

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

| Instruments       | Amount        | Rating             | Assigned/<br>Reaffirmed      | Issue<br>Date                 | Maturity<br>Date | Rating History         |                     |                      |
|-------------------|---------------|--------------------|------------------------------|-------------------------------|------------------|------------------------|---------------------|----------------------|
|                   |               |                    |                              |                               |                  | Review<br>As on        | Review<br>As on     | Rating<br>As on      |
| Subordinated Debt | ₹ 250 crore   | BWR AAA (Stable)   | Assigned (November 15, 2010) | -                             | -                | -                      | -                   | -                    |
| Subordinated Debt | ₹ 250 crore   | BWR AAA (Stable)   | Reaffirmed                   | -                             | -                | -                      | -                   | BWR AAA October 2010 |
| Fixed Deposit     | ₹ 500 crore   | BWR F AAA (Stable) | Reaffirmed                   | -                             | -                | BWR F AAA October 2010 | 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 October 2010   | BWR AAA June 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 HY1 FY 11. The sanctioned loans have grown from ₹ 2236 crores in HY1FY10 to ₹ 3995 crores in HY1 FY11, registering a growth of

78% year-on-year, while disbursements have grown from ₹ 1753 crores in HY1 FY10 to ₹ 2944 crores in HY1 FY11 registering a growth of 67% 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 34.50% from ₹ 245.54 crores in Q2FY10 to ₹ 330.24 crores in Q2FY11 as against the interest expenses which increased by 23% from ₹ 172.12 crore during Q2FY10 to ₹ 212.27 during Q2FY11. It has posted profit before tax of ₹ 112.83 crore for the quarter Q2FY11 as compared to ₹ 50.44 crore in Q2FY10, an increase of 123% y-on-y. The company has registered net profit of ₹ 93.47 crores in Q2FY11 as compared to ₹ 37.51 crore in Q2FY10, an increase of 149% over the quarter. The increase in the profit was due to an exceptional item of ₹ 35.43 crore. It represents profit on sale of shares of erstwhile Group Company of promoters. However, the Net Interest Margin has marginally declined to 3.01% in Q2FY11 from 3.02% as on March 31, 2010.

The Return on Assets has increased and was 2.17% during Q2FY11 as compared to 1.86% as on March 31, 2010. The Return on Equity has marginally decreased from 22.90% in FY10 to 19.21% in Q2FY11.

The company's asset quality has shown improvement with its gross NPA levels at 1.07% as on 30<sup>th</sup> September 2010 as compared to 1.16% on 31<sup>st</sup> March 2010. Net NPAs have shown a similar trend and have decreased from 0.73% in FY10 to 0.41% in Q2FY11. DHFL has created Contingency Reserves of ₹ 35 crore being extra voluntary provision on Standard Assets.

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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|--|---|
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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.