Dewan Housing Finance NCD Issue – 22nd May

Summary:

Dewan Housing Finance Corp Ltd has come up with the 1st tranche of public issue of Unsecured Subordinated Redeemable Non-Convertible Debentures (NCDs) of face value of Rs. 1,000 each for an amount of Rs. 3,000 crores (Base Issue) with an option to retain oversubscription upto Rs. 9,000 crore for a total amount aggregating upto Rs. 12,000 crore.

The issue is open for subscription from May 22, 2018 to June 4, 2018 (The Company has the option of closing the issue on an earlier date, once it receives the amount it has targeted). The company will be paying an interest ranging between 8.56% and 9.10% p.a. on these bonds. For the Category III and IV, the company offers an additional interest rate of 10bps (and in one case, 20 bps).

The proposed NCDs issue has been rated 'CARE AAA (Triple A)'by CARE Ratings and "BWR AAA" by Brickwork Ratings India Pvt Ltd. Instruments with this rating are considered to have highest degree of safety regarding timely servicing of financial obligations and carry lowest credit risk.

Objects of the Issue: The Company proposes to utilise the funds which are being raised through the Issue, after deducting the Issue related expenses to the extent payable by DHFL ("Net Proceeds"), towards funding the following objects (collectively, referred to herein as the "Objects"): 1. For the purpose of onward lending, financing, and for repayment/ prepayment of interest and principal of existing borrowings of the Company (at least 75%); and 2. General corporate purposes.

Issuer	Dewan Housing Finance Corporation Ltd
Issue Size	Public Issue of Secured, Redeemable Non-Convertible Debentures of the Company of face value of Rs 1,000/- Each, for an amount of Rs 3,000cr (Base Issue Size) with an option to retain over-subscription upto Rs 9,000cr, aggregating upto Rs 12,000cr (Tranche I Issue)
Issue opens	**Tuesday , 22nd May 2018**
Issue closes	**Monday , 4th June 2018**
Allotment	First Come First Serve Basis
Face Value	Rs 1000 per NCD
Issue Price	Rs 1000 per NCD
Nature of Instrument	Secured , Redeemable Non-convertible Debentures
Minimum Application	Rs 10,000 (10 NCDs) and in multiple of Rs 1,000 (1 NCD) thereafter across all Series
Listing	NCDs are proposed to be listed on BSE & NSE.
Rating	'CARE AAA (Outlook: Stable)' by CARE Ratings Ltd; 'BWA AAA (Outlook : Stable)' by Brickwork

Issue Details

Series	I	II	III	IV	V	VI	VII*
Interest type	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Floating
Interest reset process	NA	NA	NA	NA	NA	NA	Annual
Frequency of Interest Payment	Annual	Annual	Annual	Annual	Monthly	Monthly	Annual
Tenor	3 Years	5 Years	7 Years	10 Years	3 Years	5 Years	3 Years
Coupon (%) for NCD	8.90%	8.90%	8.90%	8.90%	8.56%	8.56%	Benchmark MIBOR +

Holders in Category I & Category II							spread of 2.16%*
Coupon (%) for NCD holders in Category III	8.90%	9.00%	9.00%	9.00%	8.56%	8.65%	Benchmark MIBOR + spread of 2.16%*
Coupon (%) for NCD holders in Category IV	8.90%	9.00%	9.00%	9.10%	8.56%	8.65%	Benchmark MIBOR + spread of 2.16%*
Effective Yield (pa) for NCD Holders in Category I & Category II	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%	Benchmark MIBOR + spread of 2.16%*
Effective Yield (pa) for NCD Holders in Category III	8.90%	9.00%	9.00%	9.00%	8.90%	9.00%	Benchmark MIBOR + spread of 2.16%*
Effective Yield (per annum) for NCD Holders in Category IV	8.90%	9.00%	9.00%	9.10%	8.90%	9.00%	Benchmark MIBOR + spread of 2.16%*
Redemption Date (Years from the Deemed Date of Allotment)	3 Years	5 Years	7 Years	10 Years	3 Years	5 Years	3 Years
Redemption Amount (Rs/NCD)	Rs 1,000	Rs 1,000	Rs 1,000	Rs 1,000	Rs 1,000	Rs 1,000	Rs 1,000

* Benchmark MIBOR (defined below) as Reference Overnight MIBOR published by FBIL computed on an annulised basis. Subject to reset annually based on Overnight MIBOR benchmark rates. The Overnight MIBOR on 18th May was 6.04% p.a.

Category III and Category IV Investors in the proposed Tranche 1 Issue who are **senior citizens on the Deemed Date of Allotment** shall be eligible for an additional incentive of **0.10% p.a**. provided the NCDs issued under the proposed Tranche 1 Issue are continued to be held by such investors under Category III and Category IV on the relevant Record Date applicable for payment of respective coupons. This incentive shall be applicable on an amount not exceeding initial subscription amount.

Category III and Category IV Investors in the proposed Tranche 1 Issue, who **are intial allottees as on the Deemed Date of Allotment**, shall be eligible for a **one-time additional incentive of 0.50%, 0.70%, 1.00% and 0.50% for Series II, Series III, Series IV and Series VI respectively, payable along with last interest payment**, provided the NCDs under Series II, Series III, Series IV and Series VI, as applicable, are held by such investors under Category III and Category IV on the relevant Record Date, for all interest payments including the last interest payment. This incentive shall be applicable on an amount not exceeding initial subscription amount

Who Can Apply?

Category I	Category II	Category III	Category IV
Institutional Investors	**Non Institutional Investors**	**High Net-worth Individual (HNIs)**	**Retail Individual Investors**
• Public financial institutions, scheduled commercial banks, Indian multilateral and bilateral development financial institution which are authorized to invest in the NCDs; • Provident funds, pension funds with a minimum corpus of Rs 2,500 lakh, superannuation funds and gratuity funds, which are authorized to invest in the NCDs;	• Companies within the meaning of section 2(20) of the Companies Act, 2013; statutory bodies/ corporations and societies registered under the applicable laws in India and authorised to invest in the NCDs; • Co-operative banks and regional rural banks • Public/private charitable/ religious trusts which are authorised to invest in the NCDs;	• Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating to above Rs 10 lakh across all series of NCDs in Issue	• Resident Indian individuals and Hindu Undivided Families through the Karta applying for an amount aggregating up to and including Rs 10 lakh across all series of NCDs in Issue

• Mutual Funds registered with SEBI • Venture Capital Funds/Alternative Investment Fund registered with SEBI; • Insurance Companies registered with IRDA; • State industrial development corporations; • Insurance funds set up and managed by the army, navy, or air force of the Union of India; • Insurance funds set up and managed by the Department of Posts, the Union of India; • Systemically Important Non-Banking Financial Company, a nonbanking financial company registered with the Reserve Bank of India and having a net-worth of more than Rs 50,000 lakh as per the last audited financial statements; • National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;	• Scientific and/or industrial research organisations, which are authorised to invest in the NCDs; • Partnership firms in the name of the partners; • Limited liability partnerships formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (No. 6 of 2009); • Association of Persons; and • Any other incorporated and/ or unincorporated body of persons.		

Who are not eligible to apply for NCDs?

The following categories of persons, and entities, shall not be eligible to participate in the Issue and any Applications from such persons and entities are liable to be rejected:

1. Minors without a guardian name (A guardian may apply on behalf of a minor. However, Applications by minors must be made through Application Forms that contain the names of both the minor Applicant and the guardian);
2. Foreign nationals, NRI *inter-alia* including any NRIs who are (i) based in the USA, and/or, (ii) domiciled in the USA, and/or, (iii) residents/citizens of the USA, and/or, (iv) subject to any taxation laws of the USA;
3. Persons resident outside India and other foreign entities;
4. Foreign Institutional Investors;
5. Foreign Portfolio Investors;
6. Foreign Venture Capital Investors
7. Qualified Foreign Investors;
8. Overseas Corporate Bodies; and
9. Persons ineligible to contract under applicable statutory/regulatory requirements.

Allocation Ratio

QIB Portion	Corporate Portion	High Net Worth Individual Portion	Retail Individual Investor Portion
25% of the Overall Issue Size	10% of the Overall Issue Size	30% of the Overall Issue Size	35% of the Overall Issue Size

Credit Rating:

The NCDs proposed to be issued under this Issue have been rated 'CARE AAA; Stable (Triple A; Outlook: Stable)' for an amount of Rs.15,00,000 lakh, by CARE Ratings Limited ("CARE") vide their letter dated April 27, 2018 and 'BWR AAA (Pronounced as BWR Triple A), Outlook: Stable' (for an amount of Rs.15,00,000 lakh, by Brickwork Ratings India Private Limited ("Brickwork") vide their letter dated April 27, 2018. The rating of CARE AAA; Stable by CARE and BWR AAA, Outlook: Stable' by Brickwork indicate that instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations.

Interest on application Money: On Allotment – 7.50% p.a.

Interest on Refund: 5% p.a.

Liquidity and Exit Options: The Bonds are proposed to be listed on the BSE and NSE

Company Background:

The company is a deposit-taking housing finance company registered with the NHB and focused on providing financing products for the LMI segment in India primarily in Tier II and Tier III cities and towns. It has been active in the housing finance sector in India since 1984. It provides secured finance primarily to individuals, partnership firms and companies for the purchase, self-construction, improvement and extension of homes, new and resalable flats, commercial properties and land. It also provides certain categories of non-housing loans, asset management services, mutual fund products and insurance products.

It has a robust marketing and distribution network, with a presence across 347 locations including 187 branches, 135 micro branches, 20 zonal/ regional / CPU offices, two disbursement hubs, one collection center, one Corporate office and One National office, as at March 31, 2018. In addition to its network within India, it has international representative offices located in London and Dubai. To broaden its customer base and to penetrate further geographically, it has entered into tie-up with a public sector bank. Further, it also offers life insurance products through DHFL Pramerica Life Insurance Company Limited. It provides asset management services to customers in the LMI segment through its joint venture entities DPAMPL and DPTPL, the asset management company and trustee company of DHFL Pramerica Mutual Fund (formerly Pramerica Mutual Fund)

As at March 31, 2016, March 31, 2017 and March 31, 2018, its loan book stood at Rs. 61,77,502 lakh, Rs. 72,09,618 lakh and Rs. 91,93,232 lakh, respectively and its assets under management were Rs. 69,52,388 lakh, Rs. 83,55,992 lakh and Rs. 1,11,08,583 lakh, respectively. As at March 31, 2016, March 31, 2017 and March 31, 2018 its gross NPAs as a percentage of its loan book was 0.93%, 0.94% and 0.96%, respectively and its net NPAs as a percentage of its loan book was 0.58%, 0.58% and 0.56%, respectively.

For the Fiscals 2016, 2017 and 2018, its total revenue from operations was Rs 729,510 lakh, Rs 885,176 lakh and Rs 1,045,016 lakh, respectively on a standalone basis and Rs 783,487 lakh, Rs 960,990 lakh and Rs 1,051,474 lakh, respectively on a consolidated basis. Its profit after tax for the Fiscals 2016, 2017 and 2018 was Rs 74,930 lakh, Rs 280,630 lakh and Rs 116,565 lakh, respectively on a consolidated basis and Rs 72,920 lakh, Rs 289,645 lakh and Rs 117,213 lakh, respectively on a standalone basis. Its standalone revenue from operations and profit after tax grew at a CAGR of 19.7% and 26.8%, respectively and its consolidated revenue from operations and profit after tax grew at a CAGR of 15.8% and 24.7%, respectively, over the last three Fiscals.

Financial Performance:

Particulars (Amount in Rs.Cr)	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net worth	8,795.64	7,995.80	5,017.00
Total Debt	92,715.45	81,341.24	61,103.66
Non-Current Maturities of Long Term Borrowing	70,214.31	66,753.91	45,119.47
Short Term Borrowing	88,12.43	4,268.66	6,436.60
Current Maturities of Long Term Borrowing	13,585.30	10,241.93	9,493.49
Unclaimed Matured Deposits and Interest Accrued thereon	103.41	76.74	54.10
Net Fixed Assets	978.84	842.67	780.52
Non-Current Assets (Excluding Fixed Assets & Other Non-current assets)	88,013.90	69,585.38	59,424.11
Cash and Bank Balances(Including Non-current portion)	2,955.82	3,620.41	3,622.11
Current Investments	6,001.65	12,587.33	173.46
Current Assets (Excluding Cash and Bank Balances current portion & Current Investments)	9,622.26	5,662.19	3,864.49
Current Liab (Excl Short term borrowing, Current Maturities of Long Term Borrowing & Matured Deposits and Interest thereon)	4,832.75	2,014.05	1,112.06
AUM (i.e. Housing and Property Loans ,including Securitised and Syndicated Portion)	111,085.83	83,559.91	69,523.88
Off Balance Sheet Assets	-	-	-
Interest Income (Including Treasury Income)	10,005.65	8,631.12	7,139.47
Interest Expense	7,564.92	6,653.61	5,490.03
Provisioning & Write-offs	419.80	218.00	175.00
PAT	1,172.13	2,896.45	729.20
Gross NPA (%) **	0.96	0.94	0.93
Net NPA (%) ***	0.56	0.58	0.58
Tier I Capital Adequacy Ratio (%)	11.52	14.75	12.97
Tier II Capital Adequacy Ratio (%)	3.77	4.37	3.77
Gross Debt Equity Ratio			
Before the Issue		10.21	
After the Issue		11.91	

Competitive Strengths of the company

- Long track record of leadership in the Low and Middle Income segment
- Strong growth opportunity supported by Government critical policy agenda
- Diversified funding mix with focused Asset Liability Management
- Healthy asset quality reinforced by strong risk management framework
- Strong financial profile
- Strong Management Team and Corporate Governance

Risk and Concerns:

- Any inability to maintain its growth may have a material adverse effect on its business, results of operations and financial condition.
- Its business is particularly vulnerable to volatility in interest rates.
- Any increase in the levels of non-performing assets in its loan portfolio, for any reason whatsoever, would adversely affect its business, results of operations and financial condition.
- Its indebtedness and conditions and restrictions imposed by its financing arrangements could adversely affect its ability to conduct its business and operations.

- The company has undertaken, and may undertake in the future, strategic acquisitions and alliances, which may be difficult to integrate, and may end up being unsuccessful.
- The company regularly introduces new products for its customers, and there is no assurance that its new products will be profitable in the future.
- The company may experience difficulties in expanding its business into new regions and markets.
- There is no assurance that the company will be able to access the capital markets when necessary in order to maintain such a ratio.
- As a HFC, the company face the risk of default and non-payment by borrowers. Any such defaults and non-payments would result in write-offs and/or provisions in its financial statements which may have a material adverse effect on its profitability and asset quality.
- The company is a listed HFC and are subject to various regulatory and legal requirements. Also, future regulatory changes may have a material adverse effect on its business, results of operations and financial condition
- The company is subject to periodic inspections by the NHB. Non-compliance with the NHB's observations made during any such inspections could adversely affect its reputation, business, financial condition, results of operations and cash flows.
- The company may face maturity mismatches between its assets and liabilities in the future which may cause liquidity issues.
- If the company fail to identify, monitor and manage risks and effectively implement its risk management policies, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.
- Any decrease in revenue the company earn from the distribution of insurance products may have an adverse effect on its results of operations.
- The company may not be successful in its asset management and mutual funds business which could have a material adverse effect on its business, results of operations and financial condition.
- The company has entered into tie-ups with commercial banks which may be terminated or may restrict its ability to recover outstanding loans which have been disbursed.
- The company may be unable to realize the expected value of collateral when borrowers default on their obligations to the company, which could have a material adverse effect on its business, financial condition, 19 results of operations and cash flows.
- As a HFC, the company have significant exposure to the real estate sector and any negative events affecting this sector could adversely affect its business and result of operations.
- Its growth in profitability depends on the continued growth of its loan portfolio.
- The company operates in a highly competitive industry in India
- The company may not be able to secure the requisite amount of financing at competitive rates for its growth plans and continue to gain undisrupted access to its funding sitsces, which could adversely affect its business, results of operations and financial condition.
- Any downgrade in its credit ratings may increase interest rates for refinancing its outstanding debt, which would increase its financing costs, and adversely affect its future issuances of debt and its ability to borrow on a competitive basis.
- Its ability to raise foreign capital may be constrained by Indian law.
- Its investments are subject to market risk and its exposure to capital markets is subject to certain regulatory limits.
- The company has contingent liabilities as at March 31, 2018 and its financial condition may be adversely affected if these contingent liabilities materialize.
- The company is party to certain legal proceedings and any adverse outcome in these or other proceedings may adversely affect its business.
- The company may not be able to renew or maintain its statutory and regulatory permits and approvals required to operate its business.
- Its business is dependent on relationships with its clients established through, amongst others, its branches. Closure of branches or loss of its key branch personnel may lead to damage to these relationships and a decline in its revenue and profits.
- Its business and operations significantly depend on senior management and key employees and may be adversely affected if the company are unable to retain them.
- Its business and operations significantly depend on its Promoters and any change in control of its Company may correspondingly adversely affect its business, results of operations and financial condition.
- Joint ventures and associate companies that are not wholly owned by the company present risks that the company would not otherwise face.
- Its business is subject to operational risks, including fraud.
- Its business is highly dependent on information technology. A failure, inadequacy or security breach in its information technology and telecommunication systems or an inability to adapt to rapid technological changes may adversely affect its business, results of operation and financial condition.

- The company depend on the accuracy and completeness of information provided by its potential borrowers. Its reliance on any misleading information given by potential borrowers may affect its judgment of credit worthiness of potential borrowers, and the value of and title to the collateral, which may affect its business, results of operations and financial condition.
- Its insurance coverage may not adequately protect the company against losses, and successful claims that exceed its insurance coverage could harm its results of operations and diminish its financial position.
- The company is yet to receive certain registrations in connection with the protection of its trademarks. Failure to protect its intellectual property rights could adversely affect its competitive position, business, financial condition and profitability.
- The company depends on third party selling agents for referral of a certain portion of its customers, who do not work exclusively for the company.
- The company have not entered into formal license agreements with certain of its associate companies with respect to the use of its registered trademarks. Any misuse of its logo and other registered trademarks may have an adverse effect on its reputation and goodwill, business and results of operations.
- Public companies in India, including the company, may be required to prepare financial statements under Ind-AS. The transition to Ind-AS in India is still unclear and the company may be adversely affected by this transition.
- Its registered office and certain of its branch offices are not owned by the company.
- The company has entered into a number of related party transactions and may continue to enter into related party transactions, which may involve conflicts of interest.
- The company may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis, which could expose the company to additional liability and harm its business or reputation.
- A substantial portion of its loans have a tenor exceeding one year, which may expose the company to risks associated with economic cycles.
- The company is exposed to fluctuations in foreign exchange rates.
- Any slowdown in economic growth in India may adversely affect its business, results of operations and financial condition.
- The Indian housing finance industry is competitive and increasing competition may result in declining margins if the company are unable to compete effectively.
- The growth rate of India’s housing finance industry may not be sustainable.
- If inflation were to rise significantly in India, the company might not be able to increase the prices of its products at a proportional rate in order to pass costs on to its customers and its profits might decline.
- Its business and activities may be affected by the recent amendments to the Companies Act, 2013.
- Its business and activities may be affected by the amendments to the competition law in India.
- Companies operating in India are subject to a variety of central and state government taxes and surcharges. Any increase in tax rates could adversely affect its business and results of operations.
- The company may have to comply with stricter regulations and guidelines issued by regulatory authorities in India, including the NHB.
- Borrowing for the purchase or construction of property may not continue to offer borrowers the same fiscal benefits it currently offers, and the housing sector may not continue to be regarded as a priority sector by the GoI.
- Civil unrest, acts of violence, including terrorism or war involving India and other countries, could materially and adversely affect the financial markets and its business.
- Financial difficulty and other problems in certain financial institutions in India could adversely affect its business, results of operations and financial condition.
- Any downgrading of India’s debt rating by an international rating agency could adversely affect its business, results of operations and financial condition.
- Natural disasters and other disruptions could adversely affect the Indian economy and could adversely affect its business, results of operations and financial condition.
- If the company do not generate adequate profits, the company may not be able to maintain an adequate DRR for the NCDs issued pursuant to this Draft Shelf Prospectus, which may have a bearing on the timely redemption of the NCDs by its Company.
- Changes in interest rates may affect the price of its NCDs.
- You may not be able to recover, on a timely basis or at all, the full value of the outstanding amounts and/or the interest accrued thereon in connection with the NCDs.
- There is no assurance that the NCDs issued pursuant to this Issue will be listed on Stock Exchanges in a timely manner, or at all.
- Its Company may raise further borrowings and charge its assets after receipt of necessary consents from 32 its existing lenders.

- Payments to be made on the NCDs will be subordinated to certain tax and other liabilities preferred by law. In the event of bankruptcy, liquidation or winding-up, there may not be sufficient assets remaining to pay amounts due on the NCDs.
- You may be subject to taxes arising on the sale of the NCDs.
- There may be no active market for the non-convertible debentures on the WDM segment of the stock exchange. As a result, the liquidity and market prices of the non-convertible debentures may fail to develop and may accordingly be adversely affected
- The fund requirement and deployment mentioned in the Objects of the Issue have not been appraised by any bank or financial institution.

RETAIL RESEARCH Tel: (022) 3075 3400 Fax: (022) 2496 5066 Corporate Office