

## Dewan Housing Finance Corporation Limited

May 09, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	10,000	15,000	[ICRA]A1+; assigned/outstanding
<b>Total</b>	<b>10,000</b>	<b>15,000</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 15,000 crore<sup>1</sup> (enhanced from Rs. 10,000 crore) commercial paper programme Dewan Housing Finance Corporation Limited (DHFL)<sup>2</sup>.

### Rationale

The rating factors in DHFL's established track record; its good market position and standing as a large player in the Indian housing finance market (managed assets of Rs. 1,11,090 crore as on March 31, 2018); its demonstrated ability to grow while maintaining good asset quality (gross NPAs of 0.96% as on March 31, 2018); and its good profitability indicators (return on average net worth of 13.96% in FY2018 and good liquidity position. The rating also factors in DHFL's experienced management team, its good systems, diverse resource profile and good liquidity position. The rating also factors in the company's access to diverse funding sources, eligibility of a large proportion of its loans for priority sector which enables the company to raise affordable housing borrowings, and the longer tenure market borrowings. Further, the company resolves to maintain cash and liquid investments to meet fund requirement for next three months. ICRA takes note of the declining share of home loans from 66% as on March 31, 2017 to 61% as on March 31, 2018, and the share of project loan book increasing from 14% to 15% and share of loan against property increasing from 17% to 20% during the period. Given that the project loan book is recently originated, significant share is under moratorium. Ability of the company to maintain good asset quality in this segment will remain a key rating monitorable. ICRA takes note of the moderate capitalisation indicators (gearing of 10.54 times as on March 31, 2018 as compared with 10.33 times as on March 31, 2017). ICRA notes that the company plans to increase share of assignments in its overall assets under management (AUM), which is likely to support its capitalisation profile. Going forward, ability to maintain asset quality and a prudent capital structure will be the key rating sensitivities

### Credit strengths

**Track record of over 30 years of profitable operations in housing finance business; steady growth in portfolio** - The company's assets under management (AUM) grew by 33% during FY2018 from Rs. 83,560 crore as on March 31, 2017 to Rs. 1,11,090 crore as on March 31, 2018. The portfolio growth was supported by higher growth in LAP and builder loans. As on March 31, 2018, home loans constituted around 61% of the portfolio, followed by LAP (20%) and builder loans (15%) with the balance being loans to small and medium enterprises. The company's presence in the low to middle income segment of the market, the positive outlook for affordable housing in the country and the various policy

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

initiatives of the government, further enhance the growth prospects. In the housing finance business, the focus of DHFL has been on salaried segment which is perceived to be less risky when compared to self-employed segment. As on March 31, 2018, ~74% of home loans were to salaried class.

**Experienced management team and systems** - Rating derives comfort from the long-standing experience of the company's promoters in the housing finance business, experienced management team its prudent underwriting norms and robust IT and risk management systems. The company has also been strengthening its senior management team by bringing in seasoned professionals to look into various functions such as treasury, human resource, digital transformation and operations.

**Stable profitability indicators supported by low operating expenses and healthy fee-based income** - During FY2108, the company reported a stable return on ATA (RoA) of 1.17% and return on average net worth (RoNW) of 13.96% during FY2018 (vis-a-vis adjusted RoA of 1.16% and RoNW of 14.25% during FY2017) supported by controlled operating expenses and healthy fee income. Overall, ICRA expects the company to report a return on equity of 16-18% in the near to medium term provided it is able to maintain its credit costs.

**Diversified borrowing profile** - The company's borrowing profile is well diversified with the share of debt capital market borrowings increasing over the years and comprising 40% of the total borrowings as on March 31, 2018. Further, the share of fixed deposits increased from 8% as on March 31, 2107 to 11% as on March 31, 2018. With increased capital market borrowings and deposits complemented by softening of market interest rates, DHFL was able to reduce its cost of funds from 9.23% during FY2017 and further to 8.63% during FY2018. Further, the company has been actively resolving to capital efficient direct assignments which adds to the source of funds for the company.

**Strong liquidity profile supported by committed bank lines** - While the company remains exposed to risks related to asset-liability matching given the relatively higher tenure of its assets vis-a-vis liabilities, its liquidity position is supported by the good share of long term borrowings and company's policy to maintain a sizeable share of unutilised bank lines to meet any liquidity gaps. Additionally, the company resolves to maintain cash and liquid investments to meet fund requirement for next three months.

## Credit challenges

**Ability to maintain profitable growth in an extremely competitive environment** - DHFL, like other housing finance companies, is exposed to competition in the housing finance segment, which, in the recent past has become more competitive with entry of new players and being a focus area of public sector banks. In ICRA's view, DHFL's ability to grow its book while maintaining its profitability, asset quality and solvency profile will remain a key rating monitorable.

**Ability to maintain asset quality with rising share of non-housing loans** - ICRA takes note of the declining share of home loans from 66% as on March 31, 2017 to 61% as on March 31, 2018, and the share of project loan book increasing from 14% to 15% and share of loan against property increasing from 17% to 20% during the period. Given that that the project loan book is recently originated, significant share is under moratorium. Though the company's asset quality remained healthy with gross NPAs of 0.96% and net NPAs of 0.56% as on March 31, 2018 (0.94% and 0.58% respectively as on March 31, 2017), ability of the company to maintain good asset quality in this segment will remain a key rating monitorable.

**Moderate capitalisation** - Given the rising share of non-housing loans, economic capitalisation indicators were moderate (with gearing at 10.54 times as on March 31, 2018), the ability of the company to maintain adequate capitalisation will be important from a credit perspective.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[ICRA's Credit Rating Methodology for Housing Finance Companies](#)

## About the company

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 (DHFL) in 1992. With the merger of First Blue Home Finance Limited (FBHFL) with DHFL in FY2013, the Dewan Group extended its offering to higher ticket size segment of more than Rs 10 lakhs and is now present across the entire housing finance spectrum with Aadhar Housing Finance Limited focused on economically weaker section and low-income customer segment while DHFL focuses on low and middle-income customer segment. The total assets under management of DHFL stood at Rs. 1,11,090 crore as on March 31, 2018. DHFL has operations across 349 locations of India.

## Key financial indicators (Audited)

	FY2017	FY2018
Net operating income	2,204	2,900
Profit before tax	3,372	1,757
Profit after tax	2,896	1,172
Adjust profit after tax	927	1,172
Portfolio	72,096	91,934
Assets under management	83,560	1,11,090
% Tier 1	14.75%	11.52%
% CRAR	19.12%	15.29%
Gearing	10.33	10.54
% Net profit/Average total assets	3.62%	1.17%
% Adjusted net profit/Average total assets	1.16%	1.17%
% Return on net worth	44.52%	13.96%
% Adjusted return on net worth	14.25%	13.96
% Gross NPAs	0.94%	0.96%
% Net NPAs	0.58%	0.56%
Net NPA/Net worth	5.25%	5.85%

Adjustments are on account of extraordinary gains from stake sale of DPLI

Amounts in Rs. crore; All ratios are as per ICRA's calculations

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

SI No	Instrument	Type	Current Rating (FY2019)		May 2018	Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2018	FY2017	FY2016
1	Commercial Paper Programme	Short Term	15,000	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
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NA	Commercial Paper Programme	-	-	7-365 days	15,000	[ICRA]A1+
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Source: Company

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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