

## Dewan Housing Finance Corporation.

BSE: 511072 | Sector: Housing Finance

13 January 2017

vScore : 60 | Rating: **Buy**  
 CMP : Rs. 269 | Target Price: Rs. 460

### BUSINESS BACKGROUND

DHFL was established by Late Shri Rajesh Kumar Wadhawan a visionary Indian businessman. On April 11, 1984, DHFL was established to enable access to affordable housing finance to the lower and middle income groups in semi-urban and rural parts of India. DHFL is the second housing finance Company to be established in the country, however, with a unique mission, which is today benchmark as a model of financial inclusion in the Indian financial services sector.

DHFL strives continually to reach out to its customers through its extensive network of 362 offices spread across the length and breadth of the country, and international representative offices. As of March 2016, DHFL had 62,029 crores of loans and advances on the balance sheet. DHFL has registered 22-23% CAGR for loan growth over the last few years.

### INVESTMENT HIGHLIGHTS

**Q2FY17 results:** It recorded net sales of INR1,964 Crs, compared to INR 1,580 in Q4FY15 up by 24%, Net profit of INR 189 Crs compared to 162 crore in Q4FY15. Adj. EPS: INR 7.32/share compared to INR 6.37/share last year same quarter. (All figures are on standalone basis.)

**Segment Highlights:** Dewan housing operates in housing and non housing loans but major segment remains housing loans. Under housing it gives loans to new houses, re sale property, self construction, improvement, project loans etc and in non housing loans it lends for commercial property & land, mortgage loans, and SME Loans. In year 2015-16 out of total housing loans were INR 39,375 crores (77% of total loans) and non housing loans were INR 11,664 crores (23% of total loans)

### KEY DATA

|              |    |             |
|--------------|----|-------------|
| FACE VALUE   | Rs | 10          |
| DIVD YIELD % |    | 3.2         |
| 52 WK HI/LOW |    | 336/140     |
| NSE CODE     |    | DHFL        |
| MARKET CAP   |    | RS 7,680 Cr |

### SHAREHOLDING PATTERN-SEP 16

|                   |   |        |
|-------------------|---|--------|
| PROMOTERS         | - | 39.31% |
| BANKS, MFs & DIIs | - | 3.9%   |
| FIIIs             | - | 29.47% |
| Others            | - | 27.32% |

### KEY FUNDAMENTALS

| Year Ending    | FY16A | FY17E | FY18E |
|----------------|-------|-------|-------|
| Rev Gr%        | 22    | 21    | 21    |
| Loans Gr%      | 20    | 21    | 22    |
| ROE %          | 14.5  | 15.6  | 17    |
| Book Value(Rs) | 172   | 195   | 225   |
| EPS (Rs)       | 25.   | 30    | 37    |
| P/E (x)        | 8     | 6.5   | 5     |

**Housing loans continues to grow at higher rate, government push will further add benefit to it, recent demonetization is a short term issue and not to affect major for the company in long run:**

The company operates in housing and non housing loans segment, under that it has 77% loans in housing and 23% in housing category. Loan book of the company is growing at a strong rate of 22-23% from last few years.

Recent demonetisation may have short term impact on Q3FY17 for real estate and related sectors, for the company most of the loans and projects will again come back in next quarter in case they pause in Q3FY17. So current fall in prices and other fears are bit exaggerated. In medium to long term the company growth story remains intact. Interest rates are expected to decline in coming quarters and this will infact increase the demand for housing loans.

With the increased focus on affordable housing from government and various new measures such as extra 50,000 interest deduction for first time home loan buyers, real estate bill has been passed by the government. All these measures are expected to boost real estate activity in coming few quarters. Demand for new homes will rise compared to last year as a result of it. Dewan housing is well poised to take advantage of this event, it has already strengthened its position in tier 2 and 3 cities in last few quarters. Spending on advertisements and branding by Shahrukh khan can help the company get some good business in near term.

**Cost to income ratio improvement and expects to continue the trend:**

Cost to income ratio has come down from 27.3% in FY15 to 26.3% for FY16. For Q1FY17, it was around 25% and in Q2FY17, the company has lowered it to 23.2%. Going ahead cost to income ratio can further improve since the overall costs and borrowing costs are coming down for the company.

**Asset quality expected to be stable going ahead:**

Despite focus on lending to the lower-middle income ( whose credit quality is relatively lower), DHFL has able to maintain descent asset quality. GNPA's continue to be within 85-1% range . For FY16, the company recorded GNPA's for 0.93%. For Q1FY17, it was around 0.98% and in recent Q2FY17 it was around 0.96%. We expect the company to maintain it around 0.9-1% range going ahead.

**Other recent highlights:**

The company has recently raised INR 14,000 Cr through the NCD's. So for future growth the company is well capitalised. The rate of NCD was also around 9.2% which was lower than earlier ones. So this will slightly help the company to lower its interest cost going ahead. Overall interest rates are expected to decline in next 2 year significantly and this will boost the demand for housing loans.

Various operational measures are taken to avoid pre-closures such as details of customers who seek a loan statement are forwarded to call centre and efforts are then made to retain the customers by reducing the lending yield, etc. Prepayment rates are seen within high ticket loans (loan size above INR50mn), and loans within Mumbai, NCR, Ahmedabad, etc. The company is committed to expand and market Dewan's products pan India. Tier 2 and 3 cities are expected to drive the growth in coming time for housing and real estate sector considering the recent government push for it and declining interest rates.

## Business Outlook and Valuation :

At the moment at current price of 269 the stock is trading at (TTM) P/E of 9.5. Going ahead we expect revenue growth of 19-20% for FY17 and FY18. Hence our expectations for net sales for FY17 and FY18 are INR 8,753 Cr and INR 10,564 Cr respectively.

Going ahead we expect PAT margins of 10-11% for next two years. Our PAT expectations for FY17 and FY18 are INR 886 Cr and INR 1,107 Cr respectively. Our EPS expectations for FY17 and FY18 are INR 30 and INR 37 respectively.

Looking at other companies in housing finance with Industry average P/E of approx 14-15 and P/B average valuations of 2-3; we believe Dewan Housing Finance Ltd at PE of 9.5 and P/B of 1.3 is very attractive. With EPS expectations of 37 for FY18 and book value of 220-25 we expect target price as **460/share** with a stop loss at 220.

## FINANCIALS:

| For the Year Ended March (INR)  | FY15A  | FY16A  | FY17E  | FY18E  |
|---------------------------------|--------|--------|--------|--------|
| <b>Net Sales (Cr)</b>           | 5,978  | 7,311  | 8,753  | 10,564 |
| <b>Loans</b>                    | 51,416 | 62,029 | 75,195 | 91,922 |
| <b>Loan Growth%</b>             | 25.9   | 20.6   | 21.2   | 22.2   |
| <b>Interest Expense (Cr)</b>    | 4,693  | 5,490  | 6,584  | 7,887  |
| <b>Profit Before Tax (Cr)</b>   | 943    | 1,102  | 1,323  | 1,652  |
| <b>Tax (Cr)</b>                 | 321    | 372    | 436    | 545    |
| <b>Profit After Tax (Cr)</b>    | 621    | 729    | 886    | 1,107  |
| <b>PAT%</b>                     | 10.3   | 9.9    | 10.1   | 10.4   |
| <b>Diluted Adj. EPS (INR)</b>   | 21.3   | 25     | 30     | 37.9   |
| <b>Shareholder's Funds (Cr)</b> | 4,635  | 5,017  | 5,684  | 6,558  |
| <b>Borrowings (Cr)</b>          | 40,525 | 51,556 | 62,408 | 75,122 |
| <b>Gross Block (Cr)</b>         | 256    | 291    | 335    | 388    |

## Key Risks and Concerns:

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- ✗ Any down turn in the housing and real estate industry or economy of a country can impact company's financials.
- ✗ Competitors' can create market share problems for the company.
- ✗ Company is open to risk of NPA management considering it lends to lower and middle class of population in tier 2 and 3 cities, if not managed properly can create troubles to the company.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk