

DEWAN HOUSING FINANCE CORPORATION LTD.**Ratings**

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Non Convertible Debentures	3,000	CARE AAA (Triple A)	Assigned
Non Convertible Debentures	8,155.12	CARE AAA (Triple A)	Revised from CARE AA+ (Double A Plus)
Fixed Deposits	3,000	CARE AAA (FD) (Triple A (Fixed Deposit))	Revised from CARE AA+ (FD) (Double A Plus (Fixed Deposit))
Long Term Bank Facilities	30,843.45	CARE AAA (Triple A)	Revised from CARE AA+ (Double A Plus)
Subordinated Debt	1,205	CARE AA+ (Double A Plus)	Revised from CARE AA (Double A)
Perpetual Debt	300	CARE AA (Double A)	Revised from CARE AA- (Double A Minus)

Rating Rationale

The rating revision factors in consistent track record spanning three decades across business cycles and expertise of Dewan Housing Finance Corporation Limited's (DHFL) in lending to the niche borrower segment of lower-middle income group while maintaining asset quality. The growing credit demand in this market segment coupled with the Government's thrust in providing affordable housing throughout the country would help DHFL further strengthen its business position in this segment. The rating also draws comfort from lower ticket size of loans.

The rating continues to factor in DHFL's experienced management, comfortable capital adequacy, diversified resource profile, stable asset quality parameters and stable earning profile. Maintaining capitalisation levels, asset quality and liquidity profile are the key rating sensitivities.

Background

Incorporated in 1984, DHFL is one of the largest housing finance companies in India. The company's target segment is primarily salaried individuals in lower and middle-income groups in Tier II and III cities. During FY13, the average ticket size of DHFL's loan portfolio was 10.7 lakh. The company operates through a pan- India network of 155 branches and 90 service centres. The business operations are further supported by 20 zonal and regional offices, 1 disbursement hubs and 2 collection centres. DHFL also has international presence through representative offices located in London and Dubai which cater to the housing needs of non-resident Indians. During FY11, DHFL acquired 67.5% stake in First Blue Home Finance Ltd. (FBHFL) through a special purpose vehicle (SPV) DHFL Holdings Pvt. Ltd. During FY13, both FBHFL and DHFL Holdings Pvt. Ltd. were merged with DHFL which helped DHFL to grow its loan book size significantly from Rs.19,355 crore as on March 31, 2012 to Rs. 33,902 crore as on March 31, 2013. During FY14, the loan book grew by 20% to Rs.40,597 crore. During FY14, DHFL has acquired 50% shareholding in DHFL Pramerica Life Insurance Company Ltd. while 24% shareholding is by DHFL promoter group while remaining 26% is held by Prudential International Insurance Holdings, Ltd. (a fully owned subsidiary of Prudential Financial, Inc. (PFI)).

Consistent track record of business performance across business cycles and expertise in lending in the niche market segment of Lower and Middle Income group

Dewan Housing Finance Ltd. (DHFL) has a consistent track record of thirty years in the housing finance business spanning across business cycles. Over the years, the company has developed expertise in lending to borrowers in the lower and middle income group segment while maintaining stable asset quality. The penetration of housing finance market in India continuous to be low at around 9% of the Gross Domestic Product (GDP) and India's urban housing shortage is primarily driven by the LIG and EWS categories. The growing credit demand in this market segment coupled with the Government's thrust in providing affordable housing throughout the country would help DHFL's further strengthen its business position in this segment.

Experienced management

The company's management team is led by Mr. Kapil Wadhawan who is the Chairman and Managing Director (CMD) of the company and has a strong Board of Directors. The operations of the company are looked after by an experienced management team. During FY14, the promoters have constituted a Group Management Centre (GMC) at the DHFL group level, which has inducted experienced professionals from the industry. The GMC comprises Mr. Milind Sarwate (former Group CFO – Marico Ltd.), Mr. G. Ravishankar (former acting CEO and CFO - Jet Airways Ltd.), Mr. M. Suresh (former MD and CEO – Tata AIG) and Mr.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

K. Srinivas (former head of HR and Retail Finance - Bajaj group). The role of the GMC would be to provide strategic direction to group companies and bring in better governance.

Diversified resource profile, comfortable capitalisation levels

DHFL has a diversified resource profile. It has raised money through various market instruments, public deposits as well as loans from 37 banks and financial institutions. During FY14, DHFL has raised funds of USD 70 million through External Commercial Borrowings (ECB) route from International Finance Corporation, Washington (IFC) (member of the World Bank group). In addition, DHFL has also raised funds through securitisation route aggregating to Rs.2,616 crore. DHFL reported comfortable Capital Adequacy Ratio (CAR) of 17.16% (Tier I CAR: 11.94%) [P.Y.: 16.52% (Tier I CAR: 11.32%)] as on March 31, 2014.

Financial performance

DHFL saw stable growth in loan portfolio from Rs.33,902 crore as on March 31, 2013 to Rs.40,597 crore as on March 31, 2014. DHFL reported Profit After Tax (PAT) of Rs.529 crore on total income of Rs.4,971 crore during FY14 (refers to period from April 1 to March 31) as compared to PAT of Rs.452 crore on total income of Rs.4,141 crore during FY13. Though the profit has seen growth, the margins were marginally impacted in line with most other market players. DHFL's Net Interest Margin (NIM) was at 2.23% for FY14 as compared to 2.37% for FY13. The Return on Total Assets (ROTA) for FY14 stood at 1.33% as compared to 1.58% for FY13.

Stable asset quality

Over the years DHFL has developed the expertise in lending in the low-middle income group segment while maintaining stable asset quality parameters. DHFL reported Gross NPA ratio of 0.78% [P.Y.: 0.71%] as on March 31, 2014 and Net NPA ratio of 0.52% [P.Y.: 0.46%] as on March 31, 2014. The Net NPA to Net worth ratio stood at 5.87% [P.Y.: 4.82%] as on March 31, 2014.

Moderate liquidity profile

The liquidity profile of the company is moderate due to longer tenure of assets as compared to relatively shorter tenure of liabilities. The ALM profile as on March 31, 2014 had cumulative negative mismatches of around 14% (Rs.1,093 crore) in the up to 1 year bucket. The company had back-up lines of around Rs.2,103 crore as on March 31, 2014. Further, the company's resource raising capability provides comfort.

Financial Performance

	(Rs. Cr)		
For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Working Results			
Interest Income	2,198	3,798	4,670
Other Income	272	343	299
Total Income	2,470	4,141	4,969
Interest expended	1,799	3,119	3,783
Net Interest Income	399	678	888
Operating Expenses	248	365	382
Provisions	24	46	71
PBT	398	611	735
PAT	306	452	529
Total Loans outstanding(Net)	19,355	33,902	40,597
Tangible Net worth	2,033	3,235	3,575
Borrowings	19,148	32,040	39,457
Total Assets	21,557	35,801	43,859
Key Ratios (%)			
Yield on Advances*(%)	12.94	14.08	12.39
Interest/ Borrowed Funds* (%)	10.58	12.19	10.58

For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Interest Spread* (%)	2.36	1.89	1.80
Net Interest Margin* (%)	2.09	2.37	2.23
Return on New Worth RONW* (%)	17.16	17.16	15.54
Return on Total Assets ROTA* (%)	1.60	1.58	1.33
Overall Debt/ Equity ratio (times)	9.42	9.90	11.04
Interest Coverage ratio (times)	1.22	1.20	1.19
Capital Adequacy Ratio (CAR) (%)	18.24	16.52	17.16
Tier I CAR	12.25	11.32	11.94
Gross NPA Ratio	0.76	0.71	0.78
Net NPA Ratio	0.52	0.46	0.52
Net NPA/ Net worth	4.92	4.82	5.87

*Computed on basis of average of year end balances

^W.e.f. January 31, 2013, First Blue Home Finance Ltd. (FBHFL) was merged with DHFL due to which the FY13 results of DHFL are not comparable with those of previous periods.

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(This follows our brief rational for entity published on 27 June 2014)

Note: Mr. V. K. Chopra, who is an Independent Director on the board of DHFL, is a member of the Rating Committee in CARE. Mr. Chopra did not participate in the rating process or in the meeting of the Rating Committee when the rating of DHFL was discussed.

Disclaimer:

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