII (%)	25.03	19.92	18.20
DII (%)	6.92	9.52	10.79
Others (%)	28.81	31.33	31.78
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	33.9	37.2
Other Inc	4.8	1.7	0.6
Pre Pro Profit	21.8	27.8	29.7
PAT	11.7	17.2	19.6
EPS	37.4	55.0	62.4
EPS growth(%)	(59.6)	47.1	13.6
P/E	9.4	6.4	5.6
P /ABV	1.3	1.2	1.0
Div Yield (%)	0.9	1.1	1.1
ROA (%)	1.1	1.4	1.4
ROE (%)	13.3	17.0	16.7
Tier - 1 (%)	11.5	10.6	10.2
CAR (%)	15.3	15.5	14.9

Performance %	1M	3M	12M
DHFL	-47.1	-44.3	-40.9
Sensex	-3.8	4.0	13.8



Valuation:

As we had highlighted in our earlier event update on Banking sector, titled- **"Bond yields at 4 year high; to push incremental CoF and MTM losses further"**, NBFCs and HFCs will see compression in NIMs, due to rising bond yields and tightening liquidity conditions. That said, DHFL's strong ALM will help it maintain margins at current levels. Post the panic seen in the equity markets on Friday, the stock is currently trading at P/ABV of 1.0X, P/E of 5.6X FY20E. We expect stock to recover, if 2QFY19 results are in line with management's guidance. 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 maintain the target price at INR 743, assigning a P/ABV 2.1X of FY20E.

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

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