

## Rating Rationale

May 07, 2018 | Mumbai

# Dewan Housing Finance Corporation Limited

*Rated amount enhanced*

### Rating Action

<b>Rs.15000 Crore Commercial Paper (Enhanced from Rs.10000 Crore)</b>	<b>CRISIL A1+ (Reaffirmed)</b>
<b>Rs.1000 Crore Short Term Deposit</b>	<b>CRISIL A1+ (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A1+' rating on the commercial paper and short-term deposit of Dewan Housing Finance Corporation Limited (DHFL).

The rating continues to reflect DHFL's strong market position in the housing finance segment, being the 4th largest housing finance company (HFC) in the country, and its healthy asset quality, reflected in low gross non-performing assets (NPAs) of 0.96% as on March 2018 (0.93% as on March 31, 2016). Capital position remains subdued. Despite large networth of around Rs 8796 crore, adjusted gearing was high, at around 12.7 times, as on March 31, 2018, and is higher than that of peers. DHFL's earnings also remained modest, with return on assets (RoA) of 1.2% during fiscal 2018.

### Key Rating Drivers & Detailed Description

#### Strengths

##### \* Strong market position in HFC industry

DHFL has significantly ramped up operations in recent years. It is the fourth largest HFC with assets under management (AUM) of 1,11,090 crore as on March 31, 2018 (Rs 83,560 crore as on March 31, 2017). DHFL also has sizeable presence in the affordable housing finance segment through its associate Aadhar Housing Finance Ltd. DHFL remains focused on providing housing finance primarily to low and middle-income customers in tier-II and tier-III cities, which account for nearly 80% of its branch network (349 locations as on March 2018). Though competition may remain intense in the mortgage finance segment, strong demand should continue to drive healthy growth AUM, helping DHFL maintain its competitive position among HFCs over the medium term.

The company has increased the proportion of relatively high-yield non-housing loan book (loans against property [LAP], construction finance of residential projects, and small and medium enterprise [SME] finance) to support its profitability in the past 1-2 years. The construction finance portfolio grew to around Rs 16,664 crore as on March 31, 2018 (from Rs 10,058 crore as on March 31, 2017). Accordingly, proportion in the advances portfolio increased to around 15% as on March 31, 2018 from around 9% as on March 31, 2016. The company plans to tap potential housing finance customers from those projects. LAP, the other major non-housing segment, grew to over Rs 22,2 crore (accounting for 20% of portfolio). SME finance maintained its share at 4% in the loan book. Rapid growth in the non-housing segment (considering project loans in non-housing segment) during fiscal 2018 resulted in increase in share to 39% of the loan book in nine months of fiscal 2018 from 28% in the previous fiscal. CRISIL believes that DHFL will continue to maintain steady growth in the range of 20-25% over the medium term.

##### \* Healthy asset quality

DHFL's healthy asset quality is reflected in low gross NPAs of 0.96% as on March 31, 2018 (0.93% as on March 31, 2016). The GNPA, a 2-year lag basis, stood at around 1.5% as on March 31, 2018, from 1.4% as on March 31, 2016. The gross NPAs in housing declined 0.45% as on March 31, 2017, from 0.58% a year earlier. Asset quality is supported by a relatively low-risk, granular loan book, supported focus on low- and middle-income customers in tier-II and tier-III cities. Average ticket size of Rs 15.2 lakh, which remains significantly low than that of peers, makes the loan book granular. Asset quality is also supported by healthy credit underwriting policies and strong operational systems and processes. A large chunk of loan origination is done by the in-house sales team, ensuring the borrower profile remains healthy. On the non-housing side, gross NPAs increased to 0.49% as on March 31, 2017, from 0.34% as on March 31, 2016. CRISIL believes DHFL will maintain its strong asset quality in the housing loan segment supported by its highly granular loan book and established systems and processes. However, ability to maintain asset quality in the non-housing segment (includes LAP and project loans) will remain a key monitorable.

#### Weakness

##### \* Subdued capital position

Adjusted networth and Tier-I capital adequacy ratio (CAR) were Rs 8,796 crore and 11.52%, respectively, as on March 31, 2018 (Rs 79 crore and 14.75%, respectively, as on March 31, 2017). Gearing (adjusted for securitisation) remained high, at around 12.7 times as on March 31, 2018 (it was at 13.6 times as on March 31, 2016). However, the networth coverage of net NPAs remained comfortable, at 12.7 times, as on March 31, 2017 (14 times as on March 31, 2016). Given the company's growth plans, CRISIL believes DHFL's capitalisation will remain constrained by higher-than-industry-average gearing. Ability to infuse capital at regular intervals will remain a key monitorable.

##### \* Modest earnings

RoA, though stable, at 1.2% during fiscal 2018, was lower than that of peers, primarily because of intense competition, and high operating expenses resulting from large branch network and small ticket size of loans. Nevertheless, the large housing loan portfolio ensures low credit cost. Profitability is expected to improve gradually, driven by growth in non-housing loans, and enhanced operating efficiency from ramp-up in scale.

DHFL maintains substantial amount of liquidity on a steady state basis. As on March 31, 2018, total liquid assets (cash & cash equivalents held by DHFL stood at over Rs 11,000 crore. This is over and above the undrawn bank lines of Rs 6978 crore as on that date. As a policy DHFL will be maintaining liquidity to the tune of Rs 10,000 crore on steady state basis. The ALM position of DHFL has remained healthy with no negative cumulative mismatches in short term buckets as of December 31, 2017. In addition, DHFL manages its liquidity well by staggering the repayments adequately. Moreover, short-term borrowings during fiscal 2019 is unlikely to exceed 15% of total estimated liabilities as on March 31, 2019.

## About the Company

Incorporated in 1984, DHFL primarily provides housing finance to individuals, especially to the low- and lower-middle-income groups in tier-I and tier-III cities. The company also offers non-housing loans such as LAP, developer loans, and SME loans. In December 2010, it acquired Deutsche Post Bank Home Finance Ltd (DPBHFL) to enter the middle- and upper-middle-income segments in tier-I cities. DPHFL was renamed First Blue Housing Finance Ltd. and was merged into DHFL in March 2013. DHFL has a pan-India presence at around 300 customer touch points as on March 31, 2018.

Profit after tax and total income (net of interest expense) stood at Rs 1172 crore and Rs 2500 crore during fiscal 2018 as against profit after tax (including one-time gain from sale of investment) and total income (net of interest expense) of Rs. 2,896 crore and Rs 4173 crore respectively in fiscal 2017.

## Key Financial Indicators

As On/For The Period Ended March 31	Unit	2018	2017
<b>Total assets</b>	<b>Rs cr</b>	<b>95,095</b>	<b>92,298</b>
<b>Total income</b>	<b>Rs cr</b>	<b>10,465</b>	<b>10,827</b>
<b>Profit after tax</b>	<b>Rs cr</b>	<b>1,172</b>	<b>2,896</b>
<b>Gross NPA</b>	<b>%</b>	<b>0.96</b>	<b>0.94</b>
<b>Gearing</b>	<b>Times</b>	<b>12.7</b>	<b>11.7</b>
<b>Return on assets</b>	<b>%</b>	<b>1.2</b>	<b>1.2</b>

Any other information: Not applicable

## Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

## Annexure - Details of Instrument(s)

ISIN No.	Instrument	Date of Allotment	Rate of Interest (%)	Date of Redemption	Issue Size	Rating Assigned with Outlook
NA	Commercial paper	NA	NA	7-365 days	15,000	CRISIL A1+
NA	Short-term deposit	NA	NA	7-365 days	1,000	CRISIL A1+

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2018 (History)		2017		2016		2015		Start of 2015
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	15000.00	CRISIL A1+			27-10-17	CRISIL A1+		--		--	--
						11-07-17	CRISIL A1+	07-07-16	CRISIL A1+	17-07-15	CRISIL A1+	CRISIL A
Short Term Deposit	ST	1000.00	CRISIL A1+			27-10-17	CRISIL A1+	07-07-16	CRISIL A1+		--	--
						11-07-17	CRISIL A1+					

All amounts are in Rs.Cr.

## Links to related criteria

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

## For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Saman Khan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 3895 B: +91 22 3342 3000 <a href="mailto:saman.khan@crisil.com">saman.khan@crisil.com</a></p> <p><b>Naireen Ahmed</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1818 B: +91 22 3342 3000 <a href="mailto:naireen.ahmed@crisil.com">naireen.ahmed@crisil.com</a></p> <p><b>Jyoti Parmar</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1835 B: +91 22 3342 3000 <a href="mailto:jyoti.parmar@crisil.com">jyoti.parmar@crisil.com</a></p>	<p><b>Krishnan Sitaraman</b> Senior Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 22 3342 8070 <a href="mailto:krishnan.sitaraman@crisil.com">krishnan.sitaraman@crisil.com</a></p> <p><b>Ajit Velonie</b> Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 22 4097 8209 <a href="mailto:ajit.velonie@crisil.com">ajit.velonie@crisil.com</a></p> <p><b>Prashant Mane</b> Rating Analyst - CRISIL Ratings <b>CRISIL Limited</b> D: +91 22 3342 3397 <a href="mailto:prashant.mane@crisil.com">prashant.mane@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a></p>

#### Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

#### About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit [www.crisil.com](http://www.crisil.com)

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

#### About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

---

#### CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit <https://www.crisil.com/en/home/privacy-and-cookie-notice.html>. You can view the Company's Customer Privacy at <https://www.spglobal.com/corporate-privacy-policy>

Last updated: April 2016

#### DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, [www.crisil.com](http://www.crisil.com) (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: [www.crisilratings.com](http://www.crisilratings.com).

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, [www.crisil.com](http://www.crisil.com). For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at [CRISILratingdesk@crisil.com](mailto:CRISILratingdesk@crisil.com), or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL