

DEWAN HOUSING FINANCE CORPORATION LTD.

11-Apr-17

Result Update

CMP	393
Target Price	497
Previous Target Price	385
Upside	26%
Change from Previous	29%

Market Data

BSE Code	511072
NSE Symbol	DHFL
52wk Range H/L	395/182
Mkt Capital (Rs Cr)	10159
Av. Volume (,000)	281
Nifty	8898

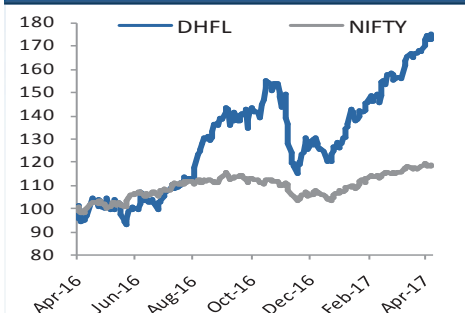
Stock Performance

	1Month	1Year	YTD
Absolute	14.5	109.6	57.3
Rel.to Nifty	12.8	87.2	44.3

Share Holding Pattern-%

	3QFY17	2QFY17	1QFY17
Promoters	39.3	39.3	34.9
Public	60.7	60.7	65.1
Others	-	-	-
Total	100	100	100

Company Vs NIFTY



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Stake sale in DHFL Pramerica Life Insurance (DPLI) completed.

Stake sale in DHFL Pramerica Life Insurance (DPLI) has been completed at the higher valuation range of Rs 2000 Cr. Earlier DHFL entered into an agreement with its promoter to sell its 100% of share held in DHFL Pramerica Life Insurance (DPLI) (equivalent to 50% of the paid-up capital of DPLI) to its wholly owned subsidiary DHFL Investment Ltd (DIL). Investment of DHFL in DPLI was mere Rs 31 Cr. To fund this transaction, DIL will issue compulsorily convertible debentures (CCDs) to the promoters' entity (Wadhawan Global Capital). Due to this deal we factor 25% increase in networth. With strong capitalization and focus on affordable segment we expect 20% growth in AUM going forward.

3Q FY17 Result Highlight

DHFL posted 3Q FY17 PAT at Rs 244 Cr up 31% YoY owing to better NIMs which improved by 11 bps YoY and was stable QoQ. NII growth was strong at 21% YoY. Operating expenses were under control and grew by just 9% YoY. C/I ratio improved to 26.5% against 29.5% a year back. AUM grew by 19% YoY despite the challenging times during demonetization. Disbursement was muted to 10% growth YoY, however considering demonetization impact we had anticipated it even lower. Assets quality was stable with GNPA at 95 bps sequentially.

AUM Growth Impressive Despite Demonetization, Assets Quality Stable.

AUM of DHFL grew with healthy rate of 19% YoY despite the demonetization. This strong growth was mainly contributed by project loan which grew by 85% YoY while Core home loan book grew by 11% YoY. The share of project loan in total portfolio increased to 12.5% against 8% a year back. Disbursements grew by 10% YoY in 3Q FY17 despite demonetization. The management highlighted that the disbursements were down 12% MoM in November 2016 but recovered to pre-demonetization levels in December 2016. Management is confident of continuing the same growth level going forward. Assets quality was stable with GNPA at 95 Bps and provision coverage ratio at 101.5% which resulted in almost nil NNPA.

Improving Margins and Cost Efficiency.

NIM of DHFL improved by 11 bps YoY to 3.06% backed by decline in cost of fund by 50 bps. Change in liability mix with reduction in bank rate has supported this decline in cost of fund.

Operating Expenses grew by 9% YoY led lower other expenses. Employee expenses grew by 18% YoY. Thus the C/I ratio improved to 26.5% against 29.5% a year back. This decline in cost to income ratio has helped the company to achieve the pre-provisioning profit of 27% YoY. C/I Ratio at 26.5% is still very high from its industry peers, so a lot of scope to improve further.

Concall Highlights

- >> Management is confident to protect the NIM going forward.
- >> Project loan will continue to grow going forward. Share of project financing is expected to increase to 14-15% over the next few quarters due to the strong pipeline.
- >> Targeting the C/I ratio at 21%.
- >> Collection dropped to 12% in the month of November. Collection for December month was as per pre-demonetization period.
- >> Yield on LAP-13.55%-13.75%. Yield on Project loan is 15.45%-16.2%. Yield on SME is >13%.
- >> Will not raise equity in 2 to 3 years.
- >> Disbursements were up 10% YoY primarily driven by home loans and LAP (up 15% YoY). Disbursements in project financing were flat-to-marginally-negative on a YoY basis.
- >> Not utilized the RBI dispensation scheme.

View & Valuation

DHFL has continuously performed well in its operating parameters with healthy AUM growth and stable assets quality. We expect the AUM growth of around 20% going forward. Recently huge rate cut by banks has raised the concerns over the margin protection for Housing Finance companies. However due to strategy of management for efficient liability mix and increasing share of non-core home loan portfolio, we expect DHFL to maintain its NIM at 3% level. Improving operating efficiency has boosted the bottom line of the company and we expect this trend to continue in FY18. Also the stake sale deal will further boost the earnings for the company with free from concern of stake dilution for next 2 to 3 years. We upgrade our target price to Rs 497 (2x FY18E BV) from earlier price of Rs 385.

Quarterly Performance

Financials	(Rs in Cr)								
	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Interest Income	1,488	1,541	1,633	1,762	1,845	1,914	1,932	2,122	2,315
NII	355	365	399	405	425	436	456	491	514
Net Total Income	393	407	419	454	466	488	484	536	565
Operating Expense	126	121	126	132	137	155	136	140	150
PPP	267	286	293	322	328	333	348	396	416
Provisions	25	35	32	45	48	50	45	45	45
PBT	242	251	261	277	280	283	303	351	371
Net Profit	160	162	173	180	186	190	201	232	244

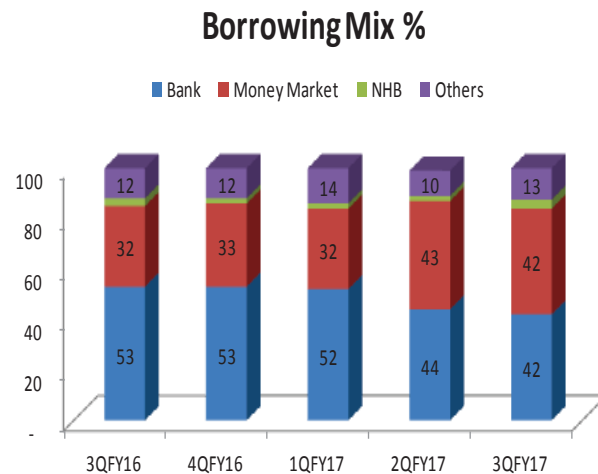
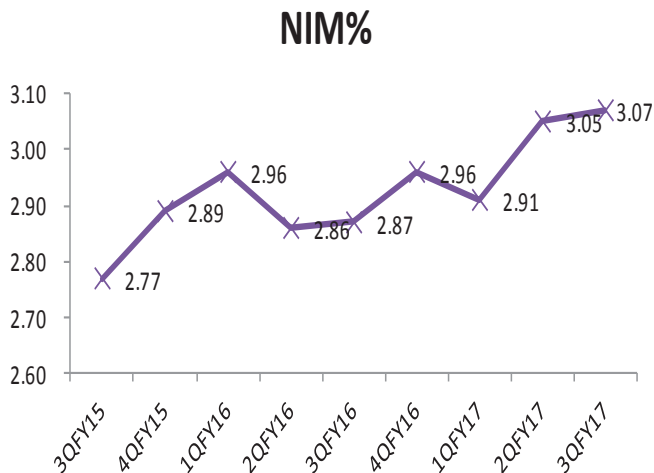
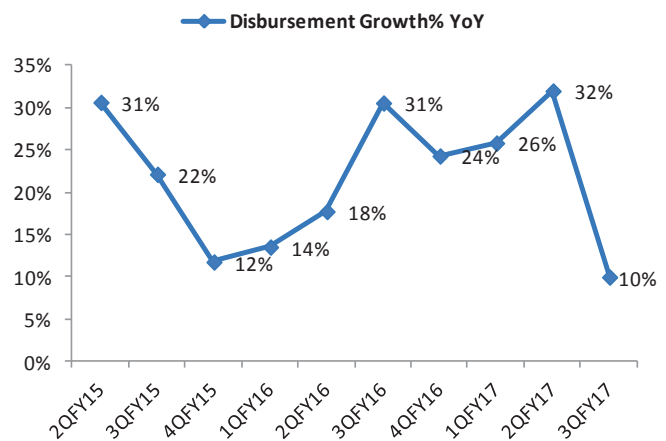
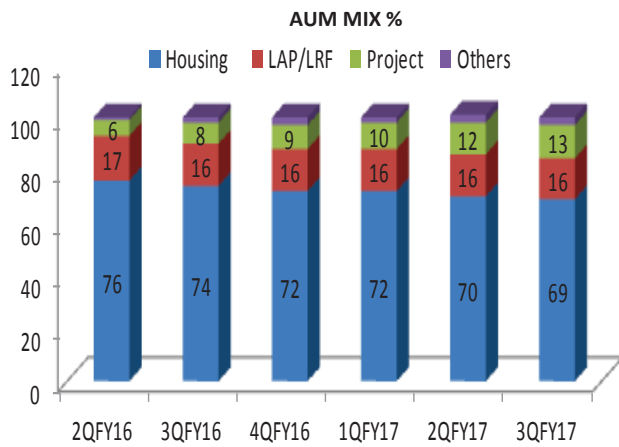
Profitability Metrix	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Yield% (Cal.)	11.67	11.25	11.18	11.48	11.46	11.30	10.92	11.53	12.06
Cost of Fund% (Cal.)	10.05	9.90	9.69	9.92	9.75	9.77	9.45	9.18	9.29
Spread% (Cal)	2.82	2.57	2.78	2.88	3.05	2.91	2.87	2.35	2.77
NIM%	2.77	2.89	2.96	2.86	2.87	2.96	2.91	3.05	3.07
C/I Ratio	32.18	29.73	29.97	29.03	29.46	31.76	28.11	26.09	26.48

DHFL

(Rs in Cr)

Assets Quality	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
GNPA%	0.77	0.84	0.8	0.81	0.84	0.93	0.98	0.96	0.95
NNPA%	0	0	0	0	0	0	0	0	0
PCR%	108.2	100.2	106.9	111	110.79	101.74	99.3	99.6	101.5

	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
AUM	52,637	56,884	60,002	62,837	65,962	69,524	72,012	75,223	78,296
On- Book	47,776	51,040	53,796	56,312	58,992	61,775	63,647	65,346	68,961
Off- Book	4,861	5,845	6,206	6,525	6,970	7,749	8,365	9,877	9,335



Financials Snap Shot

INCOME STATEMENT (Consolidated)

	FY13	FY14	FY15	FY16
Interest Income	3,883	4,776	5,839	7,159
Interest Expenses	3,119	3,783	4,460	5,490
Net Interest Income	764	993	1,380	1,669
Other Income	257	194	142	157
Total Net Income	1,021	1,187	1,522	1,827
Employee Benefits Expense	141	176	196	228
Other Expenses	216	195	252	298
Total Oper. Expenses	365	382	474	550
Pre Provisioning Profit	656	805	1,048	1,277
Provisions / Write offs (Net)	45	70	105	175
Profit Before Tax	611	735	943	1,102
Total Tax	159	206	322	373
Profit After Tax	452	529	621	729

RATIOS

Spreads Analysis (%)	FY13	FY14	FY15	FY16
Yield on Loan Portfolio %	13.7	13.1	12.9	12.7
Cost Of Borrowing %	10.7	10.6	10.4	9.8
Spread %	3.0	2.5	2.5	2.9
Profitability Ratios (%)				
NIM %	2.7	2.7	2.9	3.0
ROA %	1.5	1.3	1.3	1.2
ROE %	14.1	15.5	15.1	15.1
EPS (Rs)	17.6	20.6	21.3	25.0
Cost to Income Ratio %	35.8	32.2	31.1	30.1
Asset-Liability Profile				
Loans/Borrowings (X)	1.1	1.0	1.0	1.0
Debt/Equity (x)	8.5	9.5	8.7	10.3
PCR % Specific	113	104	100	102
Gross NPAs (Rs cr)	263	394	473	568
Gross NPAs %	0.7	0.8	0.8	0.9
Net NPAs (Rs cr)	43	93	72	50
CRAR %	19.0	16.5	17.6	17.0

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	128	128	146	292
Reserves	3,109	3,447	4,490	4,725
Net Worth	3,237	3,575	4,636	5,017
Long term Debt	26,565	32,295	36,889	45,119
Short term Debt	876	1,595	3,637	6,437
Total Borrowing	27,441	33,890	40,526	51,556
Long Term Provision	264	331	430	583
Other Liability	4,862	6,063	9,046	10,697
Total Liability	35,803	43,859	54,638	67,853
Fixed Assets	438	988	985	781
Non-current investments	191	307	611	720
Current investments	85	269	396	173
Loans/Advances	34,222	41,016	51,511	62,295
Cash & Bank Balances	513	983	676	3,408
Other Assets	356	297	460	476
Total Assets	35,803	43,859	54,638	67,853

Loan Mix %

	FY13	FY14	FY15	FY16
Housing Loan	83	78	75	72
LAP	11	16	18	16
Project	6	6	6	10
Others	-	-	1	2
Total AUM (Rs in Cr)	36,117	44,822	56,884	69,524
Borrowing Mix %				
NCD	11	20	28	33
Bank	71	68	58	53
Others	18	12	14	14
Resource Mobilization (Rs in Cr)	32,058	39,487	48,921	61,104

About the Company

DHFL was founded in 1984 and is promoted by Wadhawan Group. Focused on low and medium income group it operates mainly in tier 1 and tier 2 cities with its presence in 363 cities. It has total AUM of Rs 783 Billion .

Chairman & MD Kapil Wadhawan
CEO Harsil Mehta