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## Rating Rationale for Dewan Housing Finance Corporation Limited's NCD and Fixed Deposit Issues Rating

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**Dewan Housing Finance Corporation Limited**

**NCD Issue Rating: BWR AAA  
Fixed Deposit Rating: BWR AAA**

Brickwork Ratings has assigned BWR AAA (Pronounced BWR Triple A ) for DHFL's (1) proposed Non Convertible Debenture Issue of INR 1000 crore or INR 10 billion with tenor up to 10 years and (2) mobilization of fixed deposits up to INR 200 crore or INR 2 billion. Brickwork Ratings' 'BWR AAA' stands for an instrument that is considered to offer EXCELLENT credit quality / safety in terms of timely servicing of principal and interest obligations. The rating factored good growth in sanctions and disbursement of housing loans, asset quality, comfortable capital adequacy, healthy return on funds, and good management quality with continuous focus on its core competency.

BWR has essentially relied upon audited financial statements of FY March 2009 and the past three years and projected financial figures, information and clarification sought by us and provided by DHFL.

DHFL has posted strong growth in total business, disbursement of loans along with improvement in quality of loans during FY-09. With total business growth of 39.65%, DHFL has skillfully prevailed over the challenging economic conditions during FY 09.

Considering the fact that it essentially caters to the small and medium class borrowers in Tier II cities and towns and even semi-urban areas, DHFL's asset quality is very good. During FY-09, DHFL's gross NPAs stood at 1.47%, which is 13 bps lower than previous year.

DHFL has continued to generate impressive revenues. Revenues saw an increase of 32.69 % from INR 5.23 billion in FY-08 to 6.94 Billion in FY-09. As a result, the DHFL's net profit surged 10.84% (INR 0.92 billion) during FY-09.

**Table I: DHFL's Improving Strengths**

Criteria	FY - 2006	FY - 2007	FY- 2008	FY- 2009
<b>(Amount in INR Billion)</b>				
Loan Approvals	12.57	15.03	20.1	26.75
Loan Disbursement	11.1	14.73	17.62	22.66
Cumulative Disbursement	38.68	53.41	71.03	93.42
Total Loans	22.89	33.02	41.58	58.07
Revenue	2.27	3.32	5.23	6.94
Net Profit	0.42	0.48	0.83	0.92
GNPA	1.25%	1.33%	1.60%	1.47%
CRAR	13.33%	14.06%	16.72%	16.21%
EPS (in Rs)	8.32	9.22	14.43	15.15

## Background

Dewan Housing Finance Corporation Ltd. (DHFL) was incorporated in 1984. Currently, Shri Rakesh K Wadhawan is the Chairman of DHFL and Shri Kapil Wadhawan is its Vice Chairman and Managing Director. With more than 25 years of experience, DHFL is among the oldest private sector housing finance companies (HFC) in India. It is the fourth largest housing finance company with total asset size of around INR 63.95 billion as on March 31, 2009.

Throughout its life DHFL has followed a business model to cater to the middle and low income segment borrowers which makes it unique among the HFCs. This is evident as DHFL has a loan portfolio of INR 58.16 billion with an average loan size of Rs 4.23 lakh as compared to other HFCs of Rs 14.1 lakh.

With its 76 branches and 114 service locations throughout India, it has an overall customer base of 1.20 lakh middle income households. The average tenure for the loan stands at 11.9 years. Table II gives the details of the same.

<b>Table II: Assets Profile</b>	
<b>Tenure</b>	<b>Percent</b>
<b>0 to 5 yrs</b>	<b>3%</b>
<b>5 to 10 yrs</b>	<b>34%</b>
<b>10 to 15 yrs</b>	<b>35%</b>
<b>15 to 20 yrs</b>	<b>28%</b>

DHFL has lent over 75% of its assets to salaried individuals. Despite lending to middle and lower strata of society DHFL has maintained high standard in asset quality through appropriate recovery measures as evidenced by lower NPA levels. Close surveillance and initiation of prompt remedial action in borrowed accounts has ensured high quality of assets for DHFL. Standard assets constitute 98.53 % of DHFL loans as on 31st March 2009. Gross NPAs have come down to 1.47% as on 31st March 2009 from 1.60% for the same period a year ago. In absolute terms DHFL's gross NPAs stood at INR 0.86 billion during FY-09 as compared to INR 0.67 billion during FY-08.

Total income recorded a growth of INR 1.71 billion from INR 5.23 billion in the year 2007-08 to INR 6.94 billion during the year 2008-09 as against the interest expenses which increased from INR 3.65 billion during FY-08 to INR 4.93 billion during FY 09. DHFL's net interest income recorded a growth of INR 0.43 billion during the same period. Similarly, other income increased by INR 0.016 billion from INR 0.029 billion in FY 08 to INR 0.045 billion in FY 09.

DHFL has posted gross profit of INR 1.32 billion for the year ended March 31, 2009 as compared to INR 1.12 billion in the previous year. DHFL recorded 10.85% growth in net profit to reach INR 0.92 billion in FY 09, as compared to INR 0.83 billion a year ago.

DHFL had capital adequacy ratio of 16.21% as on 31st March 2009, which is well above the minimum stipulated 12%. During FY 09, DHFL's Net Worth had improved progressively to reach INR 5.14 billion with 15.38% growth over the previous year. The Return on Assets stood at 1.44% during FY 09 while ROE has also improved by 151 bps from 18.55% in FY 08 to 20.06% at end of FY 09.

## DHFL's performance vis-à-vis other HFCs

BWR has made a study of the performance of DHFL vis-à-vis other major HFCs and has grouped it along with HDFC, LICHF, GICHF, GRUH Fin, ICICI HF etc. Strictly speaking these HFCs cannot be considered as peers of DHFL due to the fact that such HFCs are backed by big financial institutions that support them financially. Further they also cater to different client segment in bigger cities.

Table IV gives the comparison of key parameters of DHFL with other HFCs.

<b>Table IV: DHFL Vs Peer Group</b>		
	<b>DHFL</b>	<b>Peers</b>
<b>Year</b>	<b>2009</b>	<b>2009</b>
<b>1. Operating Ratios</b>		
Cost of Deposits	7.29%	5.47%
Cost of Borrowings	8.40%	7.90%
Cost of Funds	8.39%	7.91%
Return on Funds	11.01%	9.97%
Spread (Difference RF-CF)	2.62%	2.07%
Debt/Equity	11.44	10.43
<b>2. Earnings (As % of Assets)</b>		
Interest Income	10.19%	9.84%
Interest Expense	7.71%	6.66%
Net Interest Income	2.48%	3.18%
Non-Interest income	0.66%	0.61%
Non-Interest Expense	1.20%	1.39%
PBT	1.94%	2.81%
PAT	1.44%	2.03%
<b>3. Profitability</b>		
ROA	1.44	2.18
ROE	20.06	17.26
<b>4. Asset Quality (As % of Advances)</b>		
Gross NPA	1.47%	1.28%
<b>5. Capital Adequacy</b>		
CRAR	16.21	17.87
Leverage	12.21	10.16

It is observed that DHFL has got a slightly higher cost of borrowings and cost of funds among HFCs. However this should be viewed in the context of the financial back up received by other HFCs from their sponsoring institutions as mentioned earlier, we therefore are not considering it as a negative feature. Again the debt to equity (D/E) ratio in case of DHFL is marginally higher, though is very much below the approved norms of 15 for HFCs. However DHFL's spread is comparatively higher. DHFL has outperformed other HFCs in major parameters under earnings ratio.

DHFL's return on assets at 1.44% is lower than other HFC. On the contrary ROE is comparatively higher by 280 bps. DHFL has performed well in terms of quality of advances mainly due to its stringent policies and continuous focus on its niche borrowers belonging to small and medium class segment from Tier II cities and rural areas. DHFL's gross NPAs of 1.47% as against the HFCs' 1.28% has been viewed in that context and BWR considers it as a favorable ratio indicative of company's efficient post sanction monitoring and recovery mechanism.

DHFL's capital adequacy ratio is almost at par with other HFCs. As of 31st March 2009, the CRAR was 16.21%. The CRAR is well above the minimum requirement of 12% stipulated by the National Housing Bank (NHB). A special feature of the BWR rating analysis is the application of leverage ratio for analyzing DHFL's performance. Brickwork calculates Leverage that assesses DHFL's capital adequacy with reference to both on and off balance sheet exposures. DHFL's leverage ratio of 12.21 as compared to other HFCs average of 10.16 is considered very good and favorable by BWR keeping in view the strong financial back up provided to such HFCs by their sponsoring financial institutions.

**Other Significant features:**

- i. In order to increase its market penetration in North India DHFL has tied up with Punjab & Sind Bank to have greater access to Tier II cities of Punjab.
- ii. It has introduced several new schemes which are specially designed to suit the needs of specific segments of customers like home loans for NRIs etc.
- iii. Apart from that it also has introduced a Reverse Mortgage scheme called "Saksham" for the first time in India.

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**Use of Technology:**

DHFL has used technology for loan sanction credit delivery and collection efforts, very effectively. Moreover, in order to optimize its cost of operation DHFL has relied on implementation and utilization of its technical resources and optimal utilization of manpower and infrastructure. This operational leverage on existing fixed costs will simultaneously increase business and manpower productivity.

**Management of Risk:**

DHFL has an adequate risk management system in place duly approved by its board to take care of credit, market, and operational risks. The board periodically reviews the same. Accordingly it has put in place an appropriate machinery to identify measure, monitor and control the overall level of risks undertaken.

**Rating Outlook:**

DHFL has, since inception, concentrated on the middle and lower middle income groups for business, with a good reach in semi-urban and rural areas, where competition is relatively lower. Since most other large players have concentrated on big town and cities and on the upper middle class for getting new business, DHFL as a matter of policy has moved to smaller cities and towns of the country to meet the housing needs of the people living there.

DHFL has an excellent track record of performance and growth and is expected to do well in future also. The housing sector will continue to grow but at a slower pace due to the current economic conditions and may face pressures on the asset quality. The key factors which will influence DHFL's future growth will be maintaining asset quality and efficiency as well as to take steps to lower its cost of funds.

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