

Standing strong

CMP: Rs.214
Target Price: Rs.260
Upside/(Downside) % 21%
Recommendation: BUY

Stock Info

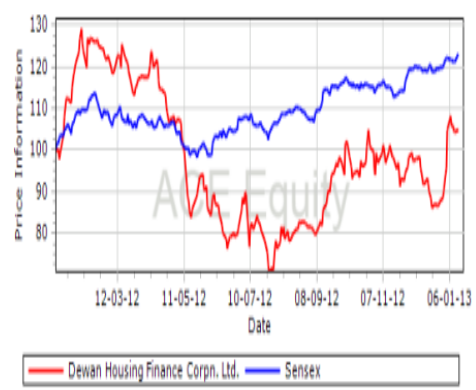
BSE Group	B
BSE Code	511072
NSE Symbol	DHFL
Bloomberg	DEWH IN
Reuters	DWNH.BO
BSE Sensex	19906.41
NSE Nifty	6024.05

Market Info

Market Capital	2600.0 cr
Equity Capital	117.1 cr
Avg. Trading Vol. (NSE Qtly)	275.2
52 Wk High/ Low	279/142
Face Value	10

Shareholding Pattern (%) (30th Sep 2012)

Promoters	35.3
Domestic Institutions	1.2
Foreign Institutions	41.6
Public and Others	21.9
Govt. Holdings	NA



Jan 15, 2013

Dewan Housing Finance Corporation Ltd (DHFL), catering to lower and middle income groups, with diversified product mix and footprints across Tier II and Tier III cities, stands favorable in the housing finance space. The consistency in AUM growth coupled with impeccable asset quality and diversified borrowing profile reinforces our confidence in the company.

Earnings momentum positive: The Q2FY13 reported decent earnings growth, with 19% YoY PAT growth at Rs 86 crs backed by robust core income performance recording 44% YoY growth at Rs 156 crs and improvement in asset quality. Margins were stable at 2.8% levels and return ratios (RoEs-18%, RoAs-1.8%) at superior levels maintained the growth momentum.

Q3FY13 Earnings Expectation: We expect 26% growth YoY for Net Interest Income supported by robust disbursements during the quarter accompanied with PAT growth of 22% YoY at Rs 92 crs. The key numbers to be watched out for the quarter would be asset quality and cost metrics of the company.

Subsidiaries merger- growth positive: While the company received in-principle approval for amalgamation of First Blue Home Finance Limited and DHFL Holdings Private Limited (subsidiaries of the company) with Dewan Housing Finance Corporation, from the High Courts, the company is set to strengthen its customer and portfolio mix in the housing finance spectrum serving niche segment. Further, given the dominance in LMI segment supported by differentiated business model and healthy sanctions pipeline, we expect robust >25% CAGR growth in advances for the period FY12-14E.

Outlook: The niche market focus of DHFL with differentiated and resilient business model, shift of focus to core business (through divestment in subsidiaries), capital sufficiency lower LTVs backed by superior asset quality, margins enrichment and superior return ratios makes us positive on the company and we reiterate BUY rating on the stock. Sharp rise in delinquencies or AUM compression due to market uncertainties, spike in costs and continued subdued non-interest income performance form the downside risks to the stock. While the stock rallied more than 25% in the recent period with the amalgamation news and the upbeat in earnings growth, we continue to see further upside potential in the stock. At current valuations, it looks cheap and we value the core business at 1.3X P/ABV (which is at a discount to other bigger housing financiers) for the standalone Model and arrive at a revised SOTP price of Rs 260.

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254827

Head Office

3rd Floor, Krishna Bhavan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets ltd.

3rd Floor Krishna Bhavan, 67 Nehru Road, Vile Parle (E) Mumbai - 400057

Tel. 022-42254800 Fax. 022-42254880

www.arihantcapital.com