

## Rating Rationale for mobilization of Fixed Deposits of ₹ 1000 crore (enhancement in the limit from ₹ 500 crore) and reaffirmation of “BWR AAA” for other outstanding instruments of Dewan Housing Finance Corporation Limited

Brickwork Ratings (BWR) has assigned and reaffirmed the ratings for the following Issues of Dewan Housing Finance Corporation Limited (DHFL):

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History			
						Review As on	Review As on	Review As on	Rating As on
Fixed Deposit	₹ 1000 crore	BWR FAAA (Stable)	Assigned	-	-	BWR FAAA November 2010	BWR FAAA October 2010	BWR FAAA June 2010	BWR FAAA May 2009
Subordinated Debt	₹ 250 crore	BWR AAA (Stable)	Reaffirmed	-	-	-	-	-	BWR AAA November 2010
Subordinated Debt	₹ 250 crore	BWR AAA (Stable)	Reaffirmed	-	-	-	-	BWR AAA November 2010	BWR AAA October 2010
NCD	₹ 1000 crore*	BWR AAA (Stable)	Reaffirmed	Raised ₹ 320 cr, June 2, 2010	June 2, 2013	BWR AAA November 2010	BWR AAA October 2010	BWR AAA June 2010	BWR AAA May 2009

\*Out of the NCD for ₹ 1000 crore rated, DHFL has utilized the rating for ₹ 585 crore and the unutilized portion is ₹ 415 crore.

The rating grade “BWR FAAA” indicates that the Company’s Fixed Deposits are considered to offer the BEST safety in terms of timely servicing of interest and principal. (Brickwork Ratings application for registration with RBI/NHB in this regard is pending with them). The rating grade “BWR AAA” for other Instruments indicates that they are considered to offer the BEST credit quality in terms of timely servicing of debt obligations.

A “Stable” rating outlook signifies the expectation of the rating being stable in the near term. For the purpose of rating Brickwork has taken into consideration nature of debt instrument and inherent risks in DHFL’s various debt programmes.

The rating has been reaffirmed taking into account the financial performance of the company, publicly available information and clarifications provided by the company. The ratings, inter alia, factors growth in sanctions and disbursements of loans, comfortable

capital adequacy, consistent growth and reduction in NPA's through effective recovery measures.

DHFL has posted strong growth in sanctions and disbursement of loans along with improvement in quality of loans in Q3FY11. The sanctioned loans for nine months ended Dec 31, 2010 stood at ₹ 6209 crore while disbursements stood at ₹ 4471 crore.

DHFL's interest income has increased by 18.25% from ₹ 309.84 crores in Q2FY11 to ₹ 366.39 crores in Q3FY11 as against the interest expenses which increased by 23.65% from ₹ 212.28 crore during Q2FY11 to ₹ 262.49 during Q3FY11. It has posted a profit before tax of ₹ 81.06 crore for the quarter Q3FY11 as compared to ₹ 77.4 crore in Q2FY11 (excluding exceptional items), an increase of around 4.7% over the last quarter.. The company has registered net profit of ₹ 61.76 crores in Q3FY11 as compared to ₹ 58.04 crore in Q2FY11 (excluding exceptional items), an increase of 6.4% over the last quarter.

The profit before tax (excluding exceptional items) for nine months ended December 2010 stood at ₹225.09 Crores as against ₹145.69 Crores for nine months ended December 2009, an increase of 54.50%. The net profit (without exceptional items) increased by 57.02% to ₹ 171 Crores for nine months ended December 2010 as compared to ₹ 108.9 Crores for nine months ended December 2009.

For nine months ended December 2010, the profit before tax stood at ₹ 260.5 Crores as against ₹ 145.69 Crores for nine months ended December 2009, registering an increase of 78.8%; the profit before tax in December 2010 includes an exceptional item of ₹ 35.43 crore, which was due to profit on sale of shares of an erstwhile Group Company held by the promoters. The net profit including exceptional items stood at ₹ 206.47 crores for nine months ended December 2010 as against ₹ 108.9 Crores for nine months ended December 2009, an increase of about 89.6%.

The Net Interest Margin remained stable at about 3.01% as of nine months ended December 2010.

The Return on Assets has marginally decreased to 2.12% during Q3FY11 as compared to 2.17% during Q2FY11. The Return on Equity has increased from 19.21% in Q2FY11 to 19.50% in Q3FY11.

The company's asset quality has shown improvement with its gross NPA levels at 0.99% as on 31<sup>st</sup> December 2010 as compared to 1.07% on 30<sup>th</sup> September 2010. Net NPAs have shown a similar trend and have decreased from 0.41% in Q2FY11 to 0.39% in Q3FY11.

DHFL capital adequacy levels stood at 21.12% as of September 2010 with the Tier I capital ratio at 20.61%, which is well above the minimum stipulated requirement.

### **Acquisition of Deutsche Postbank Home Finance Ltd.**

DHFL has, as on December 01, 2010, announced that DHFL along with its promoter group entity Wadhawan Housing Private Limited and Caledonia Investments Plc, an existing long term investor in DHFL, entered into a definitive agreement to acquire 100% stake in Deutsche Postbank Home Finance Ltd from BHW Holding AG, a 100% subsidiary of Deutsche Postbank, AG for a total cash consideration of ₹ 1079 crore

(subject to any closing adjustments). The company has sought the approval of the National Housing Bank for the transaction.

Post the transaction DHFL will hold 67.50% equity stake in the Company for a cash consideration of ₹ 729 crore. The Promoter group of DHFL will hold 18.50% of equity stake for a cash consideration of ₹ 200 crore while Caledonia Investments Plc will hold 14% stake for a cash consideration of ₹ 150 crore.

After acquisition, DHFL would have pan India presence, as DHFL has strong presence in South (25%) and West region (63%) while DPHFL has strong presence in North (41%) and South (25%) region. DHFL would have diversified customer base after acquisition as the customer segment of DHFL has been the low & medium income segment while DPHFL has been targeting more of mid market segment. The average ticket size of DHFL would also increase after acquisition.

Brickwork Ratings expects the performance of DHFL to remain stable over the next year.

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BWR's Fixed Deposit Rating Symbols / Definitions have undergone minor changes with effect from June 21, 2011. For information on BWR's Rating Symbols and their definition, please refer to our website link <http://www.brickworkratings.com/scale.html>. It is clarified that the said change in the definition should not be construed as a change in the Rating.