

Background & Business

Incorporated in 1984, DHFL was 2nd Housing Finance Co to be established in India with singular objective of providing affordable housing finance to lower & middle income groups in semi-urban, rural India. DHFL is currently largest player in LMI strata in India with AUM of Rs. 785bn. It is the 2nd largest private sector HFC in India after HDFC Ltd. (AUM Rs. 3.4tn). DHFL is owned by Wadhawan family through the holding company, Wadhawan Global Capital Pvt Ltd (37.38% stake). Total promoter holding in DHFL is 39.30% out of which 37.38% is pledged. DHFL offers 2 types of loans – **Housing Loans (85% loan book)** & **Non-Housing Loans (15%)**. Within housing loan category, it offers loans for various purposes such as purchase of new house, purchase of resale house, self construction, etc.. In non-housing loan category, DHFL offers LAP, lease rental financing, purchase of commercial premises & SME loans.

Investment Thesis

- Well-positioned to capture growing opportunity** (DHFL is 3rd largest HFC in India with 4% market share in a highly fragmented industry. Govt's thrust on LMI segment will expand the business pie and DHFL is well positioned to capture the opportunity given core expertise in the segment),
- Rating upgrade & funding diversification to lower borrowing costs** (Ratings upgrade by CARE to AAA will provide wider access to debt market & will help replace high cost bank borrowings, currently at 42% of total borrowings, with lower cost bonds. It has aggressively tapped the NCD route for fund raising over the past few months which helped to lower its cost of funds by 50bps YoY and 25bps QoQ. Also, rising share of non-retail book -- LAP, developer funding will aid margin expansion),
- Strong track record of impeccable asset quality** (DHFL maintains high asset quality standards despite its focus on the LMI segment. GNPA ratio has stayed below 1% since past 6 years (it inched slightly above 1% in Q3FY17 as an effect of the demontization) and NNPA at zero. Close surveillance and initiation of prompt remedial action in borrowed accounts has ensured high quality of assets. With interest rates headed down & property prices remaining stable, we expect asset quality to remain stable. A strong record of impeccable asset quality performance across cycles provides comfort),
- Structural drivers in place** (various Govt initiatives such as "Housing for All by 2022", "Development of 100 smart cities" provide tremendous growth opportunity for HFCs in general).
- Relaxation in norms by RBI to provide relief to borrowers** (In a move to partially shield small borrowers and NBFCs from effects of demonetization, borrowers with loans up to Rs. 10mn would get an additional 60 days to repay their credit, including agriculture and housing loans).

Outlook

DHFL is strongly placed to capture increasing housing demand through its improving efficiency & focus on liabilities diversification. Considering overall growth in housing sector especially in Tier I and II cities and the dedicated efforts of government in this industry, we expect DHFL to be the key beneficiary of the trend. DHFL is very keen in improving its existence in Project loans business and management expects its contribution to the total portfolio to increase from 12% as on Q3FY17 data to ~14%-15% in near term. Going ahead we strongly believe, if DHFL continues to deliver healthy and sustainable financial performance over coming years, it may get re rated leading to considerable upside in stock price.



From : 04-03-2015
 To : 28-02-2017
 Performance : 20%
 Recommendation : OPEN

