# Q1 2012 Earnings Call - Dewan Housing Finance Corp Dt-28 Jul'11

## Operator

Ladies and gentlemen, good afternoon. Dewan Housing Finance Corporation Limited welcomes you all to discuss its Financial Performance and Results for Quarter Ended June 2011. To discuss the financial performance of DHFL and address your queries, we have with us, Mr. Kapil Wadhawan, Chairman and Managing Director, DHFL; Mr. Anil Sachidanand, CEO, DHFL; Mr. Prashant Chaturvedi, Head Finance and Resources and Mr. Kaustubh Shah, Head of Investor Relations. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kapil Wadhawan. Thank you and over to you, sir.

## Kapil Wadhawan, Chairman and Managing Director

Thank you. Good afternoon, ladies and gentlemen. Welcome to Dewan Housing Finance Corporation's earnings conference call for the quarter-ended June 2011. I will first briefly talk about DHFL and the most one Deutsche Post Home Finance, which we have now renamed as First Blue Home Finance Limited. The performance for the quarter ended 2011, for the June 2011 post which we will open the floor for the question-and-answer session. The quarter gone by was a very challenging one for the Indian economy as a whole, on the back drop of untamed inflation. An unprecedented hike in key benchmark rates by the Reserve Bank of India. However, DHFL was able to post healthy financial growth along with profitability, without diluting the asset quality.

Learnings from the business cycles seem through over two decades of our existence has helped us in sustaining the momentum even in the most challenging times of the economic cycle. With our standalone DHFL loan book growing by over 56% year-on-year and the disbursements growing by 22% year-on-year. Asset quality continues to remain impeccable with gross NPAs at 0.77% and net NPAs at just 0.23%. Our conservative credit appraisal process over the years of not leveraging the customers excessively at origination has aided us in passing on the consecutive interest rate hikes by RBI down the level seamlessly, enabling us to maintain our net interest margins at around 2.85%. Return on average assets continues to remain strong at 2.02%.

On the recently acquired First Blue Home Finance Limited as I mentioned during the acquisition, DHFL was able to add value to the business of FBHFL right from the first quarter post takeover which is reflected in the improvement of its various financial parameters. FBHFL's profitability increased 34.2% year-on-year to Rs.23.8 crore that is 238 million by strong growth in their net interest income of 41% to 45.9 crore. The return on average assets improved to 1.75% as of June '11 as against 1.52% as of June '10. The return on equity improved to 16.7% as of June '11 as against 14.9% as of June '10. We are confident of delivering good performance sequentially, overpowering these strong headwinds which may continue on the economic front for some more time.

Now I would like to hand over the call to Prashant Chaturvedi, who will provide with detailed financial numbers on both DHFL and First Blue Home Finance Limited.

## Prashant Chaturvedi, Head, Finance

Good afternoon ladies and gentlemen. Now, I will just take you through some final details of the financial performance of both DHFL and FBHFL for the June 2011 quarter. First on DHFL performance, total income for the first quarter was 4.98 billion which was Rs.497.70 crore. It has risen from Rs.298.90 crore in the corresponding quarter, representing a top-line growth of 66.51%. Profit before tax of the company has grown from Rs.66.63 crore to Rs.87.38 crore, representing a growth of 31.14%. Profit after tax has gone up from Rs.51.24 crore to Rs.65.78 crore representing a growth of 28.38%. Operating expenses has gone up from Rs.32.43 crore to Rs.46.24 crore showing a growth of 42.58%. Net interest income of the company has gone up from Rs.71.04 crore to Rs.105.35 crore showing a growth of 48.30%.

Gross NPA numbers stood at 0.77% from 1.09% as on the last year's corresponding quarter. Net NPA has become 0.23% from 0.70% in the corresponding quarter. The capital adequacy ratio, which is very important as far as length of equity contribution is concerned, has become Rs.19.04 crore from 22.81% I am sorry, 19.04% from 22.81% in the corresponding quarter. Net interest margin as we've said is 2.85%, which has gone down from 2.96% in the corresponding quarter as on June 30, 2010. The EPS of the company is Rs.6.29 and the book value of the company is Rs.154. Return on equity is close 18%. We have sanctioned a total of Rs.2,078.57 crore as against Rs.1,769 crore in the corresponding quarter. And we have disbursed a total of Rs.1,554 crore against Rs.1,274 crore in the corresponding quarter. Loan book outstanding has gone up to Rs.15,337.13 crore from Rs.9,789.50 crore.

Average ticket size on the blended book has become Rs.6.25 lakh. Gross NPA in the absolute number, is Rs.118.41 crore and the net NPA in absolute number is Rs.35.02 crore. On the liability mix, 74.12% is the proportion of banks which where we have taken the term loans, linked with the base rate of those banks. And financial institutions I mean constitutes 0.40%, NHB is 8.38%, NCD is 11.46% and deposits and others constitute around 5% in the company. Now I'll just move to First Blue Home Finance performance. Total income of First Blue for the first quarter was 547.26 million which is up 23% year-on-year. Net interest income for the first quarter was 459 million, which is up 41%, operating expenses in the same period were Rs.180 million, which is up 7.6% year-on-year. PBT of the company was Rs.333 million which was up 35%. Profit after tax was 238 million which was up 34% as compared to the corresponding quarter.

Loan book for the period ended June 2011 was Rs.54.14 billion which is up 19% year-on-year. Sanctions in the first quarter was Rs.6.33 billion and the disbursement was Rs.4.58 billion. Total borrowing for the period ended June 2011 were Rs.48.19 billion. Asset quality remained healthy with gross and net NPA as on June 30, 2011 is stood at 0.82% and the provisioning coverage ratio was maintained at 107%. So net NPA is almost zero in that company. Return on assets as Chairman explained, I mean has improved to 21.75% and return on equity has also as seen an improvement to 16.7% respectively. Now we will open the floor for questions-and-answers. Thank you.

# Questions And Answers

## Operator

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions]. The first question is from Kunal Shah from Edelweiss. Please go ahead.

## Kunal Shah

Yeah. Congratulation, sir. Good set of numbers. Sir in terms of outlook, so how do we look at it going forward say disbursement growth is 22%, last three-four quarters it has been in the range of say 15-16 means, Q2 and Q3 also it was 1,500-1,600 crores we are at that number. So do we see 20-22% kind of disbursement growth continuing? And initially, is there any revision considering this macro environment, are we revising the guidance which we had given previously, in terms of the loan growth on a standalone as well as on the consolidated basis including the Deutsche Postbank?

## Kapil Wadhawan, Chairman and Managing Director

I think, let's look at, this is Kapil Wadhawan here.

## Kunal Shah

Yeah.

## Kapil Wadhawan, Chairman and Managing Director

We have seen, in the last three quarters have been unprecedented or let me put it this way, the last two quarters have been unprecedented because of the continuous rate hikes in benchmark rates by the RBI. The recent increase just two days ago has also created some sort of issue vis-a-vis the sentiments on the ground. But, we remain fairly confident that a 30% plus growth rate, standalone as well as consolidated will be and achieving that will not be a problem. This being the first quarter, we have three more quarters, usually the first quarter is a fairly subdued quarter. Post September, we expect that we should be in the range of that 30% growth, which we have already envisaged in our projections going forward. But the overall macro environment, obviously there is an issue vis-a-vis the sentiment, because of the rate increases. But considering the focus of the company in the lower and the middle income segments, we haven't seen much issue in terms of new home buying at those levels. Surely interest rates have moved up, but mind you, that's not going to be a deterrent as far as the year-end growth projections for.

## Kunal Shah

Okay. Sir in terms of pricing power, do we continue to have that. So, how much say effectively going forward we can pass on the rate hikes without impacting growth to an extent or target to an extent?

## Kapil Wadhawan, Chairman and Managing Director

So, let me put it this way, as you said it's been unprecedented. The last rate hike of 50 basis point was not expected by the market but it has come through. Now, clearly passing on this rate hike becomes imminent for not just DHFL, but for the industry as a whole. Surely, it was the challenges, but we have not seen any hike in our or any increase in our NPL levels both gross as well as net. And we don't foresee any problems on the operational front and passing on these rate hikes. Our conservative lending underwriting standards has helped us in this rate hike, which has happened over the last two quarters. And we have been able to successfully pass on this rate hike to our customers. Our net interest margin surely has in the first quarter as compared to the corresponding first quarter of 2010 has come down by 11 basis points. But maybe that's not of too much concern, because usually there is a time lag between us, between banks including the cost and passing on the cost to us, and us passing on the increase to our customers. But we will continue to be within that 2.9 to 3.1 range, which I believe has been sustained over last many years considering that we have seen similar cycle like this in the past on interest rates.

## Kunal Shah

Okay. What is the cost of borrowing as of now, as of today say incremental cost of borrowing?

## Prashant Chaturvedi, Head, Finance

Cost of borrowing it is moving between 10.20 to 10.25%.

## Kunal Shah

Because base rates for most of the banks have also moved to this levels. And significant chunk is coming from banks for us. So still we are able to borrow at 10.25 or it has gone up?

## Prashant Chaturvedi, Head, Finance

See what has happened Kunal base rate I mean as of now for most of the bank is 10% right, except for SBI which is less than 10%. So we generally see a 25 to 75 basis point kind of range over and above the base rate. But this is not 74% or 75% of the proportion in the total liability. Then we have other liabilities which have come below 10.20% also. So everything put together the blended cost of borrowing is 10.21%.

## Kunal Shah

Okay. And considering the way the wholesale rates may be it has come of so, do we try to tweak in terms of just likely more reliance on NCDs also on bond market as compared to that of bank?

## Prashant Chaturvedi, Head, Finance

That is the intention going forward, because we have been taking more money from the banks and financial institutions which charges I mean rate on a monthly basis. But going forward the proportion of capital market instruments which is primarily, I mean non-convertible debentures and some sort of CPs we will be expanding. So right now there is a proportion of around 11.5% which we would like take up to may be 20 to 25% in next one and half to two years time. So the efforts are on and we have become quite active in the capital market to issue our instruments both in the CPs and also on the NCD side.

## Kunal Shah

Okay. And one last question. If I look at the borrowings for Deutsche Postbank it has been pretty much steady. So anything to read into this may be I think because of that we have been able to sustain margins also, out there at 2.26% because there is no incremental borrowing coming into this. So, is it like there is a sufficient net worth which we are using it for incremental disbursements and what is the stands out there?

## Kapil Wadhawan, Chairman and Managing Director

The current capital adequacy ratio in First Blue Home Finance is at 19% plus which is quite healthy as compared to the 12% required by the National Housing Bank. Capital is not going to be your constraint when it comes to growing the First Blue business. As we have also communicated that we're in the process of working out the modalities of integrating both the companies together and when consolidating the activities but that will take time. But in the interim, till the time, it is a standalone enterprise. It will continue to focus on our 30% plus growth rate for the financial year 2011-2012.

## Kunal Shah

Okay. Sir, any borrowing cost for there also 9.7 and we had 10.3. So that kind of differential is still there between our First Blue Home and Dewan?

## Prashant Chaturvedi, Head, Finance

This depends upon the mix of liabilities Kunal and the interest rate rising scenario was their proportion on the fixed rate instrument which is basically NCDs and the CPs are higher. So, whenever interest rates are moving up, it won't move up on the fix rate liabilities. Whereas in the case the of Dewan, proportion of variable rate liabilities are more, which is primarily banks which is linked with DHFL. And we have seen in last six months that banks have become more proactive in increasing their base rate. They have increased their base rate from 8% to 10%, so almost we have 200 to 225 basis point increase we have seen. So it's a mix, which is having this kind of 30 to 35 basis point differential between the borrowing.

## Kunal Shah

But incrementally, both would be borrowing at the same cost.

## Kapil Wadhawan, Chairman and Managing Director

Absolutely.

## Kunal Shah

From banks?

## Kapil Wadhawan, Chairman and Managing Director

Absolutely.

## Kunal Shah

Okay. Yeah, yeah. Thank you.

## Kapil Wadhawan, Chairman and Managing Director

Thank you.

## Operator

Thank you. The next question is from Ashwini Agarwal of Demeter Advisors. Please go ahead.

## Ashwini Agarwal

Hi, congratulations on good set of numbers. Couple of questions. One is, in your funding mix, you say that you want the NHB to be almost 25% of your total borrowings. But right now, it's very small. Why is NHB so small compared to the banks?

## Kapil Wadhawan, Chairman and Managing Director

Ashwini, this is Kapil here.

## Ashwini Agarwal

Yeah. Hi Kapil.

## Kapil Wadhawan, Chairman and Managing Director

Hi. Ideally, that's an ideal mix, honestly. And we would have preferred raising a lot more money from the NHB, if it wasn't for their own internal cap on exposures that they can take on individual housing finance companies based on their network. Now, we have been a large recipients of money from them, even in the last year, primarily in the last two years rather, primarily because of our focus on rural housing lending, which as the finance comes to us at a slightly discounted rate, from the general refinance window.

So, yes, that's an ideal mix, I believe we would like to take more money from the NHB. But considering that, we know they have their own exposure norms that they have to adhere to.

## Ashwini Agarwal

So this is their exposure to you as a percentage of their network

## Kapil Wadhawan, Chairman and Managing Director

Absolutely right.

## Ashwini Agarwal

Its completely outside your control.

## Kapil Wadhawan, Chairman and Managing Director

That's outside our control and that applies not just to us but with the other housing finance companies as well.

## Prashant Chaturvedi, Head, Finance

But there the caveat should bet there, in case of any special fund which is created by the government under NHB that doesn't form part of this overall limit of single party or the group exposure kind of things. So anything like rural housing fund where the allocated 3, Rs.4,000 crores last to last year. Likewise if there is going to be a thrust on the rural financing and government allocating more money towards this kind of financing through NHB, we will be major recipient of such kind of money. And which that money doesn't form part of the calculation of whatever that exposure norms are. So when we say that it is going to be 25%, we mean to say that more and more additional money of this nature will come to Dewan, Apart in addition to single or good party exposures. So that money is quite cheap and we think the kind of such as government is giving to the rural areas disbursement then the more and more money is expected from NHB. Now coming back to your question on the percentage. Percentage has gone down; one, because of size. There is no dilution in the overall absolute amount.

There is a incremental amount which has come up and we have directed some of the amounts last year to first Blue Home Finance also. Because they overall with no limit which was open and we transferred that. Third point which I would like to focus over here is that their financial year is July to June. So this year for 2011-2012 we have just forwarded them or request of 1,500 to Rs.2,000 crore which is a large amount under different facets of their schemes which generally take one and a half to two months for getting approval. So once we approve that sanction, we will be able to portray a kind of percentage, which is expected in this year and going forward in next two to three years. So yes 25% what we say, that's a three-year plan. And we along with you would be very happy to pursue that, because NSB funding generally come at 50 to 75 basis points lower than the market rate. So, an endeavor will be there, but as of now because of different financial year being followed by them, plus their internal regulations. So they can be left in the actual disbursement versus what we get from the market. And their percentage can vary from say 8% to 15% to 17% as far as we take money. So it depends really on the time.

## Ashwini Agarwal

Okay. Second thing is that the non-fee income growth was fairly small, rather than non-fund based income, growth was very small. Why did that fall off?

## Prashant Chaturvedi, Head, Finance

No. Non-fee income is you are talking about processing fees or fee ?

## Ashwini Agarwal

Sorry, non-interest income is what I meant, that has gone from 30 crores first quarter last year to 32.5 crores. So that growth is actually lower than your loan book growth. So why is that because is that linked to more sanctions I am assuming?

## Prashant Chaturvedi, Head, Finance

No. I'll just give you a break-off of it to make the picture more clear. The processing fees what we charge from the customer, we have received in the quarter a total of Rs.18.63 crore

## Ashwini Agarwal

Okay.

## Prashant Chaturvedi, Head, Finance

As against a lower amount in the corresponding quarter. So, we have posted and we have received 1.2% as processing fees from the customer against 1% what we used to receive. So, this year there is a growth in that.

## Ashwini Agarwal

Okay.

## Prashant Chaturvedi, Head, Finance

However, coming back to the other income which I would say, treasury income where we have received Rs.24 crore, the only bank what we have seen in this particular quarter is technical consultancy services and the property advisory services which is a part of a total third party products which we use to include in the fees and other income. So, what I mean to say that, I mean last year in March quarter, in last financial year itself, we changed the accounting policy parse for booking the income on receivable basis. So, earlier we were booking income on receivable basis and we said that no, we don't want to book on this year because we want to book quarter on receipts basis, right? So, we have a very ministerial portion under these two heads which is technical consultancy services and property services. So everything put together, we have booked Rs.11.5 lakh only. And we have booked Rs.9 crore under, I would say a cross selling of insurance products what we do. And in that also, we have not booked another Rs.3.5 crore which was receivable, which is more than uncertain in nature. But because we shifted our policy from receivable to receipts, we did not book that. So, you will see if you compare this quarter with the corresponding quarter there will be policy change. And that's how, I mean there is a flat impact but that doesn't mean that there is no growth in the overall income.

## Ashwini Agarwal

But the numbers that you've just read out which is 18.63 crores on processing fee, treasury income of 24 crores and 9 crores of selling of insurance. That's much higher than the 325 million...

## Prashant Chaturvedi, Head, Finance

No, no Ashwin when I said this, I need to just correct myself if I have read some wrong figure. Rs.18.63 crore is a part of income from operations. There are three heads, what we have given in the results. One is income from operation, another head is income from other operational activities and then there is a other income. So when I say income from operations which constitute interest income on housing loans, lease interest or any kind of interest income which includes a different kind of fees what we receive, whether it is processing fees, technical fees and all those things. And then it includes prepayment charges and the P&L charges what we collect to the customers. So these three facets are included in the income from operation.

## Ashwini Agarwal

Just hold on a second. If I look at page 19 of your presentation, all of this would be included in the net interest income line correct?

## Prashant Chaturvedi, Head, Finance

Right.

## Ashwini Agarwal

So all these three prepayment charges, processing fee and net interest income would all come... ?

## Prashant Chaturvedi, Head, Finance

Let me just open page number 19 first. Yeah tell me.

## Ashwini Agarwal

If you look at page number 19 of the presentation, net interest income therefore includes processing fee and it includes prepayment charges, is that correct?

## Prashant Chaturvedi, Head, Finance

It is not. It also includes a treasury income because whatever cost of funding is there, whatever interest expense is there that we are clearing and deducting from the interest income. And that's how we are coming up with net interest income.

## Ashwini Agarwal

So what is that 325 million there, non-interest income was 325.

## Prashant Chaturvedi, Head, Finance

Just a minute. It's a third-party income.

## Ashwini Agarwal

Okay.

## Prashant Chaturvedi, Head, Finance

And processing fees what we have taken.

## Ashwini Agarwal

Okay. So, processing fees, selling of insurance and that 19 lakhs of --?

## Prashant Chaturvedi, Head, Finance

Technical advisory.

## Ashwini Agarwal

Technical advisory and property advisory is part of that.

## Prashant Chaturvedi, Head, Finance

Right.

## Ashwini Agarwal

Okay. Now I get it. Okay, okay, all right. Okay, thanks so much.

## Prashant Chaturvedi, Head, Finance

Thanks. Thanks, Ashwini.

## Operator

Thank you. The next question is from Rishi Arya from Canara HSBC Life. Please go ahead.

## Rishi Arya

Congrats, Kapil and Prashant.

## Kapil Wadhawan, Chairman and Managing Director

Hi Rishi.

## Rishi Arya

Hi, how are you? My question is on one of my question has already answered. The second one is on the new first two entity. I see that the ratios are increasing on the profitability for this entity. Maybe you can throw some color on now it's been a while that how it will shape up, when is the integration happening? And what it is that the ratios are increasing but is still lower. When did they consolidated, I'd say that profitability on the overall balance sheet will be lower. So, is my understanding correct? And how will it create more shareholder value? Maybe you please throw some color on it?

## Prashant Chaturvedi, Head, Finance

Just to give you a perspective on First Blue Home Finance. We are looking at have a growth of 30 odd percent in disbursement for the full year. We have seen first month, which is April 2011 in a consolidation kind of mode, but even then they have registered a PAT growth of 34% in the first quarter. What we foresee that we are chasing a total PAT number somewhere in the range of Rs.100 crore to Rs.110 crore depending upon how next nine months, I mean goes in this financial year. Now, having said that if we are going to achieve those numbers, 67% will come in DHFL if it is not merged entity right now.

## Rishi Arya

Okay.

## Prashant Chaturvedi, Head, Finance

So 67% will get merged to DHFL number. So whatever profits we are having standalone plus 67% of the profits what FBHFL is going to attain is the total profitability and this is not going to get diluted in any ways.

## Rishi Arya

Okay.

## Prashant Chaturvedi, Head, Finance

It is showing an upcoming trend. And last year for example First Blue registered a profit of Rs.80 crore and now we are talking Rs.110 crore profit which is showing a substantial growth in this kind of volatile interest rate scenario.

## Rishi Arya

Sure, sure.

## Prashant Chaturvedi, Head, Finance

Let me if I have not addressed your question properly and if you want final detail I can add to your question.

## Rishi Arya

Yeah, maybe sir when but this is near term and when did the consolidation happened and what could be the key profitability numbers we'll be looking at on the consolidated level say one year from now what will be the ROAs and ROEs we are targeting internally on the consolidated book?

## Prashant Chaturvedi, Head, Finance

ROA we...

## Kapil Wadhawan, Chairman and Managing Director

The point is that let me address the consolidation first. This is Kapil here Rishi.

## Rishi Arya

Hi.

## Kapil Wadhawan, Chairman and Managing Director

Hi it's a long-run process. Any integration or merger of, we've already consolidated the balance sheet as of for the March 31, 2009 revenue. But integration and merger of the two entities as I said is currently underway. We already have taken advisers on hold. The assist us in doing the same. As I said till that time it will continue to be, or both the companies will continue to be standalone entities. Coming back to your question on, we have set a timeframe of about seven months, seven to eight months for achieving that hopefully before 31st of March all going well, we should be under one legal umbrella, one legal entity. But having said that there is a clear path that we would like to take on our return on assets, we would like to take on the net interest margin. Even though we have seen some an 11 basis point coming off our net interest margin.

But mind you these unprecedented time, interest rates have been moving up. The lag effect actually does play out. But over the next say nine months or so, we are fairly confident that we will add DHFL achieve a 3%, closer to 3% net interest margin set. Now for First Blue, we have been improving the profitability numbers. They have been improving their margin numbers. On a steady state going forward in the next 12 to 18 months once the entities are all, when the entities are integrated, the financial numbers are one. We hope to achieve the same aspiration of getting to a 2% plus return on asset and a 3% net interest margin number. So there is no dilution on that at all. There is a pickup in those margins in First Blue. There are a number of initiatives that we have taken in the last quarter itself to crop up some of the things or to crop up the income levels in that business. So hopefully, they will start giving us the desired results in the next two quarters or so.

## Rishi Arya

So Kapil, you're confident that the new business will also have a similar profitability metrics, may be after sometime as DHFL. Of course, my understanding was that, it's a more warming business and margins will be structurally lower than the say Tier II, Tier III effective business that DHFL has been doing. But you are confident that you will reach to same levels?

## Kapil Wadhawan, Chairman and Managing Director

No, they have been doing this purely on a steady scale home finance operation alone. They do not, they have not really gone out and explored the other immovable assets lending opportunities in the market. And I believe that a healthy mix of both is required to crop the numbers. Now, in-spite of them not having done so, the first quarter numbers are significantly improved from the corresponding first quarter for the as well as the Jan to March quarter, that's the last quarter for the last financial year.

## Rishi Arya

Okay. Thanks, thanks Kapil.

## Kapil Wadhawan, Chairman and Managing Director

Thank you.

## Operator

Thank you. The next question is from Rajat Rajgarhia from Motilal Oswal Securities Limited. Please go ahead.

## Rajat Rajgarhia

Hi Kapil, hi, Dewan.

## Kapil Wadhawan, Chairman and Managing Director

Hi.

## Rajat Rajgarhia

Hi Kapil.

## Kapil Wadhawan, Chairman and Managing Director

Hi, Rajat.

## Rajat Rajgarhia

Hi, Prashant.

## Prashant Chaturvedi, Head, Finance

Hi, hi Rajat. Good afternoon.

## Rajat Rajgarhia

Yeah, hi. I have couple of questions. First is, given that you mentioned, we are in some unprecedented times. And our guess is that we are going to see the lending rates remaining high for a longer period of time in this cycle. How are we passing on these lending rates to our existing borrowers, existing home borrowers in the sense are in all the cases the tenure of the loans are increasing, or even EMIs are increasing in cases?

## Kapil Wadhawan, Chairman and Managing Director

There is a mix of both Rajat. You are right. Having seen what the Central Bank has done in the last rate increase. And what they have been doing over last couple of quarters, we have been consistently passing on these rate increases to our borrowers. But there is a fairly well established process made out within the company. The operations team usually gets into complete go situation, when it comes to dealing with the customers in tackling this rate increase. There are number of ways in which the rate increase gets passed on. Clearly the intent is to first increase the tenure of those loans. But in the event that there is a amortization we usually go back to the customers and offer them a few options, where the EMI basically is back on track. And that is the increased EMI. So, yes, there is a well-established process within the company. The operations team is well geared up. This is not the first time that we have gone through this situation. We have seen enough business cycles over the last many, many years. So, I would not worry much when it comes to passing on that cost increase to our customers.

## Rajat Rajgarhia

Yeah. Actually, while I understand that risk management systems would be very strong. Just to understand again on this point, how a customer would be reacting. In the last 12 to 15 months, our average lending rates would have gone up by almost 200 to 250 basis points.

## Prashant Chaturvedi, Head, Finance

That's right.

## Rajat Rajgarhia

So, majority of this rate hikes would have been pass through in terms of increasing the tenure or increasing the ?

## Prashant Chaturvedi, Head, Finance

Majority yeah Rajat, you have a valid point. Majority of the increase has been passed on through extending the tenures. But we ensure one thing while increasing the tenure that the tenure overall residual tenure should not go beyond the retirement age of that person. So, if there is a retirement, if it reaches say 60 years or 58 years, then we have to compulsorily go and just increase the EMI portion. Now, if it is a EMI increase and not the tenure increase, then what we have been doing that we have taken around 23% of our customers are now working on the ECA system, electronic clearance mode, where we have taken a mandate from them to increase the EMI to the extent of 50%. But we intimated to the customer before implementing the same. So there is a key, which has been established into the system. So the kind of lag what we use to have earlier, which ranges two months to three months has been reduced to now one month. So, there is a eve right now which is there in the system. But the preference always will be to increase the tenure rather than to increase the EMI. But EMIs increase is also not seen had a problem because we don't over leverage the customer. If you see, our presentation, our installment to income ratio is below 40%. So, we have left lot of cushion in the hands of the people to digest and absorb what we increase in such a volatile scenario of interest rates.

## Rajat Rajgarhia

Right. Also second question your average ticket size has now gone up to Rs.625,000?

## Prashant Chaturvedi, Head, Finance

Right.

## Rajat Rajgarhia

From 588 average of last year.

## Prashant Chaturvedi, Head, Finance

Right.

## Rajat Rajgarhia

So, is it largely reflecting the increase in the real estate prices which in the territories that you are targeting?

## Kapil Wadhawan, Chairman and Managing Director

What is clearly known fact is that the input cost are moved up and because of the increase in these input cost for construction the prices even in Tier II, Tier III markets whether it's for self construction or builder developed units has also moved up in random. No longer is a house today available at 2.5, 3 lakhs which is to be made available many, many years ago. And no longer is a Rs.400 construction cost still valid with certain amenities even in Tier II, Tier III markets. So, clearly with the increase in the input cost and the prices having moved up, there is a slight increase in the average ticket size, unit ticket size.

## Prashant Chaturvedi, Head, Finance

Just to add what CMD said Rajat, not only input cost but premium and wages and all that have also have moved up. The people who used to take Rs.200 a day, now they are charging nearly Rs.250 a day. The cement bag which used to be Rs.190 or Rs.200 a bag, which has gone up to Rs.240 to Rs.250 a bag in the Tier II, Tier III towns. So the incremental ticket size is in the range of 8.5 and Rs.9 lakh as against, below Rs.6 lakh of ticket size on a blended book. So the incremental disbursements are made at 8.5, Rs.9 lakh. Of course, your blended ticket size will also gradually move up. So it has moved up to 6.25. If all these incremental things are on a higher side, and touches to say 9 lakh, so it can move up to Rs. 6.5 lakh too, in the future.

## Rajat Rajgarhia

Okay. And just one more question. Your, one of the slides in which you have shown that the portion of housing cement companies have risen from some 36% to 51% in the total disbursement, in the industry. And this period could also have been coincided, when the entire corporate stroke infrastructure loan book growth was very strong for the banking system.

## Kapil Wadhawan, Chairman and Managing Director

Right.

## Rajat Rajgarhia

Now, we are actually seeing the reverse happening, where banks are planning to go very light on the corporate stroke infrastructure loan book. So, do you think and we also know one of the biggest private sector banks who was virtually absent from mortgages for some time, and is now returned back. So do you think that banks' intensity of competition will rise further from here on over the next couple of year?

## Kapil Wadhawan, Chairman and Managing Director

Whether it increases or stays, the way it is Rajat, honestly the demand supply gap in the country for housing and specifically the affordable housing segment is too huge for even not specialized banks and mortgages to cater to do that, to the housing finance requirement. It's a known fact that the percentage of mortgages outstanding to GDP still continues to be very, very low. Having said that DHFL in terms of its own strategy has gone and done syndication arrangements with a number of public sector banks as well as a new age private sector bank now for souring business from there branch infrastructure. So, honestly we have seen these competitive cycles, aggressive cycles coming in the past as well. But that has not really taken away the potential to do business on the ground and specifically not the lower and the middle income segment focus that DHFL currently has.

## Rajat Rajgarhia

In fact, you rightly mentioned that you are also having the distribution tie-up in your PPT you have almost five banks which are showcased. Even HDFC which earlier had tied up HDFC Bank apparently has also signed up with IndusInd Bank.

## Kapil Wadhawan, Chairman and Managing Director

That's right.

## Rajat Rajgarhia

Is this is a new model which is emerging in the housing finance where the pure housing finance companies are now going to leverage the distribution strength of the bank?

## Kapil Wadhawan, Chairman and Managing Director

Right.

## Rajat Rajgarhia

And what those banks gain out of it?

## Kapil Wadhawan, Chairman and Managing Director

I think it's one thing we have seen that nobody can take away the dynamics of being a specialized housing finance operator in the market. Wherever there have been multiple products, both on deposits as well as lending, which have been used through the same infrastructure, we have seen justice not being done to the mortgage operations. So basically home finance origination, that's been our experience with the tie-ups that we have achieved. Also housing finance is a specialized business as I said before. You require dedicated processes, systems, people to go out and not just originate loan but originate loan but also to service them over contracted period of time. So, even though banks may have the advantage of a larger deposit base, a larger customer base on the ground, but that may not be sufficient to move and do justice to the home finance business or increase that propensity of doing housing finance through that network.

## Rajat Rajgarhia

Thank you, guys. And all the best.

## Kapil Wadhawan, Chairman and Managing Director

Thanks.

## Operator

Thank you. The next question is from from ITI Securities. Please go ahead.

## Analyst

Hello, good afternoon.

## Kapil Wadhawan, Chairman and Managing Director

Good afternoon.

## Analyst

I just wondered, if you could share some light on how the cross selling is happening with the Deutsche Post. You are looking at generating income from cross selling other products to the housing loan customers of Deutsche Post?

## Kapil Wadhawan, Chairman and Managing Director

Right.

## Analyst

So, how is that progressing and how many new branches are you looking at opening during this financial year?

## Kapil Wadhawan, Chairman and Managing Director

The cross sell opportunity clearly was one opportunity that we saw to enhance the income levels of Deutsche Post which is now First Blue Home Finance.

## Analyst

Right.

## Kapil Wadhawan, Chairman and Managing Director

Now, we now have a tie-up with ICICI Prudential which is now spreed across DHFL First Blue as well as DHFL Vysya. One common tie-up with one single insurance company to make that happen. The tip-up has come into effect very recently in First Blue now. But they have already started increasing the business on selling the attachment products to their own customers. So, it's progressing well. The clear benefits of that which will be reflected in the bottom-line via income, fee income will be seen in the next two quarters or so. But as of now the indications are very positive. And we hope to achieve a larger business volume in the next couple of quarters.

## Analyst

Right. And in terms of branches, are we expanding any further branches and what's our target like for this financial year?

## Kapil Wadhawan, Chairman and Managing Director

As far as DHFL is concerned we are fairly well represented throughout the country, but certainly there are areas where DHFL presence becomes imperative. We all know that DHFL operates through a hub-and-spoke model. So yes there are more close to 15 odd branches and service centers which will be opened during the course of the year in DHFL. Now this does not take into account the expansion that is happening in the newly formed Aadhar Housing Finance which is focusing on the and this is a joint venture between DHFL and IFC Washington. So by the end of the second quarter they would be present in more than 10 locations, that's physical presence on the ground via a large network. So, that's they have selected expansion in DHFL, because I just certainly end up our existing network. And as well as the network of our associates that's facilitating the region with banks.

## Analyst

Okay. And our gross loan book as of 30th June is now ?

## Prashant Chaturvedi, Head, Finance

Of DHFL you are talking about?

## Analyst

Consolidated.

## Prashant Chaturvedi, Head, Finance

DHFL is Rs.15,337 crore and in that another Rs.5,413 crore is there with .

## Kapil Wadhawan, Chairman and Managing Director

It's 21,352 even if it includes DHFL Vysya as well.

## Analyst

Okay, alright. And are you seeing a trend where there is a slowdown in terms of people coming forward because of these rising interest rates or is demand in that lower middle income still strong?

## Kapil Wadhawan, Chairman and Managing Director

Demand in the lower middle income still continues to be strong, because one thing that we haven't taken into account is it still continues to be and centers, which are available to that segment. And the segment which falls within the income that's paying bracket. For them the effective interest rate is down by almost close to 150 basis points. So even though on a nominal basis, the interest rates may have moved up. But because of these in centers we still continue, the effective interest rates are still much lower than that.

## Analyst

Okay. Thank you very much.

## Operator

Thank you. The next question is from Ishank Kumar from Religare Capital Market. Please go ahead.

## Ishank Kumar

Hello.

## Kapil Wadhawan, Chairman and Managing Director

Hello Ishank, yes.

## Ishank Kumar

No sir, actually all my questions has been answered. Just one query on this First Blue Home Finance. Basically currently if I look at your borrowings profile banks constitute around 55% here and your normal target is 40%. So are you looking to change borrowing profile and First Blue Home Finance also?

## Kapil Wadhawan, Chairman and Managing Director

There is no let me put it this way. On a consolidated basis even though the percentages and that may vary in both DHFL as well as in First Blue. Going forward we believe that an ideal mix of 65-35 mix between via entities, commercial paper and 65 in term loans from banks is an ideal healthy mix for us to have. Now my view within the system there are not too many options for us to go out and raise money strong. The external commercial borrowing window has been shut for a long time. The securitization market other than bilateral transaction is not looking a market from where we can go and raise money. So 65-45 mix is on a consolidated basis is what we see as an ideal mix going forward.

## Ishank Kumar

Okay. Okay. And sir what is the current spread on this business, First Blue Home Finance, if you'll share that number with us?

## Prashant Chaturvedi, Head, Finance

2.26% is the spread in the First Blue Home Finance business.

## Ishank Kumar

Okay. Okay. Okay.

## Prashant Chaturvedi, Head, Finance

Okay.

## Ishank Kumar

Yeah, thanks. Thanks sir.

## Prashant Chaturvedi, Head, Finance

Thank you.

## Operator

Thank you. The next question is from Ashi Anand from Kotak. Please go ahead.

## Ashi Anand

Good afternoon to the management. Congrats on a good set of numbers.

## Kapil Wadhawan, Chairman and Managing Director

Thanks.

## Prashant Chaturvedi, Head, Finance

Thank you.

## Ashi Anand

My first question is with relation to the average loans. Now, this has been increasing over the last few years. And when we had met last May you actually indicated that this is one of the plans in terms of getting skill, moving up in terms of average loan sizes. Just wanted to understand, how different is our average loan size today as compared to an HDFC or LIC Housing Finance? And what are the plans going forward in terms of do we want to keep taking this up and are we kind of shifting the customer focus from lower middle income towards slightly higher as we grow in size?

## Kapil Wadhawan, Chairman and Managing Director

No, we are not shifting the focus at all, Ashi. Actually, clearly the differential between us and whatever has been communicated as the average loan ticket sizes for other years we are almost one-third of their average one-third to half of the average of their average ticket sizes. Clearly, the focus on LMI segment will continue to be extremely strong. Now that's not to mention that DHFL will not operate in the Tier I markets. I think, a healthy mix between the two is extremely important, but in-spite of our being a fairly well represented even in Tier I locations, the average ticket size has been fairly consistent and in line with the including residential prices even in Tier II, Tier III markets from where bulk of our lower and the middle income group business comes from.

## Ashi Anand

Okay. Could you just help me with the number, how much of our business will be coming from Tier II and Tier III markets and how much ?

## Kapil Wadhawan, Chairman and Managing Director

More than 50%.

## Ashi Anand

More than 50% is from Tier I, Tier II. Perfect. Second question I had was with relation to, we were actually, when we have met last year you have spoken about trying to get into non-housing loans and yields being higher. So, could you just kind of what are the initiatives you've taken on the non-housing loan segment? What segments are we looking at entering and what kind of yields and growth that we're expecting out there?

## Kapil Wadhawan, Chairman and Managing Director

See, we have been growing some non-housing loan business over the past couple of years. In terms of break-up currently our housing loan constitutes 95.09% and non-housing constitutes 4.91% of the total. Clearly, there are not too many options in the non-housing loan segment, but the products that we currently are focused on are these rental discounting, project finance. We have a private finance division, which does lending for two developers, for their project finance requirements. And then we have the non-residential premises loans, loans against property. So these are some of the products that we would like to build a larger portfolio in. And currently there is a 25% differentiation allowed by the regulator and can at additional 5%. The margins in these products are quite significant as compared to the standalone housing finance business. So probably going forward we will focus on building a sustainable line of activity in these products.

## Ashi Anand

But if you look at our sales two to three year kind of time frame from 4% where would you see the non-housing?

## Kapil Wadhawan, Chairman and Managing Director

See I think we would like to have 80-20 mix, 80% would be in housing loan and 20% would be in non-housing loans.

## Ashi Anand

And of the 20% most of these are going to be housing links, so lease rental loans against drop. Are we looking at doing anything completely outside the core-competence right now, personal loans or any other form of consumer?

## Kapil Wadhawan, Chairman and Managing Director

That is that we have always stayed away from. I see personal loan is something which we do not understand.

## Ashi Anand

Sure.

## Kapil Wadhawan, Chairman and Managing Director

We understand housing finance and that's what our focus is always going to be on.

## Ashi Anand

Could we look at structured loan, because in structure loans, are we allowed to do those kind of loans?

## Kapil Wadhawan, Chairman and Managing Director

In partnership with brokers certainly why not.

## Ashi Anand

Excellent great, perfect. And to just my last question if you could just let us know how the syndication business is been doing? So how well has it been picking up?

## Kapil Wadhawan, Chairman and Managing Director

Sure it's been doing extremely well. In fact all our syndication arrangement except for the YES Bank which is yet to get operationalized has been giving us in doors into those banks. For instance the Punjab and Sind Bank initiative the Central Bank as well as United Bank initiative, I would say over the next two years time we should get into out of the total lending that we do, at least 4 to 5% of that should come from these syndication arrangements.

## Ashi Anand

In four to five years from now?

## Kapil Wadhawan, Chairman and Managing Director

That's right.

## Ashi Anand

Perfect. Well thanks a lot. And all the best for the future.

## Kapil Wadhawan, Chairman and Managing Director

Thank you.

## Operator

Thank you. Ladies and gentlemen, due to time constrains we will take one last question from Kashyap Jhaveri from Emkay Global. Please go ahead.

## Kashyap Jhaveri

Yeah, hi. Congratulations on good set of numbers. Couple of questions. One is if I look at slide number 19, where we have given the fix to floating, fix to variable proportion of both loan book and borrowings. Despite, we having higher variable loan book and the liabilities. Still in this quarter margins have taken some beating. So, should one expect that because of this higher amount of variable loans, probably this margins would pick up in the coming quarters?

## Prashant Chaturvedi, Head, Finance

I will explain you, I mean why there is a hit of 11 basis point in spite of the fact that we are having positive gap on VLN.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

The reason being, that we have seen increases in the borrowing costs throughout the quarter.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

So, it is started from May, when RBI increased the rate hike of 50 basis point and then another 25 basis point was there. Consequently, there were increases by most of the banks. So we took some time and the lag which used to be one month we decided internally in our ALCO that we should I mean just give effect to such an increase with effect from 1st of July as in 1st of June. So there was a extra one month lag which was there. And due to which, there was a 5 to 6 basis point hit on the net interest margins. So, now we have passed on that cost to the customers, with effect from 1st of July. So consolidate cost which has been passed on was 75 basis points.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

So because of which, so what we believe that this dip of 11 basis point is temporary in nature. And we have seen that in past, but because now we have passed on, so next quarter, probably I mean we will be able to make it up to in the range of 2.9 to 3%.

## Kashyap Jhaveri

Okay, okay.

## Prashant Chaturvedi, Head, Finance

Going forward, 50 basis points increase by RBI, we held our ALCO meeting yesterday, and we may we have decided in-principally subject to now one more meeting maybe tomorrow increase the rates by 50 basis point from 1st of August.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

Given those scenario, I mean we don't think that our net interest margins should dip from the current level.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

What you see is a temporary dip because of the extra lag in passing it on to the customer.

## Kashyap Jhaveri

Okay. For full of FY12 should one work with sort of flat margins over '11?

## Prashant Chaturvedi, Head, Finance

Yes. We expect so, because we are sitting on a positive gap of ALM.

## Kashyap Jhaveri

Okay. The second question, and I actually got drop down in between, so probably I might have missed couple of explanations which were given in between.

## Prashant Chaturvedi, Head, Finance

Yeah.

## Kashyap Jhaveri

Just wanted to understand this chart which is given on the composition of the portfolio on slide number 14, commercial is about 5.1%. Now if I compare with March 2011, that number was 3.4. Looking at the fact that rates are rising and probably and commercial and project loans will be totally of different nature?

## Prashant Chaturvedi, Head, Finance

See, there is a commercial loan, which constitute LRF, lease rental finance.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

Which includes loan against property.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

This does not include a project finance, which is roughly 3.5% of the portfolio.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

So, commercial loans means that the loans where underlying property and the security is commercial in nature.

## Kashyap Jhaveri

Okay, okay, okay. And the last question is on your yield side. Let's say between September or let's say H1 of last year and probably Q1 of this year. How much would have we raised our the BPLR or let's say lending rates by?

## Prashant Chaturvedi, Head, Finance

We must have raised by 250 basis point.

## Kashyap Jhaveri

Okay. And has it created any negative carry in our loans or...

## Prashant Chaturvedi, Head, Finance

Let it be amortization thesis over there. Right, wherein the EMI, the interest portion was higher than the EMI value,

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

Where we have increased the EMIs compulsorily.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

So you cannot extent the tenure in those cases.

## Kashyap Jhaveri

Okay. So, in thesis where we had negative carries, we increase the EMI and that's how it's been taken care off. That proportion would be higher pretty much negligible?

## Prashant Chaturvedi, Head, Finance

No, I think whatever proportion was there this was mainly on the new loans what we had disbursed.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

For the new loans it's a recent one. So, EMI portion may not be able to digest the increases,

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

So that was not alarming kind of proportion.

## Kashyap Jhaveri

Okay. And just last question on Deutsche Postbank, we have a capital adequacy of about 17.3 over there, now 17.7 over there. And consolidation probably would take a little time from here on. Any requirement or any infusion of funds over there prior to the consolidation happens?

## Prashant Chaturvedi, Head, Finance

We don't think that there is a infusion of capital which is required, considering their 17% CAR, what they are having and considering the leverage what they are operating at which is 8.5 to 9 times. But we think that the equity is required at the group level, on a consolidate balance sheet.

## Kashyap Jhaveri

Okay.

## Prashant Chaturvedi, Head, Finance

So, rating agencies are looking into consolidate balance sheet, or post merger balance sheet, and that's how they are calculating, there will be knock offs and all that.

## Kashyap Jhaveri

Right.

## Prashant Chaturvedi, Head, Finance

So that's how they are calculating leverage, and that's how they are calculating CAR. For the consolidate basis may be in DHFL we intend to infuse Tier I but we don't intend to infuse equity in First Blue.

## Kashyap Jhaveri

Okay, okay. That's it from my side. Thank you.

## Prashant Chaturvedi, Head, Finance

Thank you very much.

## Operator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Kaustubh Shah for closing comments.

## Kaustubh Shah, Head of Investor Relations

Thanks everyone for attending the conference call. In case, if you have any queries or doubts regarding the Q1 business and performance, you can surely get in touch with any of us in the management. And we'll be happy to address your queries. Thank you.

## Operator

Thank you. On behalf of Dewan Housing Finance Corporation Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.