

Background & Business

Incorporated in 1984, DHFL was the 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. 885bn (as on 30th June 2017). It is the 2nd largest private sector HFC in India after HDFC Ltd. (AUM Rs. 3.6tn). DHFL is owned by Wadhawan family through the holding company, Wadhawan Global Capital Pvt Ltd (37.33% stake). Total promoter holding in DHFL is 39.24% out of which 37.33% is pledged. DHFL offers 2 types of loans – **Housing Loans (66% of total loan book)** & **Non-Housing Loans (34%)**. 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, project loans, purchase of commercial premises & SME loans.

From : 04-03-2015
 To : 31-08-2017
 Performance : 85%
 Recommendation : OPEN

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 AA+ will provide wider access to debt market & will help replace high cost bank borrowings, currently at 44% 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 85bps YoY and 12bps QoQ in Q1FY18. 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 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 macro-economic 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).
- Stake sale in insurance business improved capitalization** (DHFL sold its entire 50% stake in its insurance arm, DHFL Pramerica Life Insurance, to its wholly owned subsidiary, DHFL Investments for Rs. 2bn in Q4FY17. Through this transaction, it made capital gains of Rs. 1.97bn, adding nearly Rs. 65/share to its Net Worth. CAR strengthened 120bps YoY to 18.65% in Q1FY18. These funds eliminate the need for any fund raising for at least the next 2- 3 years).

Outlook

DHFL being explicitly present in Tier I and Tier II cities across India with 3 decades of experience in housing finance, supported by proactive management and healthy asset quality would be able to tap growing demand in this sector much more efficiently in coming years. Management's extensive efforts in improving cost structure with respect to peers, maintaining healthy NIMs of ~3% and clear focus on core business of housing finance which constitutes more than 65% of total business are some of the key features which makes DHFL ideal stock to hold in the portfolio.

