

Dewan Housing Finance

23 August 2017

Reuters: DWNH.NS; Bloomberg: DEWH IN

Push To Affordable Housing, Despite Challenges

We had a meeting with the management of Dewan Housing Finance (DHFL) recently. In the wake of recent reforms in the housing sector, DHFL is poised to take full advantage of its position in the housing finance segment where it has carved a niche for itself in the middle income group (MIG) and lower income group (LIG) customer segments.

Assets under management or AUM growth to continue: DHFL's AUM posted 23% CAGR over FY14-FY17 and the management expects this trend to continue. The government's push to affordable housing is a major factor contributing to this growth. As a result, the company is targeting a decent annual AUM growth of 18%-20% ahead. Such a growth will be driven by higher growth in the number of loans rather than the increase in ticket size. For housing loans, the average ticket size is ~Rs1.7mn while for loan against property (LAP) the average ticket size stands at ~Rs4.4mn. The company seeks to improve its sales via a mix of brick and mortar branches as well as digital sales. Most of the home loans are sourced internally and only 15%-20% of loans come from direct sales agents or DSAs. On the other hand, LAP is majorly sourced via DSAs (~80%). DHFL's off balance sheet composition is expected to increase to 20%-25% from 14% currently.

Costs set to reduce: DHFL's cost-to-income ratio has been on a downward trajectory over the past few years and currently stands at ~25%. The management has given guidance of a further improvement in operating leverage by reducing operating expenses relating to advertising and legal charges. DHFL has also set up a centralised processing unit in order to speed up loan underwriting and improve the turnaround time (TAT). Cost of funds has also reduced by ~119bps YoY to 8.83% in FY17, driven by renegotiation of bank loans. Around 30%-40% of loans are yet to be reset which will further reduce the cost of funds. As a result, despite pressure on lending yields, the management sounded confident on holding on to its current net interest margin or NIM.

Affordable housing and RERA: As per an analysis done by DHFL, ~70-75% of its existing customers qualify for the affordable housing scheme (AFS) under the Credit Linked Subsidy Scheme (CLSS) of Pradhan Mantri Awas Yojna (PMAY). DHFL's focus on low and middle income (LMI) segment has positioned it to take advantage of the affordable housing wave. Implementation of Real Estate (Regulation and Development) Act or RERA has affected real estate sales, but the management believes that sales should pick up in a year or so. So far, only Maharashtra, Gujarat, Uttar Pradesh, and Tamil Nadu have notified RERA, and hence loan disbursement in these states will be limited to those projects which are registered under RERA with effect from 1 September 2017. Sanctions to existing loans have been given with a clause on RERA registration and compliance. Around 20%-25% of home loans sanctioned earlier are to projects under construction, and disbursement will take place only after these projects are RERA-compliant.

Valuation and outlook: As DHFL's customer profile is already geared towards the middle and lower income groups, it is well positioned to take advantage of the affordable housing scheme. The stock currently trades at a P/E of 15.4x and P/BV of 1.8x.

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Net interest income	6,674	8,879	12,564	14,806	15,066
Pre-provision profit	6,612	8,100	10,542	12,986	17,085
PAT	4,519	5,290	6,213	7,292	28,965
EPS (Rs)	35.2	41.2	42.6	25.0	29.6
BV (Rs)	252.5	278.4	318.2	171.9	255.3
P/E (x)	12.9	11.0	10.7	18.2	15.4
P/BV (x)	1.8	1.6	1.4	2.6	1.8
Gross NPAs (%)	0.7	0.8	1.0	0.9	0.9
Net NPAs (%)	-	0.5	0.7	0.6	0.6
RoA (%)*	17.1	15.5	15.1	15.1	14.2
RoE (%)*	1.6	1.3	1.3	1.2	1.2

* Adjusted for exceptional items in FY17

Source: Company, Nirmal Bang institutional Equities Research

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NOT RATED

Sector: NBFC

CMP: Rs456

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Research Analyst

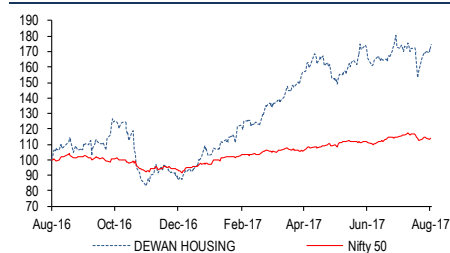
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Key Data

Current Shares O/S (mn)	313.6
Mkt Cap (Rsbn/US\$bn)	144.8/2.3
52 Wk H / L (Rs)	479/214
Daily Vol. (3M NSE Avg.)	2,417,760

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
DHFL	0.6	39.4	69.4
Nifty Index	(1.1)	9.7	13.6

Source: Bloomberg

Other highlights are as follows:

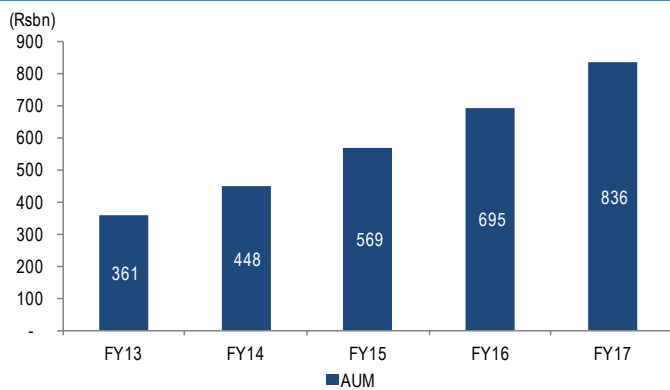
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There are 19,000 pin codes in India and DHFL has completed mapping of all pin codes for AFS and is yet to see registrations under RERA. So far, only Maharashtra, Gujarat, Uttar Pradesh, and Tamil Nadu have notified RERA and hence disbursements in these states will be limited to projects that are RERA-compliant with effect from 1 September 2017. Sanctions to existing loans have been given with a clause on RERA registration and compliance. Around 20%-25% of home loans sanctioned earlier are to projects under construction and disbursement will take place only after these projects are RERA-compliant.

While developers are experiencing a slowdown in demand, they are not witnessing customers waiting for RERA compliance.

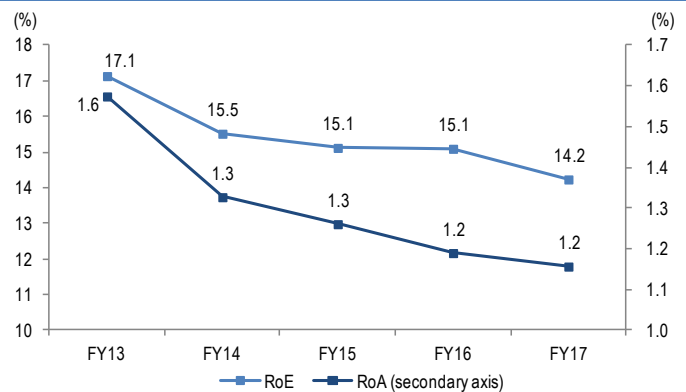
For a housing loan to be converted under CLSS, DHFL sends its claims to the National Housing Board or NHB for approval. One such claim can include many individual loans. Once a claim is approved by the NHB, and DHFL receives the subsidy amount, interest reversal to customer accounts are done on the same date. Claim turnaround time or TAT is two to three weeks. As an automated process, tenor of the housing loan comes down once the subsidy is processed. NHB has already approved one such claim made by DHFL and the second one is already under process. Claims to the NHB are sent quarterly.

Exhibit 1: AUM growth to continue



Source: Company, Nirmal Bang institutional Equities Research

Exhibit 2: Return ratios to improve with declining opex



* Adjusted for exceptional items in FY17

Source: Company, Nirmal Bang institutional Equities Research

Financials

Exhibit 3: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Interest income	37,977	46,705	57,160	69,706	81,602
Interest expense	31,303	37,826	44,596	54,900	66,536
Net interest income	6,674	8,879	12,564	14,806	15,066
Fees	2,977	3,020	2,718	3,509	7,851
Net revenues	9,651	11,900	15,283	18,314	22,918
Operating expenses	3,039	3,800	4,740	5,328	5,832
-Employee expenses	1,407	1,764	1,963	2,300	2,625
-Other expenses	1,632	2,036	2,777	3,028	3,207
Operating profit	6,612	8,100	10,542	12,986	17,085
Provisions	505	749	1,112	1,965	3,062
Exceptional items	-	-	-	-	19,694
PBT	6,107	7,351	9,430	11,022	33,718
Tax	1,588	2,061	3,218	3,730	4,754
PAT	4,519	5,290	6,213	7,292	28,965

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Share capital	1,282	1,284	1,457	2,918	3,132
Share warrants & O/S	136	163	172	1,402	74
Reserves & surplus	30,953	34,303	44,729	45,850	76,753
Net worth	32,371	35,750	46,358	50,170	79,958
Borrowings	3,22,527	3,98,782	4,94,384	6,20,863	8,32,734
Other liability & provisions	3,112	4,094	5,406	7,498	10,288
Total liabilities	3,58,009	4,38,625	5,46,148	6,78,531	9,22,980
Fixed assets	1,792	1,916	1,885	2,017	2,089
Investments	2,750	7,215	10,062	8,932	1,35,349
Loans	3,41,889	4,08,234	5,12,281	6,20,285	7,28,037
Cash	5,126	9,832	6,764	34,083	34,300
Other assets	6,453	11,429	15,156	13,213	23,205
Total assets	3,58,009	4,38,625	5,46,148	6,78,531	9,22,980
AUM	3,61,000	4,48,000	5,68,800	6,95,200	8,35,600

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

Y/E March (Rsmn)	FY13	FY14	FY15	FY16	FY17
Growth (%)					
NII growth	67.3	33.0	41.5	17.8	1.8
Pre-provision profit growth	56.7	22.5	30.2	23.2	31.6
PAT growth	47.5	17.1	17.4	17.4	297.2
Business (%)					
Advance growth	72.8	19.4	25.5	21.1	17.4
Operating efficiency (%)					
Cost-to-income	31.5	31.9	31.0	29.1	25.4
Cost-to-AUM	0.8	0.9	0.9	0.8	0.8
Spreads (%)					
Yield on assets	14.1	12.5	12.4	12.3	12.1
Cost of funds	12.2	10.5	10.0	9.8	9.2
Spread	1.9	2.0	2.4	2.5	2.9
NIMs	2.7	2.7	2.9	3.0	3.0
Capital adequacy (%)					
Tier I	11.3	11.9	16.6	16.7	14.8
Tier II	5.2	5.2	-	-	4.4
Total CAR	16.5	17.2	16.6	16.7	19.1
Asset Quality (%)					
Gross NPAs	0.7	0.8	1.0	0.9	0.9
Net NPAs	-	0.5	0.7	0.6	0.6
Provision coverage	100.0	33.9	28.7	37.0	38.2
Credit-cost	0.2	0.2	0.2	0.3	0.4
Return (%)					
RoE*	17.1	15.5	15.1	15.1	14.2
RoA*	1.6	1.3	1.3	1.2	1.2
Per share					
EPS	35.2	41.2	42.6	25.0	29.6
BV	252.5	278.4	318.2	171.9	255.3
Valuation					
P/E	12.9	11.0	10.7	18.2	15.4
P/BV	1.8	1.6	1.4	2.6	1.8

* Adjusted for exceptional items in FY17

Source: Company, Nirmal Bang Institutional Equities Research

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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