



Dewan Housing Finance Corporation Q4 FY16 Quarterly Update

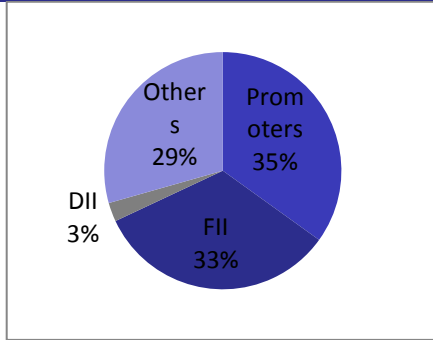
MARKET DATA

NSE TICKER	DHFL
Networth FY17E (Rs in Crs)	5,959
P/BV Ratio (FY17E) (x)	1.02
EPS (FY17E)(Rs.)	30
Market Price (Rs.)	203
P/E Ratio (FY17E) (x)	6.9
52 Week High (10/08/2015)(Rs)	260
52 Week Low (12/2/2016)(Rs)	141
Market Capitalisation (rs. Cr)	5,947

AVERAGE MONTHLY VOLUME ('000)

BSE	183.5
NSE	1,628.8

SHARE HOLDING PATTERN



RETURN

	3M	6M	12M
DHFL	33%	-5%	-5%
Sensex	11%	-1%	-6%

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In Q4 FY16, DHFL reported NII growth of 3% q-o-q (20% y-o-y) led by 5% sequential (21% y-o-y) growth in loan book. Overall, PAT grew by 2% q-o-q (18% y-o-y) to Rs. 190crs largely aided by other income which grew by 29% q-o-q (35% y-o-y) to Rs. 50crs; however there was corresponding increase in operating expenses which grew by 15% q-o-q (34% y-o-y) to Rs 150 crs.

Strong overall growth in AUM, disbursements and loan sanctioned

Strong AUM growth continues in Q4 FY16 with 5% q-o-q (22% y-o-y) growth same as in FY15. Loan book grew marginally by 5% q-o-q (21% y-o-y) to Rs. 61,882crs and securitized portfolio (off balance sheet) grew by 10% q-o-q to Rs. 7,642crs. Sanctions grew by 37% q-o-q along with disbursement which grew by 22% q-o-q (127% y-o-y). The average ticket size for the loan book increased to Rs. 14.50 lacs from Rs. 12.05 lacs in FY15, and also overall loan to value (LTV) stood at ~49% v/s 46.9% in FY15.

NIMs remained stable; guidance for maintaining spreads

Reported NIMs improved by 9bps sequentially (6bps y-o-y) to 2.96% while cost of funds declined by 61bps to 9.67% which was partly offset by moderating yields because of competitive pressure. DHFL has been continuously putting effort to replace banks borrowings with capital market instruments; banks borrowings as a % of total debt declined to 53% from 58% in FY15. Management expects to bring down banks borrowings (as a % of total debt) to 45% in next 2 years. With shift in overall borrowing mix and decline in cost of funds, management expects to maintain spreads going ahead.

Asset quality stable and PCR above 100%

DHFL lends to lower middle class where credit risk is relatively higher. However, GNPA as % of total loans remained steady at 0.93% (up 9bps q-o-q & 9bps y-o-y) which is highly commendable. Company has maintained PCR above 100% and thus NNPA continues to be nil. Credit cost (annualized) remained steady at 32bps (up 0bps q-o-q & 5bps y-o-y) as provisions were elevated following higher standard asset provisions given higher disbursements towards developer loan book. High yielding LAP and project loans as a % of total portfolio increased from 24% to 25% q-o-q. Stress in these segments remains key monitorable area.

Other Highlights

Cost to Income (CI) ratio has increased by 273bps q-o-q to 30.7% largely due to higher other expenses which mainly comprises of advertising and CSR expenses. Management guided to bring down CI ratio by 25bps in FY17E. DHFL has received Rs. 200crs from developer for the building. It expects the building to get constructed over next 2.0-2.5 yrs.

Outlook & Valuation

At CMP, DHFL is trading at P/B multiple of 1.0x FY17E and 0.9x FY18E. We maintain BUY rating with a target of Rs. 257 by FY17E. Our valuation is based on SOTP method; we have valued the core business at Rs. 220 (discounted P/B multiple of 1.1x FY18E and BV of Rs. 241) and the subsidiary DHFL Pramerica Insurance at Rs. 37(P/BV of 1x H1FY16).

Quarterly Performance:

Particulars (Rs in crs)	Q4 FY16	Q4 FY15	y-o-y	Q3 FY16	q-o-q	FY16	FY15	y-o-y
Interest Income	1,916	1,541	24%	1,846	4%	7,159	5,839	23%
Interest Expenses	1,479	1,175	26%	1,420	4%	5,490	4,460	23%
Net Interest Income	438	365	20%	426	3%	1,669	1,380	21%
Other Income	50	37	35%	39	29%	157	142	11%
Total Income	488	403	21%	466	5%	1,827	1,522	20%
Operating Expenses	150	112	34%	130	15%	525	449	17%
PPOP*	338	291	16%	335	1%	1,302	1,074	21%
Total Provisions	50	35	43%	48	4%	175	105	67%
PBT	283	250	13%	280	1%	1,102	943	17%
Taxes	139	78	77%	81	72%	373	274	36%
PAT	190	161	18%	186	2%	729	621	17%

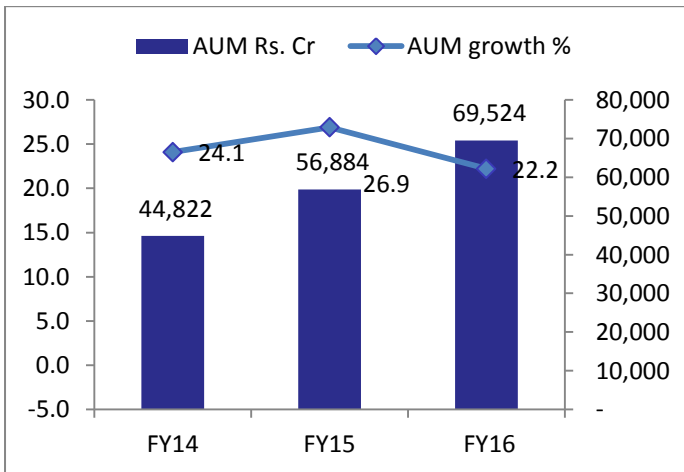


Q4 FY16 CONFERENCE CALL HIGHLIGHTS: -

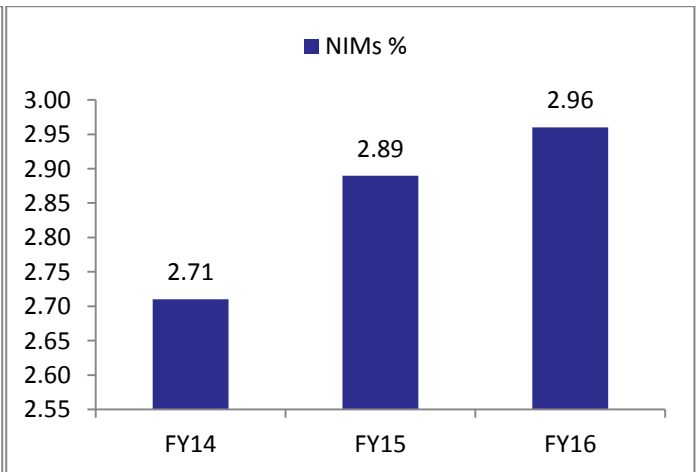
- Management guided loan book growth of ~17-19% and earnings growth of 15-20% of FY17E.
- DHFL plans to increase its developer loan book. Developer loan to be ~16-17% for short to medium term loans. DHFL is fairly confident of the developer loan book in terms of its asset quality.
- High competition is seen within all the segments. Overall yields are ~12.2%.
- Share of NCDs has increased from 28% in FY15 to 33% in FY16. This has helped DHFL to sustain its margins. Going forward, company would rely more on cheaper source of funds such as NCDs and FDs to maintain its margins. Company expects proportion of bank borrowing to decline to 40-45% in the next 2 years (from 53% in FY16).
- Segment wise cost of funds – FD – 9.52%; Capital Market – 7.95% and Bank Borrowings – 9.28%.
- Management guided 25bps reduction in cost to income ratio for FY17E.
- Other expenses were higher due to higher CSR & advertising expenses.
- Proportion of DSA to overall loan book is ~67%.

Graphs for important parameters

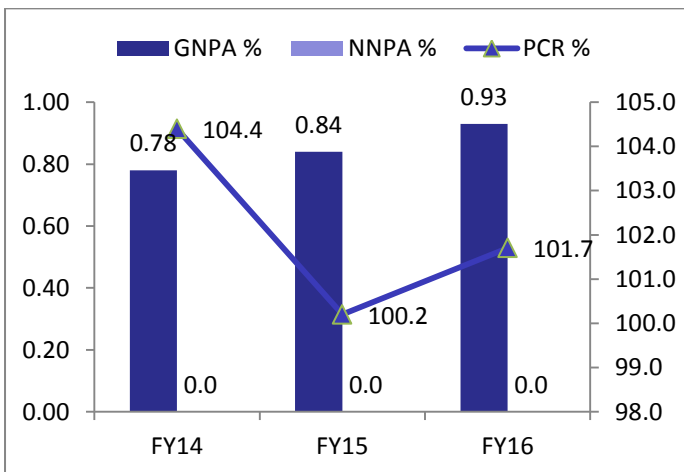
Strong AUM growth



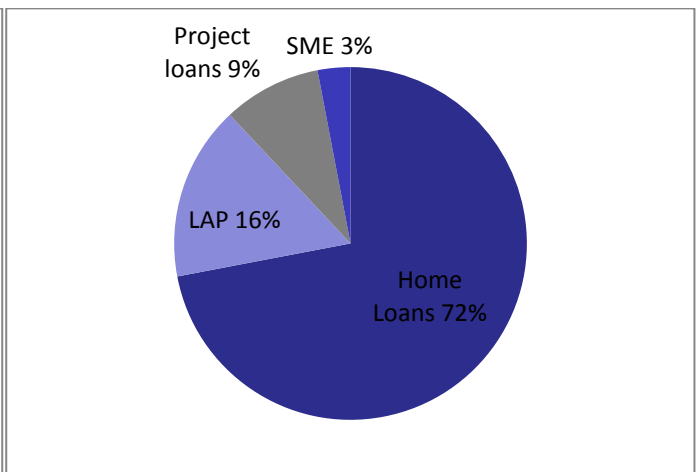
Stable NIMs



Stable Asset Quality with PCR above 100%



Portfolio composition



*Source Dimensional Securities


QUARTERLY PERFORMANCE:

Particulars (Rs in Crs)	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	% YoY
Interest Income	1,916	1,541	24%	1,846	4%	7,159	5,839	23%
Interest Expenses	1,479	1,175	26%	1,420	4%	5,490	4,460	23%
Net Interest Income	438	365	20%	426	3%	1,669	1,380	21%
Other Income	50	37	35%	39	29%	157	142	11%
Total Income	488	403	21%	466	5%	1,827	1,522	20%
Operating Expenses	150	112	34%	130	15%	525	449	17%
Employee	61	55	12%	56	9%	228	196	16%
Others	88	57	56%	74	19%	298	252	18%
Operating Profits before provisions	338	291	16%	335	1%	1,302	1,074	21%
Total Provisions	50	35	43%	48	4%	175	105	67%
PBT	283	250	13%	280	1%	1,102	943	17%
Taxes	139	78	77%	81	72%	373	274	36%
PAT	190	161	18%	186	2%	729	621	17%
Asset Quality								
GNPA	576	429	34%	496	16%	576	429	34%
GNPA %	-	-	N/A	-	N/A	-	-	N/A
NNPA %	0.9	0.8	9	0.8	9	0.9	0.8	9
PCR % Reported	101.7	100.2	150	110.79	-909	101.7	100.2	150
Credit Cost %	0.32	0.27	5	0.33	0	0.28	0.21	8
Ratios %								
Cost to Income ratio	30.7	27.8	296	27.99	273	28.75	29.47	-71
Tax Rate (%)	49.00	31.34	1766	28.81	2020	33.84	29.11	474
RoA %	1.1	1.2	-14	1.6	-49	1.2	1.3	-7
RoE %	14.7	15.3	-53	18.68	-395	15.1	15.1	-3
CAR (Basel III) %	17.03	16.47	56	15.27	176	17.03	16.47	56
Tier I %	13.3	12.46	80	11.63	163	13.26	12.46	80
Quarterly NIMs	2.96	2.90	6	2.87	9	2.96	2.89	7
Adjusted Net worth	5,419	4,636	17%	4,888	11%	5,017	4,636	8%
Adj. BV	186	318	-42%	168	11%	172	318	-46%
Balance sheet								
Capital	292	146	100%	292	0%	292	146	100%
Net Worth	5,419	4,636	17%	4,888	11%	5,017	4,636	8%
FV	10	10		10		10	10	
Loan Disbursement	7,821	3,441	127%	6,428	22%	24,202	19,822	22%
Loan Sanctioned	12,774	3,664	249%	9,308	37%	37,608	28,497	32%
Loan Outstanding	61,882	51,040	21%	58,992	5%	61,882	51,040	21%
AUM	69,524	56,884	22%	65,962	5%	69,524	56,884	22%
Borrowings	61,104	48,921	25%	59,966	2%	61,104	48,921	25%

Source: Company, Dimensional Securities

**RoA Tree Analysis:**

Particulars	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	FY16	FY15
Interest Income	11.9%	13.3%	12.7%	13.3%	4.8%	11.7%	11.9%
Interest Expenses	9.2%	10.2%	9.8%	10.0%	3.6%	9.0%	9.1%
Net Interest Income	2.7%	3.1%	2.9%	3.2%	1.2%	2.7%	2.8%
Other Income	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%
Total Income	3.0%	3.3%	3.3%	3.4%	1.5%	3.0%	3.1%
Operating Expenses	0.9%	0.9%	0.9%	1.0%	0.6%	0.9%	0.9%
Employee	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Others	0.5%	0.5%	0.5%	0.5%	0.1%	0.5%	0.5%
Operating Profits before provisions	2.1%	2.4%	2.4%	2.4%	0.9%	2.1%	2.2%
Depreciation	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%
Total Provisions	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
PBT	1.8%	2.0%	2.0%	2.1%	0.6%	1.8%	1.9%
Taxes	0.9%	0.6%	0.5%	0.7%	0.6%	0.6%	0.6%
PAT (RoA)	1.2%	1.3%	1.3%	1.4%	-0.2%	1.2%	1.3%
Average Assets/ Average Equity	12.84	12.83	12.83	12.00	12.00	12.69	12.00
RoE	15.1%	17.1%	16.6%	16.9%	-1.9%	15.1%	15.1%

Source: Company, Dimensional Securities

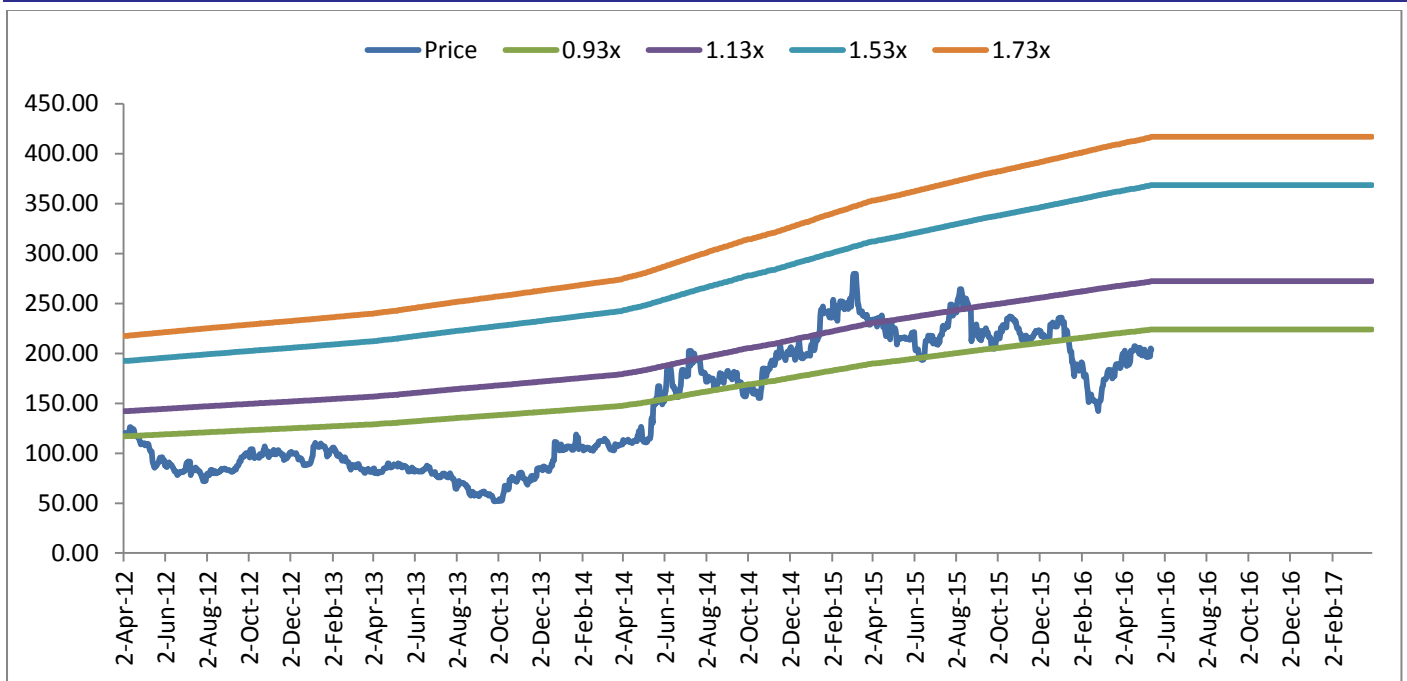


OUTLOOK & VALUATION: -

HFCs including Dewan Housing continue to benefit from home loan demand from smaller cities and towns despite broad slowdown in metro. Given the under penetration and strong presence in the smaller cities and towns which continues to see strong housing demand, we expect loan book to grow at 18% CAGR (FY16-18E) with RoA and RoE to improve towards 1.2% and 16% by FY18E.

At CMP, DHFL is trading at P/B multiple of 1.0x FY17E and 0.9x FY18E. We maintain BUY rating with a target of Rs. 257 by FY17E. Our valuation is based on SOTP method; we have valued the core business at Rs. 220 (discounted P/B multiple of 1x FY18E BV of Rs. 241 and ROE of 16%) and the subsidiary DHFL Pramerica Insurance at Rs. 37(P/BV of 1x H1FY16).

P/BV (Forward)



Source: Dimensional Securities

**PROFIT & LOSS STATEMENT:**

Particulars	FY14	FY15	FY16	FY17E	FY18E
Interest Earned	4,738	5,793	7,104	8,387	9,731
Interest expended	3,783	4,460	5,490	6,485	7,480
Net Interest Income	955	1,333	1,615	1,902	2,251
Other Income	230	189	212	226	249
NII+ Other Inc.	1,185	1,522	1,827	2,128	2,500
Total Expenses	380	474	550	607	701
PPOP*	805	1,048	1,277	1,521	1,799
Provisions	70	105	175	190	225
PBT	735	943	1,102	1,331	1,574
Provision for Tax	206	322	373	460	545
PAT	529	621	729	870	1,029
EPS	21	21	25	30	35

*Source: Dimensional Securities

BALANCE SHEET:

Particulars	FY14	FY15	FY16	FY17E	FY18E
EQUITY AND LIABILITIES					
Share Capital	128	146	292	292	292
Total Reserves	3,430	4,473	4,583	5,338	6,221
Shareholder's Funds	3,575	4,636	5,017	5,959	7,030
Long-Term Borrowings	32,295	36,889	45,119	59,368	69,576
Def. Tax Assets / Liabilities	1	66	91	91	91
Long Term Provisions	331	430	583	773	999
Total Non-Current Liabilities	32,629	37,386	45,794	60,233	70,666
Current Liabilities					
Other Current Liabilities	5,988	8,920	10,530	10,579	12,300
Short Term Borrowings	1,595	3,637	6,437	2,146	2,515
Short Term Provisions	75	36	71	71	71
Total Current Liabilities	7,658	12,593	17,042	12,800	14,891
Total Liabilities	43,863	54,615	67,853	78,991	92,587
ASSETS					
Non-Current Assets					
Housing Loans	38,601	48,695	58,427	69,581	82,332
Net Block	192	188	202	471	222
Long Term Investment	446	611	720	1,461	1,864
Long Term Loans & Advances	50	95	267	267	267
Other Non-Current Assets	195	202	214	230	255
Total Non-Current Assets	40,279	50,586	60,407	72,009	84,940
Current Assets					
Currents Investments	275	396	173	269	269
Trade Receivables	77	192	201	201	201
Cash and Bank	983	676	3,408	1,984	1,832
Other Current Assets	25	43	61	61	61
Short Term Loans & Advances	2,222	2,722	3,602	4,466	5,284
Total Current Assets	3,583	4,029	7,446	6,982	7,647
Total Assets	43,863	54,615	67,853	78,991	92,587

*Source: Dimensional Securities

**RATIO ANALYSIS:**

Particulars	FY14	FY15	FY16	FY17E	FY18E
Operational Ratios					
EPS	20	21	25	30	35
Adj. Book Value*	131	153	168	200	237
DPS	8.0	2.9	3.4	3.4	4.3
Spread Analysis					
Yield on Loans	12.4%	12.3%	12.3%	12.1%	11.9%
Cost of Borrowings	10.6%	10.1%	10.0%	9.8%	9.6%
Interest Spread	1.8%	2.2%	2.4%	2.4%	2.3%
NIM	2.5%	2.8%	2.8%	2.8%	2.7%
Profitability Ratios					
RoE	15.5%	16.8%	15%	16%	16%
RoA	1.3%	1.3%	1.2%	1.2%	1.2%
Asset Quality Ratios					
G.NPA %	0.8%	1.0%	0.9%	1.1%	1.3%
N.NPA %	0.0%	0.1%	0.0%	0.0%	0.1%
Efficiency Ratios					
Int. Exp./Int. Earned	80%	77%	77%	77%	77%
Op. Exp/Net Inc.	32%	31%	30%	29%	28%
Debt / Equity	10.8	10.4	11.5	11.7	11.7
Valuation Ratios					
P/E (x)	4.1	5.5	7.9	6.9	5.8
P/ABV* (x)	0.32	0.38	1.17	1.02	0.86
Dividend Yield	9.6%	2.5%	1.7%	1.7%	2.1%

Source: Dimensional Securities

*Note: Adj. Book Value – Networth – Capital reserve



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