

Company's Snapshot:

DHFL was established in 1984 by late Shri Rajesh Kumar Wadhawan. The company is a dominant player in niche markets (tier II & III cities) with strong foothold in the limited competition low and middle income (LMI) segment. After the acquisition and merger of First Blue Home Finance, DHFL also now caters to the middle and upper middle income group. The company operates in the mortgage financing business where the growth and asset quality have remained healthy over the past few years.

The company is India's third largest private sector housing finance company with an AUM of INR 69,524cr. The company has a well diversified loan book with housing loans accounting for the largest share at 77%, followed by LAP (16%), project loans (5%) and loans to SMEs (2%).

The company has emerged as a one-stop-shop for its customers' financial needs, extending beyond home loans. The company has a presence in the education loans, life insurance, and mutual funds segments through Avanse Education Loans, DHFL Pramerica Life Insurance and DHFL Pramerica Asset Managers Pvt Ltd, respectively.

DHFL currently has a strong distribution network with pan-India presence and 2 international representative offices in the UK and the UAE. It operates via a large distribution network of 362 company operated centers and 357 locations through alliance partners across India with the distribution network focused primarily on tier II and tier III locations.

Key Financials:

| Particular | FY2015 | FY2016 | FY2017E | FY2018E |
|------------|--------|--------|---------|---------|
| NII | 1,256 | 1,664 | 2,050 | 2,500 |
| % chg | 41.5 | 32.5 | 23.2 | 21.9 |
| Net profit | 620 | 729 | 866 | 1,084 |
| % chg | 17.8 | 17s.7 | 18.5 | 25.3 |
| NIM (%) | 2.8 | 2.9 | 2.9 | 2.9 |
| EPS | 21.3 | 24.9 | 29.7 | 34.6 |
| P/E (x) | 9.2 | 7.9 | 6.6 | 5.7 |
| P/ABV (x) | 1.4 | 1.2 | 1.1 | 0.9 |
| RoA (%) | 1.3 | 1.2 | 1.1 | 1.2 |
| RoE (%) | 15.1 | 14.7 | 15.4 | 16.2 |

09/06/2016

Sector: HFC

STOCK SUMMARY

Particular

| | |
|-------------------------|---------|
| CMP (INR) | 212 |
| Target Price (INR) | 270 |
| Potential Upside | 27.35% |
| O/S No. of Shares (cr.) | 29.17 |
| Market Cap. (cr.) | 5735 |
| Equity Cap. (cr.) | 145.68 |
| 52 Week High | 1267.85 |
| 52 Week Low | 140.30 |
| Face Value | 10 |
| NSE Code | DHFL |
| BSE Code | 511072 |

SHARE HOLDING PATTERN

| Particular | Mar-16 |
|------------------|-------------|
| Promoters | 34.9% |
| Public (FII+DII) | 65.1% |
| Others | 0% |
| TOTAL | 100% |

STOCK PERFORMANCE



FINANCIAL SNAPSHOT

Dewan Housing Finance Ltd. in its Q4 reported a 17% growth in PAT standing at INR 190cr. The loan growth remained decent & the company reported a 17.3% growth in loans during the quarter. The AUM grew by 22% YoY standing at INR 69524cr, which also includes securitized assets. Sanctions and disbursements had a growth of 32% & 22% respectively & remained strong. Total sanctions in FY2016 stood at 37,606cr for the period.

Project Loans: Standing Ahead of Others:

The project loans are growing faster than other loans. For the FY16 Loan to Individuals grew by 17% which is 72% of the AUM. The company is aggressively expanding its non-individual loan book, primarily comprising of project loans grown by 83% and accounted for 9% of AUM. The management intends to take it to 16-17% of AUM over next few years. Although the project loans are looking risky, the low ticket size of 25cr and higher yield on project loans should be taken care of.

Stable Asset Quality:

The company is been able to maintain a stable asset quality over last few quarters with Gross NPA's at .93% as against .95% in Q4FY15. The slippage resulted in stable provisioning at INR 50cr as against INR 48cr. On a YoY basis, the provisions are 43% higher. However, the project loans are standing at growth of 83%, the provisioning requirements are high, and this does not seem to be a cause of concern. NPA from the individual loan segment stood at 0.74% while that from the non-individual segment stood at 1.2% (LAP, Project Loans and SME combined), we don't expect any deterioration in the asset quality in the near term.

Margins as well as return ratios likely to remain stable:

Though yield has come down, the overall cost of funds has also come down accordingly and hence DHFL has been able to improve its NIM for FY2016 to 2.96% against 2.85% in FY2015. With rising share of project loans the company should be able to retain its NIM above 2.9% and hence deliver ROA of 1.2% and ROE of 16% by FY2018. DHFL also received a refund of INR 250cr from a developer after a change in the latter's a construction plan who now expects to complete the construction in 2-3 years. The release of funds and completion of the building would be a positive move.

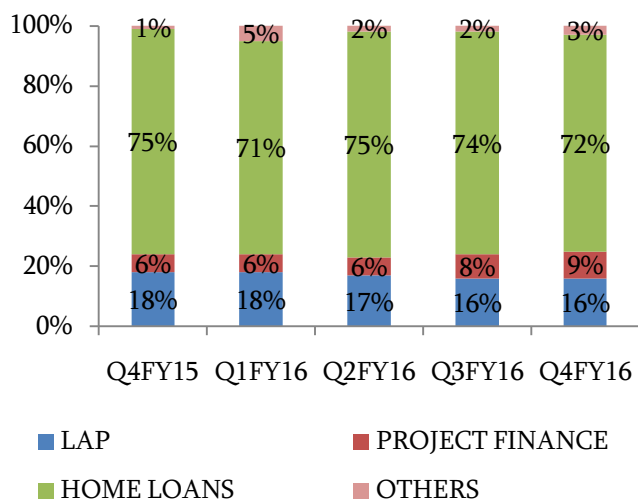
Valuation Outlook:

We expect that the company is going to have a healthy loan book CAGR of 21% over FY2015-18E, which is likely to be translated to earnings CAGR of 22% over the same period. The stock currently trading at 0.9x FY2018E ABV. We recommend BUY on the stock with a target price of INR 270.

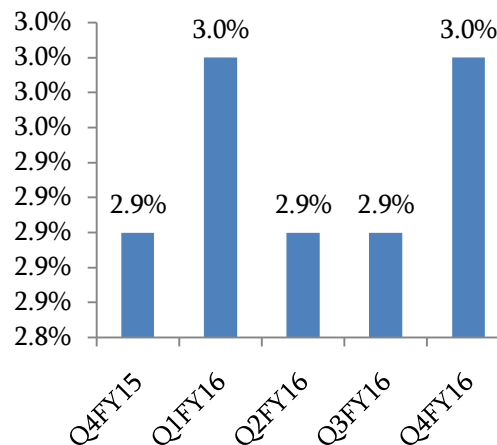
Standalone Performance:

| Particulars | 4QFY16 | 3QFY16 | % chg (qoq) | 4QFY15 | % chg (yoy) | FY2016 | FY2015 | % chg |
|---------------------|--------|--------|-------------|--------|-------------|--------|--------|--------|
| Interest earned | 1,964 | 1,884 | 4 | 1,581 | 24 | 7,312 | 5,979 | 22 |
| Interest expenses | 1,479 | 1,420 | 4.1 | 1,175 | 25.8 | 5,490 | 4,460 | 23.1 |
| Net interest income | 486 | 465 | 4.6 | 405 | 19.9 | 1,822 | 1,519 | 19.9 |
| Non-interest income | 2 | 1 | 117.1 | 2 | 24.6 | 5 | 3 | 82.4 |
| Operating income | 488 | 466 | 4.8 | 407 | 19.9 | 1,827 | 1,522 | 20.0 |
| Operating expenses | 155 | 137 | 13.0 | 121 | 28.1 | 550 | 474 | 15.9 |
| Pre-prov. profit | 333 | 328 | 1.4 | 286 | 16.4 | 1,277 | 1,048 | 21.9 |
| Provisions & cont. | 50 | 48 | 4.2 | 35 | 42.9 | 175 | 105 | 66.7 |
| PBT | 283 | 280 | 0.9 | 251 | 12.7 | 1,102 | 943 | 16.9 |
| Prov. for taxes | 93 | 95 | (1.2) | 89 | 5.2 | 373 | 322 | 15.9 |
| PAT | 190 | 186 | 2.0 | 162 | 16.9 | 729 | 621 | 17.4 |
| EPS | 13.0 | 12.7 | 2.0 | 22.3 | (41.7) | 50.0 | 85.3 | (41.4) |

Loan Mix



NIM Growing Healthy



Financials

Income Statement (Standalone)

| Particular | FY2013 | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|----------------------|--------|--------|--------|--------|---------|---------|
| NII | 678 | 888 | 1,256 | 1,664 | 2,050 | 2,500 |
| YoY Growth(%) | 70.0 | 30.9 | 41.5 | 32.5 | 23.2 | 21.9 |
| Other Income | 280 | 296 | 265 | 164 | 175 | 188 |
| YoY Growth (%) | 11.7 | 5.8 | (10.5) | (38.3) | 7.1 | 7.4 |
| Operating Income | 958 | 1,184 | 1,522 | 1,828 | 2,225 | 2,688 |
| YoY Growth (%) | 47.5 | 23.6 | 28.5 | 20.1 | 21.7 | 20.8 |
| Operating Expenses | 304 | 384 | 480 | 550 | 637 | 731 |
| YoY Growth (%) | 22.3 | 26.2 | 25.2 | 14.5 | 15.8 | 14.7 |
| Pre Provision Profit | 654 | 801 | 1,041 | 1,278 | 1,588 | 1,957 |
| YoY Growth (%) | 63.1 | 22.4 | 30.1 | 22.7 | 24.3 | 23.2 |
| Prov. & Cont. | 45 | 66 | 99 | 175 | 274 | 311 |
| YoY Growth (%) | 89.9 | 47.7 | 48.7 | 77.4 | 56.2 | 13.5 |
| Profit Before Tax | 609 | 734 | 943 | 1,102 | 1,314 | 1,646 |
| YoY Growth (%) | 61.4 | 20.5 | 28.4 | 16.9 | 19.2 | 25.3 |
| Prov. for Taxation | 159 | 206 | 322 | 373 | 449 | 562 |
| as a % of PBT | 26.1 | 28.1 | 34.1 | 33.8 | 34.1 | 34.1 |
| PAT | 459 | 527 | 620 | 729 | 866 | 1,084 |
| YoY Growth (%) | 60.9 | 14.8 | 17.8 | 17.6 | 18.7 | 25.3 |

Balance Sheet (Standalone)

| Particular | FY2013 | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Share Capital | 128 | 128 | 146 | 292 | 292 | 313 |
| Reserve & Surplus | 3,109 | 3,447 | 4,490 | 4,725 | 5,456 | 6,850 |
| Loan Funds | 27,441 | 33,890 | 40,526 | 49,800 | 61,730 | 76,519 |
| Growth (%) | 61.9 | 23.5 | 19.6 | 22.9 | 24.0 | 24.0 |
| Other Liab. & Prov. | 5,172 | 6,465 | 9,557 | 13,115 | 15,400 | 18,246 |
| Total Liabilities | 35,850 | 43,930 | 54,718 | 67,933 | 82,878 | 1,01,928 |
| Investments | 275 | 721 | 1,006 | 1,249 | 1,524 | 4,080 |
| Advances | 32,403 | 38,651 | 48,789 | 60,572 | 73,898 | 88,677 |
| Growth (%) | 77.5 | 19.3 | 26.2 | 24.2 | 22.0 | 20.0 |
| Fixed Assets | 438 | 988 | 985 | 1,222 | 1,491 | 1,834 |
| Other Assets | 2,735 | 3,569 | 3,938 | 4,889 | 5,965 | 7,336 |
| Total Assets | 35,850 | 43,930 | 54,718 | 67,933 | 82,878 | 1,01,928 |

Ratio Analysis (Standalone)

| Y/E March | FY2013 | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|---------------------------------|--------|--------|--------|--------|---------|---------|
| Profitability ratios (%) | | | | | | |
| NIMs | 2.6 | 2.4 | 2.8 | 2.9 | 2.9 | 2.9 |
| Cost to Income Ratio | 31.7 | 32.4 | 31.6 | 30.1 | 28.6 | 27.2 |
| RoA | 1.6 | 1.3 | 1.3 | 1.2 | 1.1 | 1.2 |
| RoE | 17.4 | 15.5 | 15.1 | 15.1 | 16.1 | 16.8 |
| Asset Quality (%) | | | | | | |
| Gross NPAs | 0.73 | 0.8 | 1.0 | 1.1 | 1.2 | 1.3 |
| Net NPAs | 0.48 | 0.5 | 0.7 | 0.8 | 0.8 | 0.8 |
| Provision Coverage | 34.2 | 33.5 | 28.7 | 31.5 | 33.1 | 38.6 |
| Per Share Data | | | | | | |
| EPS | 17.9 | 20.5 | 21.3 | 24.9 | 29.7 | 34.6 |
| ABVPS | 118.7 | 129.0 | 143.7 | 162.0 | 184.0 | 215.3 |
| DPS | 1.0 | 1.6 | 1.1 | 0.6 | 0.8 | 0.9 |
| Valuation Ratios | | | | | | |
| PER (x) | 11.0 | 9.6 | 9.2 | 7.9 | 6.6 | 5.7 |
| P/ABVPS (x) | 1.7 | 1.6 | 1.4 | 1.3 | 1.1 | 0.9 |
| Dividend Yield | 0.5 | 0.8 | 0.5 | 0.3 | 0.4 | 0.4 |
| DuPont Analysis | | | | | | |
| NII | 2.4 | 2.2 | 2.5 | 2.7 | 2.7 | 2.7 |
| (-) Prov. Exp. | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | 0.3 |
| Adj. NII | 2.2 | 2.1 | 2.3 | 2.4 | 2.4 | 2.4 |
| Treasury | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Int. Sens. Inc. | 2.2 | 2.1 | 2.4 | 2.4 | 2.4 | 2.4 |
| Other Inc. | 0.9 | 0.7 | 0.5 | 0.3 | 0.2 | 0.2 |
| Op. Inc. | 3.2 | 2.8 | 2.9 | 2.7 | 2.6 | 2.6 |
| Opex | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |
| PBT | 2.1 | 1.8 | 1.9 | 1.8 | 1.7 | 1.8 |
| Taxes | 0.6 | 0.5 | 0.7 | 0.6 | 0.6 | 0.6 |
| RoA | 1.6 | 1.3 | 1.3 | 1.2 | 1.1 | 1.2 |
| Leverage | 10.9 | 11.7 | 12.0 | 12.7 | 14.0 | 14.3 |
| RoE | 17.1 | 15.5 | 15.1 | 15.1 | 16.1 | 16.8 |

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