

Dewan Housing Finance Corporation Limited

Instrument	Amount (Rs. Crore)	Rating Action (December 2016)
Short Term Debt Programme	1,000	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the rating of [ICRA]A1+ (Pronounced ICRA A one plus) assigned earlier to the Rs. 1,000 crore short term debt programme of Dewan Housing Finance Limited (DHFL)¹.

The rating factors in DHFLs established track record; its good market position and standing as a large player in housing finance (managed assets of Rs. 75,220 crore as on September 30, 2016); its demonstrated ability to grow its portfolio while maintaining good asset quality (gross NPAs of 0.96% as on September 30, 2016); and its good profitability indicators (PAT/average net worth of 15.11% in FY2016 and 16.13% in H1FY2017). The rating also factors in DHFL's experienced management team, good systems, and its diversified resource profile. The rating also factors in the company's access to diverse funding sources, the eligibility of a large proportion of its loans for priority sector borrowings, and the longer tenure bonds raised from the market resulting in comfortable asset liability profile. ICRA takes note of the Rs. 125 crore capital raised in March 2016 and Rs. 375 crore in H1FY2017. The company had also raised Rs. 475 crore of Perpetual debt and Rs. 400 crore of Subordinated debt during H1FY2017 which will further strengthen the capitalization profile of the company. In ICRA's opinion, the company's ability to maintain a prudent capital structure would have an important bearing on its credit profile.

The total AUM of the company increased from Rs. 56,884 crore as on March 31, 2015 to Rs. 69,524 crore as on March 31, 2016 and further to Rs. 75,220 crore as on September 30, 2016. Around 70% of the company's portfolio as on September 30, 2016 was towards individual housing loans, 16% towards loans against property/lease rental discounting (LAP/LRD) with the balance being project loans and loan to small and medium enterprises (SME). Within the housing loan segment, the company extends loans based on assessed income to the self-employed. This category comprised around 41% of DHFL's portfolio on September 30, 2016. Owing to DHFL's focus on the lower to middle income segments, its ticket sizes are relatively lower than industry average at around Rs. 13.4 lakh in Q2FY2017. Although the inherent risks associated with the self-employed and LAP segments are high, DHFL has been able to maintain its asset quality indicators so far (gross NPAs of 0.96% as on September 30, 2016) supported by its robust internal processes. The company's ability to maintain asset quality would remain a key rating sensitivity going forward as well.

DHFL has diversified its funding mix with the share of debt market instruments increasing from 28% as on March 31, 2015 to 33% as on March 31, 2016, and further to 43% as on September 30, 2016 and that of fixed deposits remaining stable at 8% as on September 30, 2016. While DHFL also has access to NHB funding, its share (2% as on September 30, 2016) remains lower than its peer HFCs and the company remains dependent on relatively high-cost bank borrowings (44% as on September 30, 2016). Nevertheless, the company has been able to re-price its bank borrowings in the past which has lowered its cost of funds. During FY2016, the company's net interest margins (NIMs) stood at 2.42% in FY2016 as compared with 2.55% in FY2015, following a reduction in both portfolio yields and cost of funds. The company's operating expenses and credit costs remained largely stable in FY2016, resulting in a minor reduction in its profit before tax from 1.92% of average total assets (ATA) in FY2015 to 1.80% of ATA in FY2016. The company's overall profitability indicators reported a marginal decline (PAT/ATA of 1.19% in FY2016 vis-a-vis 1.26% for FY2015 and PAT/average networth of 15.11% in FY2016 vis-à-vis 15.13% in FY2015). While the company's PAT/ATA in H1FY2017 remained in line with that in FY2016 at 1.13% (annualized), its PAT/average networth improved to 16.13%, given the significant increase in scale during the period. Going forward, ICRA expects DHFL's RoE in the medium term to remain at around 14-16%, supported by improving net interest margins and stable operating expenses, provided the company is able to keep its credit costs under control.

About Dewan Housing Finance Corporation Limited (DHFL)

The company was incorporated as Dewan Housing and Leasing Company Limited in 1984. The name of the company was changed to Dewan Housing Development Finance Limited in 1984 and subsequently to Dewan Housing Finance Corporation Limited in 1992. With the merger of First Blue Home Finance Limited (FBHFL)

¹ For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



with DHFL in FY13; the Dewan Group extended its offering to higher ticket size segment of more than Rs 10 lakhs and is present across the entire housing finance spectrum serving the Lower Middle Income segment with Aadhar Housing Finance having a average ticket size of Rs 7.00 lakhs and DHFL Vysa having a average ticket size of Rs 9.65 lakhs. The total assets under management for Dewan group were Rs. 75,220 crore as on September 30, 2016. DHFL is spread across 352 locations of India.

DHFL reported Profit after Tax (PAT) of Rs. 729 crore on an asset base of Rs. 67,853 crore in FY2016 as against PAT of Rs. 621 crore on an asset base of Rs. 54,615 crore in FY2015. Further, for half year ended FY2017, the company reported a PAT of Rs 434 crore.

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