

Dewan Housing Finance Corporation.

BSE: 511072 | Sector: Housing Finance

28 June 2016

vScore : 60 | Rating: **Buy**
 CMP : Rs. 197 | Target Price: Rs. 250

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 2015, DHFL had 51, 163 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

Q4FY16 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 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
DIVID YIELD %		1.5
52 WK HI/LOW		267/140
NSE CODE		DHFL
MARKET CAP	RS	5,347 Cr

SHAREHOLDING PATTERN

PROMOTERS	-	34.9%
BANKS, MFs & DIIIs	-	2.02%
FIIIs	-	35.4%
PUBLIC	-	27.6%

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 :

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.

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 9MFY16. Other expense during the quarter was higher on account of payment to Shahrukh Khan for advertisement and marketing expense. Going forward, absolute other expenses (such as legal expenses, etc) would be improved from FY17. Management expects to bring down its cost to income ratio by 100 to 150bps in future.

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 80-85bps (84bps in Q3FY16 versus 81bps in Q2FY16). Provisions were elevated following higher standard asset provisions given higher disbursements towards Loan against property segment. Given lower dependence on marketing intermediaries and stringent risk management, we expect no major hiccups in asset quality going ahead.

Other recent highlights:

The company proposes to issue equity warrants of INR500 crores to promoters. Issuance of equity warrants will be concluded before March 31, 2016 – thus 25% of monies towards equity warrant will come in before March 31, 2016. Balance 75% would come within 18 months of issuance of warrants. Incremental equity is sought to support growth and is a requirement of rating agencies

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.

Good demand for properties seen in low and middle income segment i.e. precisely Dewan's loan segment. 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.

Business Outlook and Valuation :

At the moment at current price of 198 the stock is trading at (TTM) P/E of 8. 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 8,433 Crs and INR 10,141 Crs respectively.

Going ahead we expect PAT margins of 10-11% for next two years. Our PAT expectations for FY16, FY17 and FY18 are INR 727 Crs, INR 876 Crs and INR 1,087 Crs respectively. Our EPS expectations for FY16, 17 and 18 are INR 25, INR 30 and INR 37 respectively.

Looking at other companies in pharmaceutical industry with Industry average P/E of approx 14-15; we believe Dewan Housing Finance at PE of 8 is very attractive. With EPS of 30 for FY17 we expect target price as **250/share** with a stop loss at 175.

FINANCIALS:

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

Key Risks and Concerns:

- ✗ 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