

Dewan Housing Finance Corporation Ltd

Sector: Finance / Small Cap | Earnings Update – 2QFY19

BUY

28 November 2018

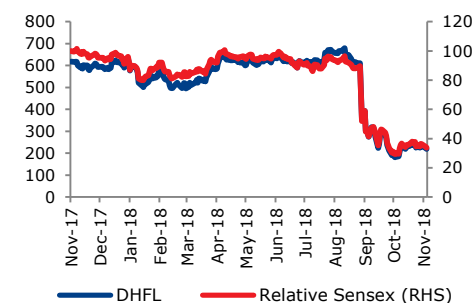
Background: Dewan Housing Finance Corporation (DHFL) promoted by the Wadhwan group, commenced operations in 1984. DHFL with a total AUM of INR 1,302bn is the 3rd largest housing finance company with a market share of nearly~ 4% and operates through a network spread across in 351 locations. It is the 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	35,745
Nifty	10,737
Price	INR 209
Target Price (12 months)	INR 286
Recommendation	BUY
52 Week High/Low	INR 690/176
Bloomberg / Reuters	DEWH IN/DWNH.BO
Equity (shares in mn)	313.80
Mkt. Cap in bn	INR 65.85/\$ 0.93
Avg. Daily Vol. ('000)	16,660
Avg. Daily Vol. (mn)	INR 3481.93/\$ 49.25

Shareholding	Sep-17	Jun-18	Sep-18
Promoters (%)	39.24	39.23	39.23
FII (%)	22.69	18.20	19.43
DII (%)	9.53	10.79	6.42
Others (%)	28.54	31.78	34.92
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)			
Y/E March	2018	2019E	2020E
Net Interest Inc	24.2	29.9	34.9
Other Inc	4.8	7.6	8.8
Pre Prov Profit	21.8	25.5	29.7
PAT	11.7	14.8	17.9
EPS	37.4	47.2	57.0
EPS growth (%)	(59.6)	26.4	20.6
PE	5.6	4.4	3.7
P /ABV	0.8	0.7	0.6
Div Yield (%)	1.4	1.9	1.9
ROA (%)	1.1	1.1	1.2
ROE (%)	13.3	13.9	14.8
Tier – 1 (%)	11.5	11.7	11.3
CAR (%)	15.3	16.3	15.7

Performance %	1M	3M	12M
DHFL	20.2	-66.5	-64.3
Sensex	6.5	-8.2	5.3



Robust growth in AUM; however PAT missed estimates due to higher slippages

- DHFL's AUM grew to INR 1.3tn in 2QFY19 up by 38.4%YoY (higher than CSEC estimate of 33.8%YoY), led by healthy growth in Disbursements (39.4%YoY). Off balance sheet AUM fell to 15% of total AUM vs. 17% in last quarter. The management retains its earlier growth guidance of 20-24% YoY for the overall AUM, despite slower disbursements in 3QFY19 so far, taking cushion from lower than expected prepayments and balance transfers (as liquidity constraints are faced by competitors as well).
- Growth in loan portfolio was largely led by Home loans (24%YoY), LAP (71%YoY) and Project Loans (50%YoY) segments. SME segment also showed a robust growth of 88.7%YoY, albeit on a low base. Consequently, their share in the overall AUM was noted at Home loans: 57%, Project Loans: 16.5%, LAP: 22% and SME: 4.5%.
- However, going ahead, the management plans to sell off (through direct assignment) project loans portfolio and bring it to 5% levels (project loans will almost be brought down to half its current levels by FY19E itself), in a move to raise funds in a cost effective way. The management expects, the assignment to witness lower haircuts, as most of the projects are >50% completed and the loans have seen lower delinquencies. However, they plan to sell off the project portfolio to re-align their ALM (concentrate on assets with longer maturities).
- Borrowings stood at INR 1089bn, with the mix skewed towards debt capital markets; banks accounted for 36% of total borrowings (from 42% in 2QFY18), followed by capital markets: 49% (from 40% in 2QFY18) and others (including FDs):15% (from 18% in 2QFY18). This change in mix contributed to a 13bps YoY drop in cost of funds (currently at 8.5%).
- NIMs were up 29bps YoY to 3.15% and NII grew 44% YoY to INR 8.3bn (lower than CSEC's estimate of INR 8.9bn, due to slower than expected lag in translation of PLR hikes into book yields). Going ahead, the management expects NIM to remain in the range of 3- 3.5% till FY20E.
- Asset Quality inched up marginally with GNPA's (GS-3) at 0.96% (vs. 0.93% in 1QFY19). The PCR for GS-3 alone stood at 28.5% up from 27.2% (QoQ). As a result provisions were up by 47% QoQ.
- Despite higher provisions DHFL reported a strong PAT growth of 52.5% YoY at INR 4.38bn, due to surge in fee income (98.5% YoY). However, PAT was marginally lower than CSEC estimate of INR 4.57bn, due to lower NII than expected.
- Update on Liquidity: the company has repaid INR 139.27bn of liabilities from 24th September to 16th November (including INR 92.15bn of CPs). Whereas, during the same period, INR 116.4bn were mobilized through assignment, NCDs and other borrowings. It has ~INR 2bn worth of CPs maturing over the remaining part of 3QFY19. As on 30th September 2018, the company has positive ALM mismatch under 5 years term.
- Going ahead, the management would strive to make DHFL more retail focused lending institution, while maintaining healthy CAR, by securitizing project portfolio and dilution on Non-core investments.

Valuation:

Despite having repaid its debt obligations, the company still has unused bank credit lines and proceeds from securitization in 3QFY19 so far to the tune of ~ INR 100bn. Hence we assume loan growth to remain stable (at a CAGR of 19% over FY18-20E and at 18% YoY in FY19E), considering lower prepayments and balance transfers. However, sell down of high yielding project portfolio could lead to loss of income; plans to recoup which are awaited from the management. With the near term overhang on NIMs and credit growth, we revise the target price to INR 286 (INR 743 earlier), assigning a P/ABV of 0.8X on FY20E ABV and maintain a BUY on the stock. **Risks:** Stress in project loans; pressure on yields owing to competition; growth in disbursements not translating to growth in AUM.

Results Summary 2QFY19

Y/E March (INR mn)	2QFY19	2QFY18	YoY Growth	1QFY19	QoQ Growth
Net Interest Income	8307.90	5757.60	44.3%	8238.90	0.8%
Other Income	2482.20	1060.60	134.0%	1436.40	72.8%
Pre Provisioning Profit	7656.00	5045.20	51.7%	7287.70	5.1%
PAT	4387.40	2877.80	52.5%	4350.20	0.9%
Cost / Income (%)	22.30	22.12		21.40	
Gross Stage-3 (%)	0.96	0.96		0.93	
Prov Coverage ratio- GS 3 (%)	28.54	41.67		27.15	
CAR (%)	16.19	18.00		15.47	

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