

Rating Rationale for assignment and reaffirmation of ratings for the following Issues of Dewan Housing Finance Corporation Limited:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History		
						Review As on	Review As on	Rating As on
Subordinated Debt	₹ 250 crore	BWR AAA (Stable)	Assigned (October 20, 2010)	-	-	-	-	-
Fixed Deposit	₹ 500 crore	BWR F AAA (Stable)	Reaffirmed	-	-	-	BWR F AAA June 2010	BWR F AAA May 2009
NCD	₹ 1000 crore*	BWR AAA (Stable)	Reaffirmed	Raised ₹ 320 cr, June 2, 2010	June 2, 2013	BWR AAA June 2010	BWR AAA May 2010	BWR AAA May 2009

*Out of the said ₹ 1000 crore rated, DHFL has utilized the rating for ₹ 320 crore and the unutilized portion is ₹ 680 crore.

“BWR AAA” rating stands for an instrument that is considered to offer the BEST credit quality in terms of timely servicing of debt obligations.

“BWR F AAA” rating for fixed deposits stands for an instrument that is considered to offer the BEST safety in terms of timely servicing of interest and principal. (The rating assigned is subject to the following: Brickwork Ratings application for registration with RBI is pending and the Rating given could be used as an additional third party opinion.)

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 programmers.

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 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 during Q1 FY 11. The sanctioned loans has grown from ₹ 1056 crores in Q1FY10 to ₹ 1769 crores in Q1FY11 registering a growth of 67% year-on-year, while disbursements has grown from ₹ 773 crores in Q1FY10 to ₹ 1274 crores in Q1FY11 registering an impressive growth of 64% year-on-year. The total lending portfolio has increased mainly due to the growth in the housing loan segment.

DHFL's total income from operations has increased by 40% from ₹ 213 crores in Q1FY10 to ₹ 298 crores in Q1FY11 as against the interest expenses which increased by 32% from ₹ 149 crore during Q1FY10 to ₹ 197 during Q1FY11. It has posted profit before tax of ₹ 66 crore for the quarter Q1FY11 as compared to ₹ 42 crore in Q1FY10, an increase of 55.75%. The company has registered net profit of ₹ 51 crores in Q1FY11 as compared to ₹ 31 crore in Q1FY10, an increase of 64% over the quarter. However, the Net Interest Margin has declined to 2.85% in Q1FY11 from 3.02% as on March 31, 2010.

The Return on Assets has increased and was 2.10% during Q1FY11 as compared to 1.86% as on March 31, 2010. The Return on Equity has marginally decreased from 22.90% in FY10 to 21.56% in Q1FY11.

The company's asset quality has shown improvement with its gross NPA levels at 1.09% as on 30th June 2010 as compared to 1.16% on 31st March 2010. Net NPAs have shown a similar trend and have decreased from 0.73% in FY10 to 0.70% in Q1FY11.

DHFL capital adequacy levels stood at 17.26% as of March 2010, which is well above the minimum stipulated requirement. DHFL's Tier I capital adequacy ratio was 15.75% as of March 2010. Tier I capital mainly improved during the year due to the raising of capital through issue of equity by the company.

With appropriate initiatives being taken by the Company, growth in earnings and improvement in asset quality are expected to continue. Overall, Brickwork Ratings expects the performance of DHFL to remain stable over the next year.

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Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15, 2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to <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.