

## DEWAN HOUSING FINANCE LIMITED

### Ratings

Instrument	Amount Rated (Rs cr)	Ratings <sup>1</sup>	Remarks
Long term bank facilities	30,843.45 (enhanced from Rs.27,118.45 crore)	CARE AA+ (Double A Plus)	Assigned

### Rating Rationale

The rating factors in DHFL's long-standing track record in housing finance business & expertise in catering to middle and lower-middle class segment, proactive management, comfortable capital adequacy with demonstrated capital raising ability & comfortable profitability parameters. The rating is however constrained by DHFL's exposure to low and middle income segment which is more vulnerable to asset quality shocks in times of stress. DHFL's capitalization levels, asset quality and liquidity profile are its key rating sensitivities.

### Background

Incorporated in 1984, DHFL is one of the largest housing finance companies in India with the total asset size and loan portfolio of Rs.41,100 crore and Rs.37,849 crore respectively as on Dec. 31, 2013. 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 9.6 lakhs, loan to cost ratio- 65.7% and IIR- 41%.

W.e.f. January 31, 2013, First Blue Home Finance Ltd. (FBHFL) was merged with DHFL due to which DHFL's loan book size has significantly increased from Rs.19355 crore as on March 31, 2012 to Rs. 33902 crore as on March 31, 2013, up 75% y-o-y.

The company operates through a pan- India network of 166 branches and 75 service centres. The business operations are further supported by 18 zonal and regional offices, 2 disbursement hubs and 4 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.

### Credit Risk Assessment

#### Long standing track record & proactive management

Established in 1984, DHFL has a long standing track record in the housing finance business and is one of the largest housing finance companies (HFC) in India with the total asset size of Rs.41,100 crore as on Dec. 31, 2013. The company's target segment is primarily salaried individuals in lower and middle-income groups in Tier II and III cities and over the years DHFL has established its leadership in the segment. As on March 31, 2013, salaried borrowers comprised 70.1% of the outstanding loan portfolio [P.Y.: 71.3%].

The management team of DHFL is led by Mr. Kapil Wadhawan, who is the Chairman and Managing Director, and is assisted by an experienced management.

#### Comfortable capital adequacy with demonstrated capital raising ability

The company has established track record of raising capital (both equity and debt) at regular intervals to fund business growth. As on Dec. 31, 2013, DHFL's capital adequacy ratio was comfortable at 17.48% [March 31, 2013: 16.52%] with Tier I CAR being 12.28% [March 31, 2013: 11.32%].

### Financial performance

DHFL's loan portfolio has grown from Rs.5807 crore as on March 31, 2009 to Rs.33902 crore as on March 31, 2013 [P.Y.: Rs.19355 crore], registering a CAGR of 55%. During FY13, DHFL's loan book size significantly increased from Rs.19355 crore as on March 31, 2012 to Rs.33902 crore as on March 31, 2013, up 75% y-o-y. The spurt in the loan book growth during FY13 is partly on account of merger of FBHFL with DHFL wef January 31, 2013. Higher portfolio yields as well as rise in other interest income have resulted in 28bps rise in NIM to 2.37% during FY13. DHFL reported 47.5% y-o-y growth [P.Y.: 15.6%] in net profits to Rs.452 crore during FY13. ROTA remained stable at 1.58%.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

During 9M FY14, DHFL reported PAT of Rs.388 crore on total income of Rs.3,553 crore. Annualised ROTA stood at 1.52% during 9M FY14.

### Ability to maintain asset quality on the back of aggressive growth & exposure to low and middle income segment

DHFL's loan portfolio has grown from Rs.5807 crore as on March 31, 2009 to Rs.33902 crore as on March 31, 2013 [P.Y.: Rs.19355 crore], registering a CAGR of 55%. High portfolio growth during FY13 has been partially on account of merger of First Blue Home Finance Ltd. (FBHFL) with DHFL w.e.f. January 31, 2013. While the company continues to report comfortable asset quality parameters, its asset quality is a key monitorable given the aggressive growth. As on March 31, 2013, the company reported comfortable asset quality parameters with GNPA of 0.71% [Dec. 31, 2013: 0.90%], NNPA of 0.46% [Dec. 31, 2013: 0.61%] and NNPA/ NW of 4.82% [Dec. 31, 2013: 6.47%].

In addition, DHFL has high exposure to the lower and middle income group which is more prone to defaults in case of a rising interest rate scenario. However, over the years the company has developed expertise in catering to this customer segment which mitigates credit risk to some extent.

### Moderate liquidity profile

The company has moderate liquidity profile. As on Dec. 31, 2013, the negative cumulative liquidity mismatches of DHFL in upto 1 year bucket stood at 15.5% of cumulative outflows on account of increased reliance on shorter term market borrowings. However, the company's undrawn lines of credit of Rs.2,356.47 crore (excluding committed pending disbursements) provides comfort.

### Prospects

After a correction in prices in 2008 due to the global economic slowdown, property prices in most cities surpassed their pre crises peaks during 2010. As a result of this sharp rise in property prices, demand has been impacted as many buyers have postponed their purchase decisions. Over the last two years, interest rates on home loans have also increased by around 200-250 basis points to over 10.5-11 per cent adding to the cost of buying new homes. A correction in property prices is imperative for sustaining the growth in housing finance as home loan demand is not as sensitive to interest rate changes as to property valuations. During FY13, HFCs saw growth of 23% y-o-y in loan portfolio as against 21% y-o-y growth in loan portfolio during FY12. Asset quality of the sector remained stable with Gross NPA and Net NPA ratios standing at around 0.71% and 0.1% respectively as of March 31, 2013. The credit growth for HFCs is projected at CAGR of around 22% during FY13-FY15 mainly led by demand in Tier II and Tier III cities.

DHFL's capitalization levels, asset quality and liquidity profile are its key rating sensitivities.

### Financial Results

(Rs crore)

Year ended / As on	31-03-2011	31-03-2012	31-03-2013^
	12M, A	12M, A	12M, A
Interest Income	1304	2198	3798
Other Income	147	272	343
Total Income	1451	2470	4141
Interest expended	968	1799	3119
Net Interest Income	336	399	678
Operating Expenses	169	248	365
Provisions	9	24	46
PBT	341	398	611
<b>PAT</b>	<b>265</b>	<b>306</b>	<b>452</b>
<b>Total Loans outstanding(Net)</b>	<b>14111</b>	<b>19355</b>	<b>33902</b>
Housing Loans	13485	16895	29538
Tangible Net worth	1538	2033	3235
Borrowings	14850	19148	32040
<b>Total Assets</b>	<b>16674</b>	<b>21557</b>	<b>35801</b>

Year ended / As on	31-03-2011	31-03-2012	31-03-2013 <sup>^</sup>
	12M, A	12M, A	12M, A
<b>Key Ratios %</b>			
Increase in total income (%)	46.21	70.18	67.67
Increase in PAT (%)	75.94	15.55	47.49
Increase in Total Loan portfolio (%)	61.12	37.16	75.15
Net Interest Margin* (%)	2.53	2.09	2.37
Yield on Advances* (%)	11.09	12.94	14.08
Interest/ Borrowed Funds* (%)	8.14	10.58	12.19
<b>Interest Spread* (%)</b>	<b>2.95</b>	<b>2.36</b>	<b>1.89</b>
<b>Non Interest Income/ Avg. cap. Emp.* (%)</b>	<b>1.13</b>	<b>1.45</b>	<b>1.22</b>
RONW* (%)	22.08	17.16	17.16
ROTA* (%)	1.99	1.6	1.58
Overall Debt/ Equity ratio (times)	9.65	9.42	9.9
<b>Capital Adequacy Ratio (CAR) (%)</b>	<b>19.39</b>	<b>18.24</b>	<b>16.52</b>
Tier I CAR	13.87	12.25	11.32
GNPA	0.67	0.76	0.71
NNPA	0.1	0.52	0.46
Net NPA/ Networth	0.9	4.92	4.82

\*Computed on basis of average of year end balances

<sup>^</sup>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.

**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.**

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(This follows our brief rationale for entity published on 11 March, 2014)

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