

Dewan Housing Finance (DEWH IN)

Strong loan growth and cost efficiency drives profits

INDIA | FINANCIAL | Quarterly Update

17 October 2017

Top takeaways from Q2Y18

- ✓ DHFL reported strong performance with PAT of Rs 2.9bn (+26% yoy) driven by strong NII growth, fee growth, and decline in cost-income ratio.
- ✓ NII at Rs 6bn was driven by 25% growth in loan book and stable NIM at 3.05%.
- ✓ Loan growth at 24.6% was marginally above expectation, primarily driven by project loans / LAP 137% / 37%, while individual loan growth was slightly moderate at 8%.
- ✓ Opex growth was moderate at 21.4% yoy due to lower than expected growth in other opex. Hence, Cost-Income ratio at 23% declined 336bps yoy.
- ✓ Asset quality continued to remain stable with GNPA at 0.96%, while PCR further improvement to 107.4% (+490 bps qoq).

Key highlights:

- NIM was stable at 3.05% as decline in yields (-46 bps yoy to 12.7%), was offset by decline in cost of funds (-70 bps qoq to 8.63%). The share of LAP, project loans and SME improved to 36.2% (+980bps yoy) which is providing cushion to yields.
- Disbursement at Rs 99.5bn (+51% yoy), sanctions were at Rs 142bn (+68.3% yoy).
- Borrowings grew 10.8% yoy, while the borrowing mix broadly remained unchanged (bank borrowings at 43%, NCDs/CPS at 40%).

Management comments / concall takeaways

- Disbursements – home loans Rs 53bn, LAP Rs 24.7bn, project loans Rs 16.3bn and SME Rs 55.4bn.
- Significant part of incremental home loans were from affordable housing, as on August 6000 cases have been pending at NHB involving a subsidy of Rs 1bn.
- Growth in non-interest income was driven by increase in processing fee from Rs 260 mn to Rs 610mn and increase in insurance commission from Rs 80mn to Rs 250mn.
- Average ticket size in LAP is Rs 4.5mn with yields at 11.5-11.7%, will cap LAP to 20% of loan book. Average ticket size of project loans at 800-900mn with yields at 16%.
- FY18 guidance- loan growth at 20% and disbursements at 30% yoy.

Outlook and valuation: DHFL is in a good position to capture impending growth in affordable housing. Its home-loan segment is largely tilted towards this segment, which, coupled with improvement in margins and improvement in cost efficiency, will improve return ratios. We expect earnings CAGR of 25% over FY17-19 to translate into FY18/19 RoA of 1.2%/1.3%. At CMP, the stock trades at 2.1x/1.8x FY18/19 book value of Rs 288/329. We maintain BUY with a target (SOTP) of Rs 655. We value the housing finance business at 2x FY19 BPS of Rs 321 (net of investment in subsidiary of Rs 5 per share) and ascribe a per-share value of Rs 15 to various subsidiaries.

BUY (Maintain)

CMP RS 592 / TARGET RS 655 (+11%)

COMPANY DATA

O/S SHARES (MN) :	314
MARKET CAP (RSBN) :	158
MARKET CAP (USDBN) :	2.5
52 - WK HI/LO (RS) :	570 / 214
LIQUIDITY 3M (USDMN) :	18.8
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 17	Mar 17	Dec 16
PROMOTERS :	39.2	39.3	39.3
FII / NRI :	25.0	25.3	26.4
FI / MF :	6.9	7.2	6.0
NON PRO :	7.3	7.7	7.5
PUBLIC & OTHERS :	21.5	20.6	20.9

Key Financials

Rs mn	FY17	FY18E	FY19E
Net Profit	9,270	11,423	14,462
% growth	27.1	23.2	26.6
EPS (Rs)	29.6	36.5	46.2
BVPS (Rs)	255.3	287.9	328.5
ROE (%)	14.2	13.4	15.0
ROA (%)	1.2	1.2	1.3
P/E (x)	20.0	16.2	12.8
P/BV (x)	2.3	2.1	1.8

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY18E	FY19E	FY18E	FY19E
NII	23.5	28.0	0	0
PPP	19.8	24.2	0	0
Core PAT	11.4	14.4	0	0
EPS (Rs)	36.5	46.2	0	0

Manish Agarwalla, Paresh Jain
Pradeep Agrawal,

(Rs bn)	Q2FY18	Q2FY17	yoy %	Q1FY18	qoq %	Vs. exp.	Comments
Net interest income	6006	4926	21.9	5661	6.1	6008	NII growth led by 25% growth in loan book and stable NIM
NIM (%)	3.1	3.1	0	3.1	0	3.1	Decline in yields was offset by decline in cost of funds
Disbursement	99497	66085	50.6	82369	20.8		Home loans Rs 53bn, LAP Rs 24bn, project loans Rs 16bn, and SME Rs 55bn
Loan	813901	653460	24.6	762200	6.8	784152	Growth driven by projects loans and LAP at 136% and 97% respectively
Individual	599353	553641	8.3	577972	3.7		Individual loan comprises of 63.7% of loan book (73.6% in Q1FY18)
LAP	167480	122613	36.6	146478	14.3		LAP comprises of 17.8% of loan book
Project loans	173126	75975	127.9	157950	9.6		Project loan comprises of 15.1% of loan book
Borrowings	867150	782420	10.8	857800	1.1	891959	40% of borrowing comprises of NCDs/CPs, bank borrowing comprises of 43%
Banks (%)	43.0	44.0	(100 bps)	44.0	(100 bps)		Weighted average cost of DCM is at 8.63%, Cost of bank borrowing at 8.64%
Operating expenses	1698	1398	21.4	1570	8.1	1800	Employee expenses grew 32.8% yoy, other opex grew 13.2%
Cost to income ratio (%)	23.0	26.4	(336 bps)	23.4	(37 bps)		C-I ratio has been showing improving trend
Provision	1070	450	137.8	830	28.9	850	
PBT	4341	3522.2	23.2	3,809	14.0	3983	
tax	1408	1196	17.7	1205	16.9	1250	
PAT	2933	2326	26.1	2605	12.6	2733	Strong growth in Net profit driven by NII and lower opex
GNPA %	1.0	1.0	1 bps	1.0	(1 bps)		
NNPA %	0	0	0	0	0		PCR at 107.4%

Q2FY18 results

Rs mn	Q2FY18	Q2FY17	Q1FY18	yoy (%)	qoq (%)
Interest income	25,040	21,233	23,530	17.9	6.4
Interest expenses	19034	16307	17869	16.7	6.5
Net Interest Income	6,006	4,926	5,661	21.9	6.1
NIM (%)	3.05%	3.05%	3.05%	0.0	0.0
Other Income	1103	444	548	148.2	101.3
Total Income	7,108	5,371	6,209	32.4	14.5
Operating Expenses	1698	1398	1570	21.4	8.1
Cost/Income (%)	23	26.36	23.37	-3.4	-0.4
Pre Provision Profits	5,411	3,972	4,639	36.2	16.6
Provisions & contingencies	1070	450	830	137.8	28.9
Profit before tax	4,341	3,522	3,809	23.2	14.0
Provision for taxes	1408	1196	1205	17.7	16.9
% of PBT	32.4	34.0	31.6	-1.5	0.8
Profit after tax	2,933	2,326	2,605	26.1	12.6
EPS (Rs)	9.4	8.0	8.3	17.4	12.5
Advances	813900.9	653460	762200	24.6	6.8
Borrowings	867150	782420	857800	10.8	1.1
Disbursements	99497	66085	82369	50.6	20.8
Sanctions	142010	84370	108628	68.3	30.7
Gross NPAs	7813	6208	7393	25.9	5.7
Gross NPAs (%)	0.96	0.95	0.97	0.01	-0.01
Net NPAs (%)	0	0	0	0.00	0.00

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17*	FY18e	FY19e
Interest income	71,378	86,081	96,959	1,11,859
Interest expenses	54,900	66,536	73,473	83,845
NII	16,478	19,544	23,486	28,015
Other income	1,789	22,186	2,730	3,141
Total income	18,267	41,731	26,216	31,156
Employee Expenses	2,276	2,625	2,914	3,205
Other Expenses	3,219	3,207	3,456	3,712
Operating expenses	5,495	5,832	6,370	6,917
PPP	12,772	35,898	19,846	24,239
Provisions	1,750	2,180	2,795	2,653
Pre tax profit	11,022	33,718	17,051	21,586
Tax expense	3,730	4,754	5,627	7,124
PAT	7,292	9,270	11,423	14,462

*PAT adjusted for profit on sale of insurance business

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17	FY18e	FY19e
Cash & Bank Balances	34,083	34,300	42,875	53,594
Loans & Advances	6,17,750	7,20,962	8,46,374	9,97,262
Investments	8,932	1,35,349	1,32,559	1,54,832
Fixed Assets	7,805	8,427	7,163	6,088
Other Assets	9,961	23,942	26,662	29,702
Total assets	6,78,531	9,22,980	10,55,633	12,41,478
Share capital	2,918	3,132	3,132	3,132
Reserves & Surplus	46,002	76,827	87,017	99,745
Networth	50,170	79,958	90,148	1,02,876
Borrowings	6,10,496	8,12,645	9,31,180	11,00,212
Other liabilities	955	3,139	4,271	5,703
Provision	16,911	27,238	30,033	32,686
Total liabilities	6,78,531	9,22,980	10,55,633	12,41,478

Source: Company, PhillipCapital India Research Estimates

Valuation Ratios

	FY16	FY17	FY18e	FY19e
Per share data				
No. of shares, mn	291.8	313.2	313.2	313.2
EPS	25.0	29.6	36.5	46.2
BV	171.9	255.3	287.9	328.5
Adj BVPS	163.3	246.0	276.7	314.5
DPS	2.0	4.0	5.0	6.0
Growth ratios				
Advances	21.0	16.7	17.4	17.8
Borrowings	24.9	33.1	14.6	18.2
NII	23.6	18.6	20.2	19.3
PPP	16.9	205.9	(49.4)	26.6
PAT	17.4	27.1	23.2	26.6
Margins				
Yield on funds	11.7	10.7	9.8	9.7
Cost of deposits	10.0	9.4	8.4	8.3
Spreads	1.7	1.4	1.4	1.5
NIMs	2.8	2.5	2.5	2.5
Cost ratios				
Cost to income	30.1	26.5	24.3	22.2
Cost to average assets	0.9	0.7	0.6	0.6
Return ratios				
RoA	1.2	1.2	1.2	1.3
RoE	15.1	14.2	13.4	15.0
Valuations				
P/E	22.3	18.9	15.3	12.1
P/BV	3.2	2.2	1.9	1.7
Asset quality & CRAR				
GNPA	0.9	0.9	1.0	1.1
NNPA	0.6	0.6	0.6	0.6
Provision coverage Ratio	37.0	38.2	42.9	44.9
Tier 1	13.0	14.8	14.4	13.9
CRAR	16.7	19.1	16.7	15.8

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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