

Industry Financial
Bloomberg DEWH IN
BSE CODE 511072

Funding Situation Will Affect Growth Going Ahead

RATING	BUY
CMP	232
Price Target	302
Potential Upside	30%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	690/176
Mkt Capital (Rs Cr)	7292
Free float (%)	51%
Avg. Vol 1M (,000)	28607
No. of Shares	31
Promoters Pledged %	

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Key Highlights -

- DHFL is the 4th largest Housing Finance Company (HFC) by AUM which has clocked a healthy growth of 22% CAGR over last 5 years. Share of home loan segment has declined to 57% from 72% over the last 2 years. DHFL growth has been catered by growth in the Non-core portfolio. The non-core book (LAP, Project loan and SME) has grown at the average run rate of 57% in last four quarters, whereas home loan segment has grown at an average run rate of 22% during the same period.
- Amid liquidity crisis scenario, DHFL has negative ALM mismatch is the key challenge. DHFL has raised Rs 8436 Cr between Sept 24-Nov 2 out of this Rs 6500 Cr was from securitization. It has re paid Rs 10000 Cr of borrowings (including Rs 7115 Cr of CP) mostly by opting direct assignment route (Rs 7400 Cr). It has recently raised Rs 1250 Cr NCD and is in process to lend another Rs 1500 Cr from capital market.
- Disbursement growth is expected to be lower due to slower industry growth & liquidity crunch.
- Rising cost of borrowings will result in NIM pressure in the near term.

2Q FY19 Results-

DHFL reported strong 2QFY19 numbers. The NII grew by 44% YoY backed by strong AUM growth of 38% YoY. NIM (reported) has decreased from 3.42% to 3.15% QoQ. Operating expenses grown by 48% YoY, while total income grew at 51% YoY, which led to fall in the cost to income (C/I) ratio to 25.48% vs 26% YoY. Other income has grown by 86% YoY. Operating Profit grew at 52% YoY. Provision as a percentage of AUM stood increased to 50 bps from 38 bps. PAT has increased at 53% YoY. GNPA/NNPA(Calc.) stood at 96/86bps with PCR of 91.6% as at 2QFY19.

View and Valuation

After IL&FS crisis DHFL was able to repay Rs 14000 Cr of liability during 24 Sep-16th Nov and raised Rs 11600 Cr of funding but primarily through direct assignment route (Rs 7400 Cr), clearly showing funding pressure from banks and capital market in the current liquidity scenario. Going forward also management plans to resort to sell down of portfolio to maintain liquidity and run down the developer segment to 5% from current 17%, hence growth is expected to slow down significantly in near term. Rising cost, change in assets mix and pricing pressure on sell down portfolio will compress the NIM significantly going ahead. We have downgraded FY19 estimate by 19% & FY20 estimates by 21% because of slow growth & NIM pressure. However after recent fall in stock price, valuation has got attractive. We recommend BUY at 0.8x P/BVS FY20e for the target price of Rs 302.

Key Risks to our rating and target

- DHFL ability to raise from capital markets and traditional bank lines will be important.
- NIM contraction going ahead.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	1669	2000	2445	3178	3429
PPP	1277	1620	2177	2688	2820
PAT	729	2896	1172	1482	1415
NIM %	2.6	2.6	2.5	2.6	2.4
EPS (Rs)	25	92	37	47	45
EPS growth (%)	-41	270	-60	26	-5
ROE (%)	15.1	44.5	14.0	15.2	12.5
ROA (%)	1.2	3.6	1.2	1.3	1.1
BV	172	255	280	341	378
P/B (X)	1.1	1.4	1.8	0.7	0.6
P/E (x)	7.9	4.0	13.6	4.9	5.1

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**2Q FY 19 Results
In Line With Expectation**
Spread Compression

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	2,504	2,517	2,641	3,017	3,271	30.6%	8.4%	8,654	10,010	15.7%
Interest Exp.	1,903	1,894	1,980	2,193	2,440	28.2%	11.3%	6,654	7,565	13.7%
NII	601	623	661	824	831	38.3%	0.8%	2,000	2,445	22.3%
Other Income	110	117	167	143	197	78.7%	37.8%	204	454	123.2%
Total Income	711	740	828	967	1,028	44.6%	6.3%	2,209	2,914	31.9%
Ope Exp.	170	177	218	239	262	54.3%	9.7%	583	723	23.9%
PPP	541	562	610	728	766	41.6%	5.2%	1,620	2,177	34.3%
Provisions	107	100	130	91	133	24.1%	46.6%	218	420	92.7%
PBT	434	462	480	638	633	45.9%	-0.7%	1,402	1,757	25.3%
Tax	141	156	167	203	194	38%	-4.5%	475	584	23.1%
Extra Items	-	-	-	-	-			1,969	-	
Net Profit	293	306	312	434	439	49.8%	1.1%	2,896	1,172	-60%

NIM to lower down going ahead

NII growth has been strong at 44% YOY, backed by a healthy AUM of 38% growth. NIM (reported) has decreased sequentially to 3.15% in 2QFY19 from 3.44%. The yield on advances has remained stable at 11.29%, while the cost of funds has increased from 9.43% to 9.90% QoQ which has led to the NIM compression. Recently NCD of Rs 1250 Cr is raised at 9.9%. Management expects spread compression by 50-75 bps going ahead; securitization spread has declined by 50 bps. Going ahead new bank lines sanction stood at Rs 1000 Cr, WCDDL of Rs 500 Cr & Securitization of Rs 2000 Cr portfolio can be sold down.

Muted Growth Going Ahead

AUM grew by 38% YoY and disbursement grew by 39% YoY. Growth was mainly driven by rise non-core portfolio. Home loan segment growth was at 23% YoY, LAP segment growth was at 69% YoY, Project loan growth at 57% & others segment at 85%. Securitization portfolio stands at 15% in the total portfolio. The Portfolio share of Home loan is at 57%, LAP/LRF is at 22%, Project loan is at 17% and other segment is at 4% of the overall portfolio. Disbursement has slowed down in the month of November. Management has highlighted to transform the entire portfolio to retail focused segments & bring down the share of project loans to 5% of AUM going ahead. Management has highlighted to run down the portfolio to Rs 9000-10000 Cr by Mar 19. Total project is divided into SRA & Others. Almost 80% of SRA portfolio is on completion stage and it will be easy to form joint lending in this segment. Overall portfolio is almost at 61% completion stage inviting portfolio investors, bringing in other lenders & opting for joint development options to run down the segments will be comfortable for the management.

Assets quality

Asset quality has declined from 93 bps to 96 bps while Net stage 3 has increased from 68 bps to 86 bps with little bit of lower PCR of 91.6% from 107.3% QoQ. Credit cost has increased to 50 bps from 38 bps QoQ.

Concall Highlights

- ❑ New bank lines sanction stood at Rs 1000 Cr, WCDDL of Rs 500 Cr & Securitization of Rs 2000 Cr portfolio can be encash upon. Spreads is expected to compress by 50-70 bps going ahead. Securitization spreads has declined by 50 bps. Incremental borrowing will mostly consist of long term.
- ❑ Growth will moderate compared to earlier quarters so is industry growth. November disbursement is subdued & launching new products may be difficult.
- ❑ Revamping DHFL to completely retail focused business & bring project finance to less than 5% of AUM over a period of time (Rs 9000-10000 Cr by Mar 19). In Project loan there is no major incremental cash flows but the normal rundown has lowered down but asset quality remains intact. Projects are categorized into 2 types; SRA (Bandra-Kurla area) and projects going in entire India. As 80% of SRA part is completed, so joint development in these projects will be very lucrative. Almost 61% of overall projects is at completion stage with 75% of portfolio in Mumbai and DHFL is sole lender is all loans which gives it much needed flexibility. Average inventory could be sold will be around 50-60% but registration is getting delayed.
- ❑ Project loans disbursement may amount to Rs 200-500 Cr till Mar 19 which DHFL will disburse; afterwards the developers are expected to migrate to new lender or have a consortium lending or in projects where more than 50-60% is completed portfolio investors are keen to take up part/ full of the projects.

Profitability Matrix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	27.2	23.5	26.0	24.0	26.3	24.7	25.5	-0.53	0.78
Empl. Cost/ Tot. Exp. %	38.2	49.4	46.6	50.3	46.0	44.8	40.7	-5.83	-4.08
Other Exp/Tot. Exp.%	59.8	46.5	49.9	45.6	50.5	51.6	54.7	4.83	3.15
Provision/PPP %	18.1	13.2	21.9	17.8	21.3	12.4	17.3	-4.58	4.89
Tax Rate %	33.9	27.7	27.0	33.7	34.9	31.9	30.7	3.70	-1.21
Int Exp./Int Inc. (%)	76.5	74.8	77.2	75.3	75.0	72.7	74.6	-2.61	1.91
Other Inc./NII %	17.7	9.5	18.4	18.7	25.3	17.4	23.7	5.30	6.36
PPP/ Net Income %	72.8	76.5	74.0	76.0	73.7	75.3	74.5	0.53	-0.78
PAT/ Net Income %	351.9	48.0	42.2	41.4	37.7	44.9	42.7	0.52	-2.21
NII Growth % (YoY)	23.0	34.4	17.0	20.8	23.4	34.3	44.3	27.28	10.02
PPP Growth YoY %	37.7	47.6	27.0	34.9	33.0	41.8	51.8	24.83	10.06
PAT Growth %	1069.35	60.0	23.7	25	(85.9)	34.8	52.6	28.91	17.82

Margin Performance

Margin %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.8	12.0	11.7	11.0	10.7	11.3	11.3	-0.45	0.00
Cost Of Funds	8.8	9.1	9.4	8.7	8.8	9.4	10.0	0.52	0.54
Spreads	3.0	2.9	2.3	2.2	1.9	1.9	1.3	-0.98	-0.54
NIM	3.0	3.0	2.7	3.0	3.0	3.1	2.9	0.19	-0.22

Exhibit: Yield and Cost Margin Pressure on the rise

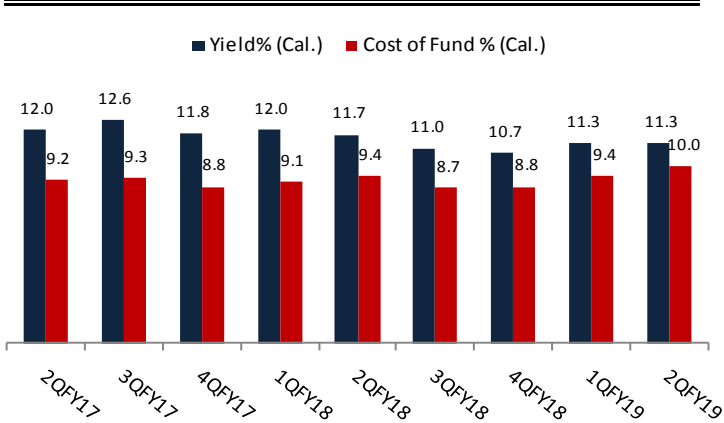
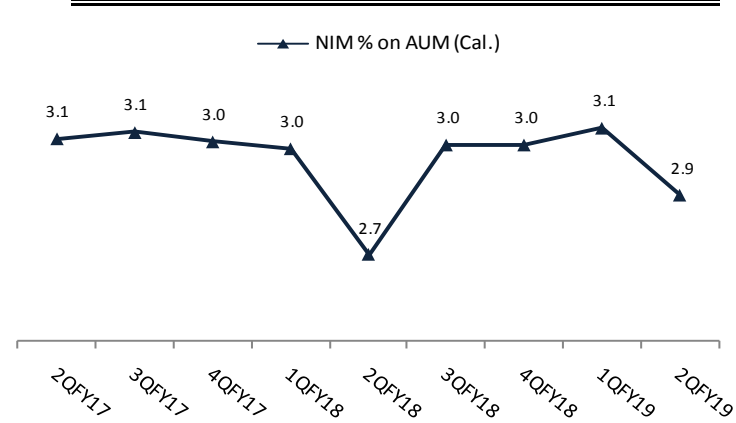


Exhibit: Net Interest Margin NIM under Pressure



Asset & Borrowings Growth Trend

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Disbursements	6610	7060	8700	8237	9950	10846	15770	13583	13870
Growth YoY %	32	10	11	33	51	54	81	65	39
AUM	75223	78296	83560	88236	94079	101286	111090	120940	130182
Growth YoY %	20	19	20	23	25	29	33	37	38
Borrowings	78242	76780	81340	85781	86702	86530	92715	106320	106320
Growth YoY %	39	28	33	34	11	13	14	24	23

Exhibit: AUM Growth %

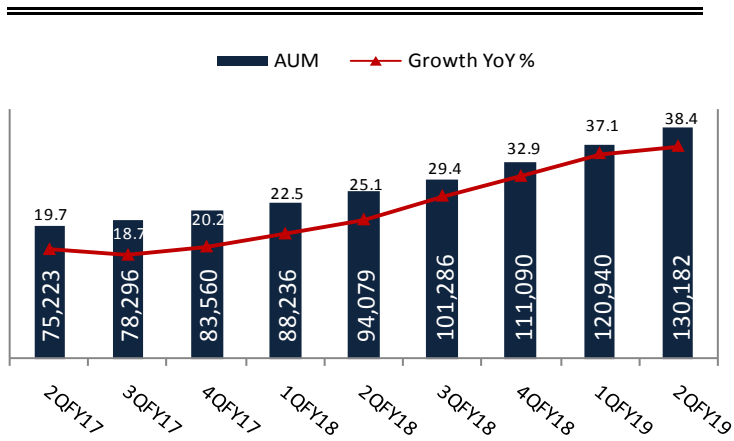
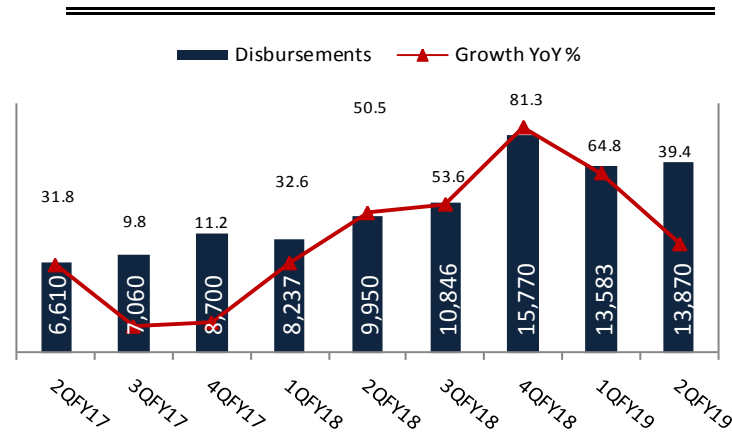


Exhibit: Disbursement Growth %



Asset Mix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Individual Loan Portfolio	11	11	10	11	14	18	23	24	24
LAP	12	16	27	30	43	49	57	69	71
Project/Developer loan port	136	85	87	87	63	55	42	46	56
Others	70	78	32	40	44	72	61	83	68

Asset Quality

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
GNPA	678	737	783	806	883	944	1,058	321	114
GNPA %	0.94	0.97	0.96	0.96	0.96	0.93	0.96	(0.0)	0.0
Total Specific PCR %	105	97	107	114	111	107	92	(6)	(16)

Asset Liability Management

	Upto 1 Year	1-3 Year	3-5 Year	Over 5 Year
Liabilities	34,970	37,240	22,360	28,310
Assets	36,680	39,630	39,120	15,720
Mismatch (Positive)	1,710	2,390	16,760	(12,590)

Exhibit: Asset Quality

Decline in asset quality

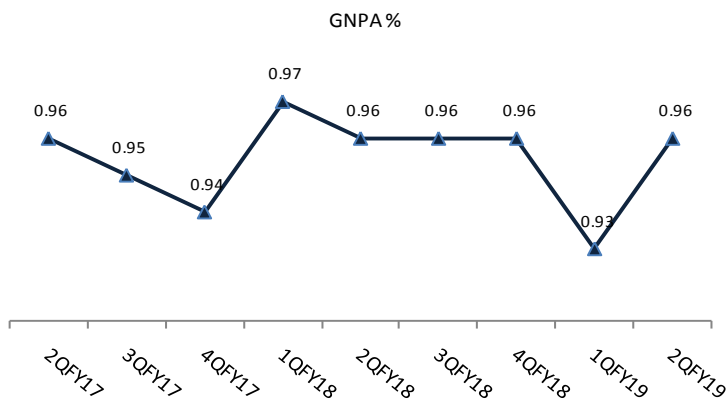


Exhibit: Provisions

PCR improvement

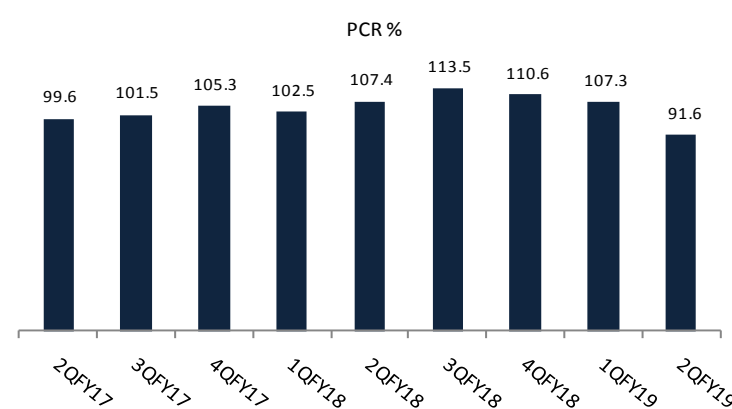


Exhibit: AUM Break Up

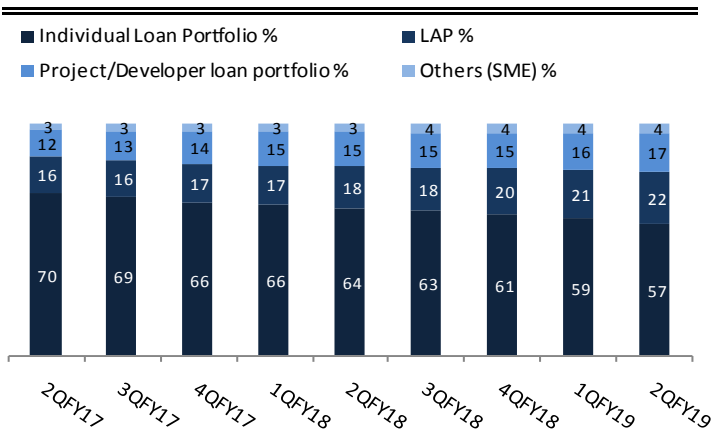
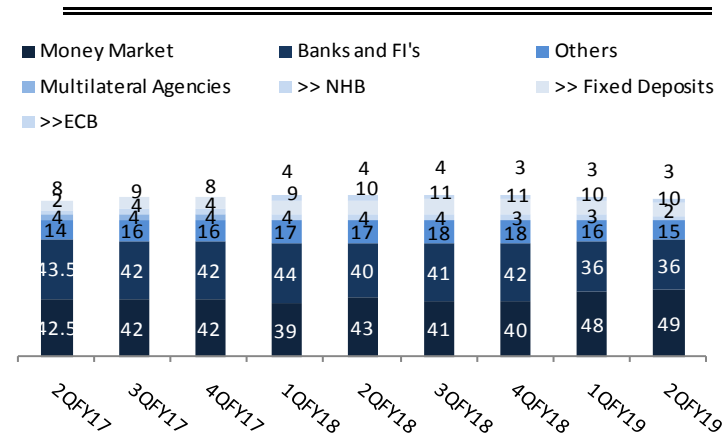


Exhibit: Liability Break Up



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Gross NPA (Stage 3)	737				944	1,058
Less: ECL Provisions (Stage 3)	0.97				0.93	0.96
Net NPA (Stage 3)	229				256	302
Coverage Ratio (%) Stage 3	507				688	756
Gross Stage 1 & 2	31.14				27.16	28.56
ECL provision-Stage 1 & 2	99				99	99
ECL Provision – Stage 1 & 2	485.9				756.4	667.2
Net Stage 1& 2	75002.2				99280.1	108367

*2QFY18, 3QFY18 & 4QFY18 numbers are not stated.

Others	FY 14	FY 15	FY 16	FY 17	FY18	2QFY19
Average Ticket Size (Rs in Lakh)	10.49	12.05	12.4	14	14.5	17
Customer Profile						
Salaried & Professional	51.0	60.0	64.0	59.0	74.0	72.0
Self Employed	49	40	36	41	26	28

Exhibit: Asset Quality

Rise in Credit Cost

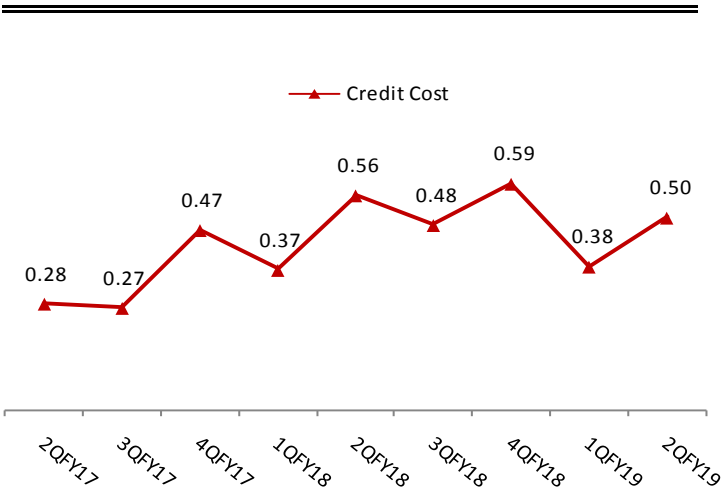
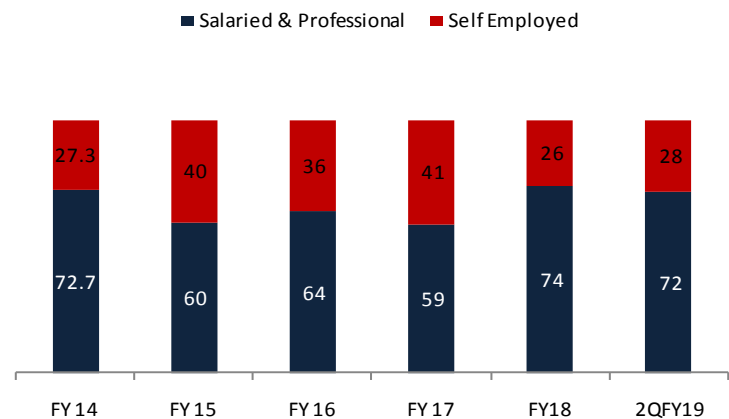


Exhibit: Provisions

Customer Segment



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	128	128	146	292	313	314	314	314
>> Equity Capital	128	128	146	292	313	314	314	314
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	3,109	3,447	4,490	4,725	7,683	8,482	10,393	11,544
Networth	3,237	3,575	4,636	5,017	7,996	8,796	10,707	11,858
Change (%)	59	10	30	8	59	10	22	11
Total Borrowings	32,058	39,487	48,921	61,104	81,340	92,715	110,172	128,827
Change (%)	67	23	24	25	33	14	19	17
Provisions	310	406	466	654	715	980	1,108	1,101
Other Liabilities	198	391	616	1,078	2,247	5,081	2,514	2,931
Total Liabilities	35,803	43,859	54,638	67,853	92,298	107,572	124,501	144,718
Investments	275	576	1,006	893	13,535	8,077	8,098	12,264
Loans	33,902	40,597	51,040	61,775	72,096	91,930	107,979	122,643
Change (%)	75	20	26	21	17	28	17	14
Fixed Assets	438	988	985	781	843	979	1,077	1,184
Other Assets	676	716	931	996	2,394	4,119	4,821	5,464
Cash Balances	513	983	676	3,408	3,430	2,468	2,525	3,162
Total Assets	35,803	43,859	54,638	67,853	92,298	107,572	124,501	144,718

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	3,883	4,776	5,839	7,159	8,654	10,010	13,205	15,222
Interest expended	3,119	3,783	4,460	5,490	6,654	7,565	10,028	11,792
Net Interest Income	764	993	1,380	1,669	2,000	2,445	3,178	3,429
Change (%)	66	30	39	21	20	22	30	8
Other Income	257	194	142	157	204	454	462	343
Change (%)	22	(25)	(27)	11	29	123	2	(26)
Total Net Income	1,021	1,187	1,522	1,827	2,204	2,900	3,640	3,772
Change (%)	52	16	28	20	21	32	26	4
Operating Expenses	365	382	474	550	583	723	952	952
Change (%)	47	5	24	16	6	24	32	(0)
>> Employee Expenses	141	176	196	228	262	357	395	405
Change (%)	60	25	11	16	15	36	11	3
>> Other Expenses	225	206	278	322	321	366	557	547
Pre-provisioning Profit	656	805	1,048	1,277	1,620	2,177	2,688	2,820
Change (%)	55	23	30	22	27	34	23	5
Provisions	45	70	105	175	218	420	535	701
Change (%)	90	56	50	67	25	93	27	31
PBT	611	735	943	1,102	1,402	1,757	2,152	2,119
Tax	159	206	322	373	475	584	671	704
Profit After Tax	452	529	621	729	2,896	1,172	1,482	1,415
Change (%)	47	17	17	17	297	(60)	26	(5)
Adjusted Profit After Tax	452	529	621	729	2,896	1,172	1,482	1,415
Change (%)	47	17	17	17	297	(60)	26	(5)

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	36,117	44,822	56,884	69,524	83,560	111090	133308	153304
>> Off-Book AUM	2,215	4,226	5,845	7,749	11,464	19,160	25,329	30,661
AUM Growth (%)	71.2	24.1	26.9	22.2	20.2	32.9	20.0	15.0
Borrowing Growth (%)	67.4	23.2	23.9	24.9	33.1	14.0	18.8	16.9
Loan/Borrowing (%)	1.1	1.0	1.0	1.0	0.9	1.0	1.0	1.0
Disbursement (Rs Cr)	13357.7	16532.6	19821.5	24202	28584.8	44806	40702	41546.2
Disbursement Growth (%)	19.6	19.6	19.6	19.6	18.1	56.7	(9.2)	2.1
CRAR (%)	17	17	17	17	19	15	17	16
>> Tier 1 (%)	11.3	11.9	12.5	13.0	14.9	11.5	13.4	13.1
>> Tier 2 (%)	5.2	5.2	4.0	3.8	4.4	3.8	3.5	3.3
Debt/Equity(x)	9.9	11.0	10.6	12.2	10.2	10.5	10.3	10.9
Assets Quality Metrics								
Gross NPA (Rs)	239	318	485	573	678	883	1,058	1,349
Gross NPA (%)	0.7	0.8	1.0	0.9	0.9	1.0	1.0	1.1
Net NPA (Rs)	156	210	346	361	419	515	741	917
Net NPA (%)	0.5	0.5	0.7	0.6	0.6	0.6	0.7	0.7
Specific Provision Coverage (%)	35	34	29	37	38	42	30	32
Provision/Average Advances (%)	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5

Margin Metrics

Yield On Advances (%)	13.6	11.8	11.5	11.3	11.3	10.3	10.8	10.6
Cost Of Funds (%)	12.2	10.6	10.1	10.0	9.3	8.7	9.9	9.9
Spread (%)	1.4	1.2	1.4	1.3	2.0	1.6	0.9	0.8
NIM on AUM (%)	2.7	2.5	2.7	2.6	2.6	2.5	2.6	2.4

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	80.3	79.2	76.4	76.7	76.9	75.6	75.9	77.5
Other Income/NII (%)	33.7	19.5	10.3	9.4	10.2	18.6	14.5	10.0
Operating Profit/Net Income (%)	64.2	67.8	68.9	69.9	73.5	75.1	73.8	74.8
Net Profit/Net Income (%)	44.3	44.6	40.8	39.9	131.4	40.4	40.7	37.5
Cost to Income (%)	35.8	32.2	31.1	30.1	26.5	24.9	26.2	25.2
Employee Exp/Net Income (%)	13.8	14.8	12.9	12.5	11.9	12.3	10.8	10.7
Cost on Average Assets (%)	1.3	1.0	1.0	0.9	0.7	0.7	0.8	0.7
Provision/PPP (%)	6.9	8.7	10.0	13.7	13.5	19.3	19.9	24.9
Tax Rate (%)	26.0	28.0	34.1	33.8	33.9	33.3	31.2	33.2

Valuation Ratio Metrics

EPS (Rs)	35.2	41.2	42.6	25.0	92.5	37.4	47.2	45.1
Change (%)	34.4	16.9	3.5	(41.4)	270.1	(60)	26.4	(4.5)
ROAE (%)	17.1	15.5	15.1	15.1	44.5	14.0	15.2	12.5
ROAA (%)	1.6	1.3	1.3	1.2	3.6	1.2	1.3	1.1
Dividend Payout (%)	13.7	19.4	13.0	32.0	1.1	16.1	13.8	15.5
Dividend yield (%)	1.1	1.8	1.1	1.4	1.2	0.5	1.3	1.7
DPS	5.5	6.0	9.0	8.0	4.0	5.5	7.0	8.0
Book Value(Rs)	252.5	278.4	318.2	171.9	255.3	280.4	341.3	378.1
Change (%)	45	10	14	(46)	49	10	22	11
P/B (X)	0.6	0.8	1.5	1.1	1.4	1.8	0.7	0.6
P/E (X)	4.6	5.3	10.9	7.9	4.0	13.6	4.9	5.1

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	13.5	12.0	11.9	11.7	10.8	10.0	11.4	11.3
<i>Interest expended</i>	10.9	9.5	9.1	9.0	8.3	7.6	8.6	8.8
<i>Net Interest Income</i>	2.7	2.5	2.8	2.7	2.5	2.4	2.7	2.5
<i>Non-Fund Based Income</i>	0.9	0.5	0.3	0.3	0.3	0.5	0.4	0.3
<i>Total Income</i>	3.6	3.0	3.1	3.0	2.8	2.9	3.1	2.8
<i>Total Operating Expenses</i>	1.3	1.0	1.0	0.9	0.7	0.7	0.8	0.7
>> <i>Employee Expenses</i>	0.5	0.4	0.4	0.4	0.3	0.4	0.3	0.3
>> <i>Other Expenses</i>	0.8	0.5	0.6	0.5	0.4	0.4	0.5	0.4
<i>Operating Profit</i>	2.3	2.0	2.1	2.1	2.0	2.2	2.3	2.1
<i>Provisions</i>	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.5
<i>Others</i>	-	-	-	-	2.5	-	-	-
<i>PBT</i>	2.1	1.8	1.9	1.8	4.2	1.8	1.9	1.6
<i>Tax</i>	0.6	0.5	0.7	0.6	0.6	0.6	0.6	0.5
PAT/RoAA	1.6	1.3	1.3	1.2	3.6	1.2	1.3	1.1
<i>Equity Multiplier (x)</i>	10.9	11.7	12.0	12.7	12.3	11.9	11.9	11.9
ROAE	17.1	15.5	15.1	15.1	44.5	14.0	15.2	12.5

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*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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