Building Smartly

DHFL is aiming to be a ₹100,000 crore home loan company by 2017

'Thinking big' has been Kapil Wadhawan's philosophy. Ever since he became the managing director in his family promoted-company, Dewan Housing Finance Limited (DHFL) in 2000, his agenda was to scale up, scale up fast and scale up smart. At the time of the untimely demise of the founder chairman Rajesh Kumar Wadhawan in 2000, the total income of the company was a little under ₹100 crore.

"We had to grow; it was a question of survival," Kapil Wadhawan had remarked in 2004 (see *Business India*, dated 2 February 2004). DHFL's total income in 2002-03 was ₹130 crore and profit after tax was about ₹20 crore. Now, 10 years later, the total consolidated income has gone up by 25 times to ₹3,216 crore, with the PAT rising by 17 times to ₹355 crore.

Markets have recognised the efforts of DHFL and the market cap of the company has risen from ₹90 crore in February 2004 to ₹2,300 crore today. Far from being satisfied with the outcome, Wadhawan has set out ambitious plans to grow the total assets under management to ₹100,000 crore by 2017. This is nearly a four-fold jump from the current levels, which has long-term assets and property loans of a little over ₹27,000 crore on a consolidated basis, as on 31 March 2012.

This is in line with the expected rise in home finance loans in the country. A BCG-FICCI report has predicted a near eight-fold jump to ₹40 lakh crore by 2020 from ₹5.5 lakh crore as on March 2011.

While sticking to the core philosophy of its late founder R.K. Wadhawan of providing financial affordability to every home buyer in the lower and middle class, Kapil Wadhawan has taken several initiatives to grow the business. It has succeeded in broadening its services to include the upper middle class segment, as also the lowest economically backward class segment. Through acquisitions and tie-ups with banks, it has also succeeded in expanding its geographic footprint to become a pan-India player.

In 2011-12, DHFL, along with other companies, acquired a 100 per cent stake in First Blue Home Finance (FBHF: earlier Deutsche Bank Post Home Finance). The company paid ₹729 crore for its 67.5 per cent stake. With a network of 39 branches spread in urban centres, DHFL caters to the upper middle class segment. "Ours is


PHOTOS: SANJAY BORADE

Wadhawan: growing the business

a premium brand, with the average loan size at ₹22 lakh and loans at the top end being in the region of ₹4-5 crore," says Anoop Pabby, CEO, FBHF. Operating largely in the northern and southern markets, FBHF was catering to a new set of customers, which would now help DHFL expand its footprint into these new markets. First Blue is now being merged with DHFL.

Earlier, in July 2003, Dewan had acquired an 85 per cent stake in Vysya Bank Housing Finance Limited (VBHL), the housing arm of Vysya Bank, which had assets of ₹200 crore and a 7,500 strong customer base – largely in the south. These two acquisitions have seen DHFL transform itself from an established regional player focussed in western India to a player with a strong presence in northern and southern India too. DHFL reduced its holdings in VBHL in 2011– 12 to less than 10 per cent, in compliance with the National Housing Bank guidelines of 2010, which does not permit a housing finance company to have more than 10 per cent stake in another HFC. In case it does hold more than 10 per cent, the stake has to be divested in three years. In this case, the promoters have taken the balance stake in their individual capacity.

DHFL has also tied up with four other leading banks – Punjab & Sind Bank, United Bank, Central Bank and Yes Bank – to spread its footprint in Tier II and III cities of north, east and central India. Apart from marketing its services through branches, DHFL is also helping in loan origination through servicing the banks customers' base. Further, it helps in project marketing and sales of property developers funded by the banks.

Anil Sachidanand, CEO of the company and a 24-year-old veteran in the housing finance industry, reminisces that DHFL had only four branches, when he joined as a management trainee soon after completing his MBA from Kochi in 1988. Today, the company has over 108 branches and presence in 226 locations, which includes 75 service outlets, 25 camp locations and six zonal offices.

DHFL follows a typical hub-and-spoke model. Sachidanand, who left DHFL in late 1990s to take on a leadership role at IDBI Bank, rejoined the company in 2008. "We use conventional process of credit appraisal to direct traffic to our branches, unlike some banks, which use direct selling through agents and brokers," he explains, adding that 90-95 per cent of the traffic originates from DHFL employees. The integrated team at the branches does the credit appraisal with local branches authorised to sanction loans amounting to ₹10-15 lakh and zonal branches for loans up to ₹50 lakh.

Focussed attention

DHFL's loan book is in stark contrast to HDFC. While retail loan book forms 67 per cent of HDFC's total loan book, for DHFL, it is more than 90 per cent. Loans to corporate employees form 13 per cent and loans to property developers of residential houses another 13 per cent for HDFC, as against 9 per cent in case of DHFL. The size of retail housing loans for HDFC averages ₹21.5 lakh, while, in the case of DHFL, it is under ₹10 lakh.

One of the reasons DHFL not only survives, but also competes, against banks which have better branch networks and whose cost of funds is also lower, is the focussed attention DHFL gives to clients. "For banks, housing finance is just one more business, but for us, it is the only business,"

Embracing growth

(₹ crore)

	Total income	PAT	EPS (₹)	Networth	Borrowings
2008	557	89	14.96	454	4,259
2009	736	97	15.95	525	6,176
2010	1,043	158	20.11	887	9,305
2011	2103	357	32.35	1,556	20,689
2012	3,216	355	30.26	2,021	21,989

Financial year ended March. Source: Annual reports, consolidated figures.

Sen: launching more funds

SUDIPTA BANERJEE

explains Wadhawan. Personalised attention and immediate disbursement have helped HFCs score over banks, despite banks being their major source of funds.

Banks are also reluctant to lend to the non-salaried class, artisans or self-funded small businesses. MSMEs and non-salaried class are attracting a lot of attention from HFCs (*see box*). "Housing finance has great potential," says Lakshmi Narasimhan, CFO, Magma Fincorp an NBFC, which is entering housing finance. "Housing finance holds great opportunity. We will be focusing on affordable housing segment and looking at leveraging on our 1 million strong customer-base, who are largely self-employed entrepreneurs," he adds.

With an early bird advantage in several smaller cities and towns, DHFL has established itself in these areas through a customer-centric approach. The focus, says Sachidanand, is not to be the quickest in sanctioning loans but to do a correct appraisal. That is one of the reasons DHFL has been able to contain its gross NPA levels to less than 1 per cent of its loan book.

A relatively conservative approach has also helped DHFL contain its average cost of borrowings to a little under 11 per cent. The average cost of the bank's borrowings is 11.45 per cent now. This forms the highest component in its borrowing portfolio, accounting for 73 per cent of its total borrowings. National Housing Bank, money markets and multi-lateral agencies are the other sources, while fixed deposits, perpetual debt instruments and debentures form the balance. The recent SEBI guidelines, allowing debt funds to take a sectoral exposure of up to 10 per cent in housing finance companies, could help HFCs.

Earlier, HFCs were also put under the overall 30 per cent sectoral cap on financial sector. "The additional 10 per cent cap permitted by the SEBI could probably see housing finance companies raise funds at a relatively lower rate, maybe at 20-30 basis points," says Manish Sonthalia, fund manager, Motilal Oswal Mutual Fund.

DHFL debt papers enjoy an AI+ rating from CRISIL and an AA+ from CARE. After its QIB issue of 2011-12, DHFL raised ₹304 crore through a fresh offer of 1.19 crore shares at a premium of ₹245.50. The company has a capital adequacy ratio of over

Luring new entrants

Home Finance has seen a number of companies entering this lucrative sector

The shortage of 2.7 crore homes in the country and the rapid urbanisation, coupled with improved affordability, have drawn several new entrants into the housing finance sector in the past few years. Indiabulls, Edelweiss, India Infoline, Bajaj Finserv, Tata Capital, Muthoot Housing Finance, Religare and Mahindra Rural Housing Finance are some of the companies that have entered or are in the process of entering home mortgage business. L&T Finance, which acquired Indo Pacific Housing Finance for ₹110 crore recently, has also announced its entry into this sector.

In an earlier interview with *Business India*, Anil Kothuri, a former Citibank expert, who now heads Edelweiss Housing, had pointed out that housing finance is a predictable risk-return business. Besides NBFCs, banks are also stepping up their presence in this sector. Given the huge demand, analysts feel that there is enough room for new entrants too. Home loans as a percentage of India's GDP, was barely 2 per cent

Sachidanand: correct appraisal

Pabby: ours is a premium brand

18 per cent as on 31 March 2012.

Fund management

Wadhawan also has plans to develop the group's fund management business. He had set up a private equity company, Arthveda Fund Management (earlier DHFL Venture Capital) in 2005. An associate company of DHFL, it raised ₹101 crore in 2006. It made 13 investments of which it exited from seven, generating internal rate of return of 20-45 per cent. The company is in the process of launching a slew of funds.

Bikram Sen, CEO, Arthveda, who was earlier CEO, DHFL, explains that he has plans to launch funds in real estate, infrastructure, debt, unlisted securities and agro-funds, besides starting one hedge fund. An overseas fund in Dubai is also being planned, he added.

The objective of the exercise is to reach a size of ₹1,300 crore by 2013-14. Arthveda Star Fund, aiming to raise ₹200 crore (with a greenshoe option to retain ₹100 crore), was launched in December 2011. The fund aims to invest in housing

Peer group comparision

	Marketcap (₹ crore)	CMP* (₹)	EPS (₹)	P/E
Dewan Housing	2,289	196.5	30.20	6.5
HDFC	1,15,770	752	36.50	20.6
LIC Hsg Finance	3,321	248	19.32	12.8
Gruh Finance	3,342	187	23.42	8.0
GIC Housing Finance	609	113	13.44	8.4
Canfin Homes	262	128	15.26	8.4

CMP as on Oct 19, 2012. EPS on consolidated basis for FY12

in 2002, as per a report of ICRA. It has, since then, risen to 7 per cent by 2007 and is hovering at 7-8 per cent now. This is still low, compared to 20 per cent in China.

However, with the majority of home loans concentrated in a handful of cities, each entrant is trying to find a niche for itself. Edelweiss is looking to cater to the upwardly mobile class and Bajaj Finserv is looking at servicing its own clients in the SME sector, while India Infoline has set up its company in Tamil Nadu.

For most non-banking finance companies, the entry into housing finance is a diversification play to complement its main activity. HDFC, LIC Housing Finance and Dewan Housing Finance are the three leading pure-play housing finance companies. Other established players include Gruh Finance, GIC Housing Finance and Canfin Homes. However, despite the growth of HFCs, banks continue to dominate the housing finance market, its share estimated at two-third of the current ₹5.5 lakh crore. SBI and ICICI have the biggest market shares, thanks to the lower interest rates they are able to offer.

Still, over the past five years, the banks' overall share in housing market has come down from nearly 72 per cent in 2007 to 66 per cent today. Better servicing and prompt delivery are the factors that prompt home loan buyers to prefer HFCs to banks. ◆

In a sweet spot

To provide loans to the economically backward class, in specified states, DHFL, in association with International Finance Co, has set up a new company Aadhar Housing Finance Ltd in 2010, in which IFC too has a 20 per cent equity stake. Aadhar caters to the EBC segment in six states in central and eastern India – UP, MP, Bihar, Jharkhand, Chhattishgarh and Orissa.

The maximum loan Aadhar can offer has been capped at ₹6 lakh and the company has set up 15 braches in two years since it has been in existence. "A majority of loans are taken by self-employed and salaried classes for the construction of their own houses," says Harshil Mehta, CEO, who was earlier MD & CEO, ICICI Home Finance. Apart from a staff of 115 people, Aadhar also has a technical support team comprising civil engineers, who provide advice to the potential home builders and help their identifying sites.

There is no dearth of demand with the average age of customers being around 36 years, says Mehta, adding that customers in these parts are bank-savvy. "About 93 per cent of the customers prefer to pay through ECS in towns, where banks have the facilities," Mehta points out. Through the creation of simple easy-to-understand products, Aadhar has built assets of ₹130 crore across 3,000 customers.


Mehta: no dearth of demand

Like in DHFL Vysya, the parent's holding in Aadhar too has been brought down to less than 10 per cent by September 2012. It is now an associate company of DHFL. Covering virtually all the segments, Aadhar stays at the lowest end of the spectrum, while Blue Finance is at the highest, having tie-ups with banks.

DHFL is now in a sweet spot, compared to other players in the country. It is using the distribution segment to offer insurance products to its home buyers too and has tied up with ICICI Lombard to cover the loans of the borrowers, in case of their untimely death. "Customer acquisition through internet is also picking up," says Wadhawan. "Going forward, we may look at expanding our presence in insurance, fund management and education finance in the future."

Passionate about education, Wadhawan is of the opinion that it is not only students going overseas who require access to loans. Even students wishing to pursue post-graduation courses in Indian colleges and institutions require financial assistance. Wadhawan Foundation has tied up with Rochester School to provide executive development programmes, as also MBAs to students in India. The group has also plans of expanding into the hospitality sector and growing its lifestyle business. ◆

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projects in Tier II and III cities and own flats costing ₹16-40 lakh. As an associate company, DHFL would earn a portion of the profits of Arthveda.

Wadhawan is clear that he does not wish to go into car loans or consumer loans businesses. "Servicing home loans take 40-50 per cent of the wallet size of our customers. I do not believe in overburdening them. Getting a house is the most important priority in an individual's life and there is enough scope of growth in this segment", he emphasises.

Surprisingly, however, the stocks have traditionally not got the rating it deserved. This is largely due to the perception of the company being linked to HDIL a leading property developer. The family tie-up, as well as the fact that the DHFL was housed in the same building as HDIL has strengthened the belief that both companies belong to the same family. Being clubbed with a property developer has prevented Dewan from getting the valuations of a standalone housing finance company. Its P/E, at 6.5, is far lower than the P/Es of HDFC (21x), LIC Housing Finance (13x), or other smaller companies (*see table*). At ₹210, Sonthalia feels, DHFL is fairly priced. "Traditionally, DHFL has been valued at 1.2-1.3 times its book value," says he.

Steady progress

The management is aware of the perception problem and is trying to sort this issue out. Apart from announcing that it has no ties with HDIL, it is also plans to shift its office to a new location. With promoters holding close to 36 per cent stake and institutions and private equity firms close to 44 per cent, retail investors' interest in the stock is low. That is one of the reasons DHFL has witnessed low activity on the bourses.

However, with Wadhawan clearly stepping on the accelerator, DHFL is bound to retain its leadership position in the niche it has chosen for itself, despite growing competition.

◆ DAKSESH PARIKH