

**Operator**

Ladies and gentlemen good day and welcome to the Dewan Housing Finance Corporation Limited Earnings Conference Call for period ended September 2012. To discuss the financial performance of DHFL and First Blue and to address your queries, we have with us today Mr. Kapil Wadhawan, Chairman and Managing Director of DHFL; Mr. Anil Sachidanand, President of DHFL; Mr. Anup Pabby, President of DHFL; Mr. Prashant Chaturvedi, General Manager, Finance and Resource of DHFL and Mr. Ghanshyam Rawat, Head Treasury and Finance of First Blue Home Finance.

As a reminder for the duration of this conference, all participants line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. I would now like to hand over the conference 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 DHFL's, and September 2012.

**Operator**

Sorry to interrupt you Mr. Kapil. Sir your voice is getting muffled.

**Kapil Wadhawan, Chairman and Managing Director Operator**

No sir, if you can just move to a better reception.

**Kapil Wadhawan, Chairman and Managing Director**

Okay, I will call you again.

**Operator**

Sure. Participants please stay connected while we join back Mr. Kapil. Participants we have the line connected back for Mr. Wadhawan.

**Kapil Wadhawan, Chairman and Managing Director**

Yeah, afternoon once again ladies and gentlemen welcome to DHFL's earnings conference call for the period ended September 2012. As we already know that it's been 18 months and the Indian economy has been groping through some intensifying challenges and concerns with obviously some silver lining to be seen now.

The business confidence at its low and skepticism at its peak. Businesses like DHFL with robust operating model and niche product customer combination were able to overcome these hurdles and deliver superior performance even in a subdued environment.

DHFL's focus on low and middle income segment customers in Tier II and Tier III towns for the last 28 years has helped it withstand competition and maintain its market share even as many established players and banks are trying to making inroads in this segment but with little success.

True to its vision, the company has continuously enabled financial access to the under-served population and has never comprised on its core ethos and values in the pursuit of achieving growth. Even today majority of our disbursement continue to be in sub 10

lakhs category as against our competitors whose average ticket size is in multiples than ours.

We welcome certain regulatory changes in the priority sector lending norms for housing finance companies, as also investment by mutual funds into debt taker of housing finance companies which clearly recognizes the importance of housing finance companies like ourselves.

We surely hope that this continued support from the regulatory bodies and differentiation between housing finance companies within the overall non-banking financial companies will continue and adequate support will be given to HFCs for raising long-term resources.

Just to touch on the relaxation in priority sector lending norms by the RBI and SEBI. RBI through its circular issued on 17th October, 2012 has permitted banks to classify its loans provided to HFCs for all lending purposes as priority sector advance. If the aggregate loan to be borrowed does not exceed Rs.10 lakhs. And you will be glad to know that, because of DHFL's focus in the lower and the middle income segment, more than 70% of our lending does happen in loans upto Rs.10 lakhs. DHFL will surely derive benefit out of this amendment and majority of its loans disbursed would satisfy the above conditions.

We are hopeful that this will help us in expanding our margins further. As regards relaxation in the debt oriented mutual fund schemes for housing finance companies.

DHFL and some of the other players made a strong representation which resulted in immediate action by SEBI. The SEBI Board in its meeting held on 6th October, 2012 directed that not exceeding 10% of the net assets of the scheme in debt oriented mutual funds will be allowed by way of increasing exposure to HFCs only. And this is exclusive to housing finance companies, this will aid companies like us to diversify the borrowing profile and reduce our reliance on one single source along with reducing the cost of borrowings to some extent.

Just to highlight some of the key business areas. Reduction in borrowing cost by almost 15 basis points in the last six month has resulted in the net interest margins moving upto 2.86% from -- for the period ended six month financial year 2013. As short-term rates yields back on strong liquidity DHFL borrowed from the money market judiciously to reap this benefit, but at the same time maintained a strong asset liability management position. Efforts to reduce operating expenses is an ongoing process and we are hopeful that we will able to maintain the cost-to-income ratio below 30% on a full year basis.

Processing and third party fee income continue to grow inline with disbursements covering upto 70% of operating expenses. Focused recovery drive led to non-performing assets reducing 2.69% of the total loan book which is gross NPA, the endeavor will be to maintain the gross NPAs below 1% at all times.

Excess provision in the quarter resulted in net NPA being zero and the NPA coverage ratio today stands at 116%. Consolidated assets under management for the group and here I say DHFL and First Blue Home Finance stand at Rs.31,146 crores, of which DHFL stood at Rs.24,679 crores and First Blue stood at Rs.6,467...

## **Operator**

Sorry to interrupt you Mr. Kapil. This is the operator. Sir, your voice is again getting muffled. Sir we are not able to hear you clearly.

## **Kapil Wadhawan, Chairman and Managing Director**

Hello.

## **Operator**

No sir, it's still not clear. Participants, please stay connected while we join back Mr. Wadhawan. Participants we have the line connected back for Mr. Wadhawan.

## **Kapil Wadhawan, Chairman and Managing Director**

Sorry about this. But again coming back to the consolidated assets under management for the group, it stood at Rs.31,146 crores, of which DHFL was Rs.24,679 crores and First Blue at Rs.6,467 crores.

Post the new guidelines on securitization of assets issued by the Reserve Bank of India in July 2012, the market for securitization has almost dried-up and there were hardly any deals concluded till September 2012.

In the month of October 2012 though, we securitized assets worth Rs.160 crores with one of the banks on a direct assignment basis.

We are hopeful of executing many such transaction in the second half of the year when the demand for securitization is at its peak. Our focus on retail liability growth is yielding the desired results with monthly run rate in deposits mobilization crossing Rs.100 crores.

Now to move to First Blue Home Finance. First Blue continue to deliver satisfactory performance in a very challenging and competitive environment with its loan book growth at 13% year-on-year and disbursements for the half year growing at 6%. Profit growth was also satisfactory at 16% year-on-year. Although competition has intensified many fold in this segment, with all major banks focusing on housing loan due to drop in commercial loans off-take we believe that are maintaining the margins is equally important and won't sacrifice margins beyond a point to achieve growth.

As the government puts its best effort to get the economy back on track and address some macroeconomic concerns on inflation, interest rates, we are confident that any improvement in the overall environment will benefit the group positively and will help us in delivering better performance.

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

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Thank you, sir. Very good afternoon everyone. Now, I will take you through some final details of the financial performance of both DHFL and First Blue Home Finance Limited for the period ended September 2012.

With regard to DHFL performance, the total income for the first half was Rs.1,556.77 crore, which is up by 43% year-on-year and for the second quarter FY12-FY13 it is Rs.817.87 crore, which is up 39% year-on-year. Net interest income for the first half was Rs.296.09 crore, which is up 40% year-on-year and for the second quarter it was Rs.155.82 crore, which is up 44% year-on-year.

Interest expenses for the first half came to Rs.1165.43 crore, which is up 47% year-on-year and for the second half it was Rs.610.04 crore, which is up 41% year-on-year. Operating expenses for the first half was Rs.135.97 crore, which has grown by 34% and for the second quarter it is Rs.73.40 crore, which is up 28% year-on-year.

PBT for the first half was Rs.222.69 crore, which is up 28% and for the second half it is Rs.118.05 crore, which is up 36%. PAT for the first half was Rs.163.69 crore, which is up 19% year-on-year and for the second half it was...

## **Corporate Participant**

Second quarter.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

And for the second quarter it was Rs.85.85 crore, which is up 19% year-on-year. Loan book for the period ended September 2012 was Rs.23,173 crore, which is up 38% year-on-year. Sanctions for the first half were Rs.6,681 crore, which is up 29% and for the second quarter it is Rs.3,270 crore, which is up 5% year-on-year.

Disbursement for the first half was Rs.5123 crore, which is up 39% and for the second quarter it was Rs.2447 crore, which is up 14% year-on-year. Total borrowings for the period ended September 2012 were Rs.23,080 crore, which is up 35% year-on-year. Gross and net NPA as on September 2012 stood at 0.69% and 0% respectively. Net interest margin was 2.84% for the period ended September 2012. And the ROA and ROE for the period ended September 2012 was 1.80% and 18.66% respectively.

Now moving onto First Blue Home Finance performance. Total income for the first half was Rs.430.38 crore, which is up 23% Y-o-Y. And for the second quarter it was Rs.216.93 crore, which is up 19% Y-o-Y. Net interest income for the first half was Rs.106.09 crore which is up 8% and for the second quarter it is Rs.50.12 crore which is down 4% Y-o-Y.

EBT for the first half was Rs.82.61 crore which up 18% and for the second quarter it is Rs.43.08 crore which is up 18% year-on-year. PAT for the first half was Rs.58.07 crore which is up 16% and for the second quarter it was Rs.30.09 which is up 15% year-on-year.

Loan book for the period ended September 2012 stood at Rs.6,411 crore which is up 13% year-on-year. Sanctions for the first half came to Rs.1247 crore which is down 9% year-on-year and for the second quarter it was Rs.612 crore which is down 16% year-on-year.

Disbursement for the first half was Rs.1063 crore which is up 6% year-on-year and for the second quarter it was Rs.477 crore which

is down 13% year-on-year.

Total borrowings for the period ended September 2012 were Rs.5807 crore. And asset quality remained healthy with gross NPA as on September 2012 at 0.80%. Provisioning coverage ratio was maintained at 135% which is up from 115% in the corresponding quarter previous year.

ROA and ROE for the period ended September 2012 were at 1.85% and 19.55% respectively.

Now we will open the floor for question-and-answer session. So I just hand over to the operator.

## Questions And Answers

### Operator

Thank you very much. Participants, we will now begin with the question-and-answer session. [Operator Instructions]. We have the first question from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

### Kashyap Jhaveri

Yeah, hi. Congratulations for good set of numbers. Couple of questions. One is that in this presentation you have mentioned your ROA is at about 1.8%.

### Prashant Chaturvedi, General Manager, Finance and Resources

Right.

### Kashyap Jhaveri

But if I calculate based on the quarterly average terminal balances which are available.

### Prashant Chaturvedi, General Manager, Finance and Resources

Right.

### Kashyap Jhaveri

It comes to about 1.4% odd. So where am I sort of missing something?  
I think you must have taken the DA and kind of a balance on the housing loan front.

### Kashyap Jhaveri

Right.

### Prashant Chaturvedi, General Manager, Finance and Resources

Right, we calculate ROA on the average housing loan and mutual funds, which are outstanding in the beginning and the close of the particular quarter or half year.

### Kashyap Jhaveri

Right.

### Prashant Chaturvedi, General Manager, Finance and Resources

Right, so I will ask Koustubh to send you the details that how this 1.80% has come into the picture.

## **Kashyap Jhaveri**

Sure, sure. Just to sort of cross check the numbers, the balance sheet at the end of this quarter was about 26,000 crores, total balance sheet size?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Of DHFL?

## **Kashyap Jhaveri**

Yeah, standalone.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Standalone balance sheet size is Rs.25,299 crore.

## **Kashyap Jhaveri**

Okay. And in June that number was?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

In June, I don't have readily available number, give me a second, I will just tell you.  
Sure.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Give me a second we will come back.

## **Kashyap Jhaveri**

Sure. The second question is on your NPL.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Yeah.

## **Kashyap Jhaveri**

You said, net NPLs are, the gross NPL number is about 150 crores in standalone and net NPAs are sort of zero, is this after adjusting the teaser rate loan provisions less under asset provisions that we hold?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Teaser loan has standalone asset provisioning, has been net off, netted off out of the gross NPL and gross NPL number is Rs.159.06 crore.

## **Kashyap Jhaveri**

Right.

**Prashant Chaturvedi, General Manager, Finance and Resources**

And Rs.150 crore.

**Kashyap Jhaveri**

Okay.

**Prashant Chaturvedi, General Manager, Finance and Resources**

So things have been reduced and after reducing the overall provision, the provisioning coverage ratio stands at 116%.

**Kashyap Jhaveri**

And what would be the specific loan loss provision?

The specific loan loss provision you can reduce Rs.45 crore easily from the overall provisioning requirement.

**Kashyap Jhaveri**

Sorry?

**Prashant Chaturvedi, General Manager, Finance and Resources**

It's Rs.45 odd crore.

**Kashyap Jhaveri**

Okay.

**Prashant Chaturvedi, General Manager, Finance and Resources**

Which we have provided on the standard assets.

**Kashyap Jhaveri**

Okay. Third question on this quarter's growth in disbursements and sanctions, sanctions growth has been pretty muted at about single-digit and disbursement growth has been about 17.5, what's the view going forward?

**Prashant Chaturvedi, General Manager, Finance and Resources**

No, I believe, in the June quarter there was not much spillover what we have seen in the September quarter.

**Kashyap Jhaveri**

Okay.

**Prashant Chaturvedi, General Manager, Finance and Resources**

That is how what has been sanctioned during September quarter has been disbursed. So you can see a higher growth in the disbursement number and the loan sanction growth was only 5.06% for this September quarter, right.

So it's a business, if there is a spillover, like we have seen a spillover from March to June quarter. So at that point in time sanction numbers could be higher and disbursement numbers or disbursement growth can be slightly muted. So, nothing to be worrying about on this number.

## **Kashyap Jhaveri**

And full year target for disbursement growth?

We think that we should be achieving 25% growth. So last year we disbursed about Rs.9,000 crore standalone. We think that about more than Rs.11,000 crore standalone basis should be the number on disbursement side.

## **Kashyap Jhaveri**

So roughly about let's say 6,800-6,900 crores in the second half.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Right.

## **Kashyap Jhaveri**

Okay. And just last question if I may, on First Blue Home Finance, I understand that in DHFL in the asset class or in the target class that we are working there might not be, competition might not be pinching us much.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Yeah.

## **Kashyap Jhaveri**

But in case of First Blue Home Finance, where clearly the asset growth has decelerated, is competition pretty much pinching there?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

I would like Anoop to answer this question, right.

## **Kashyap Jhaveri**

Sure.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Anoop?

## **Anoop Pabby, Head - Corporate Strategy Group**

Yeah, thanks Prashant. Can you hear me now?

## **Kashyap Jhaveri Anoop Pabby, Head - Corporate Strategy Group**

Okay. It's not so much the competition, it's also the growth in the segment which had slowed down a little bit, we are seeing some green shoots now. So the October month, possibly the second half of October, it's too early to say but is already showing considerable improvement in inflows, file inflows. And yeah, and likewise festive season has kicked-in and this is a season where our segment purchases and goes in for house buying decisions.

## **Kashyap Jhaveri**

Okay.

## **Anoop Pabby, Head - Corporate Strategy Group**

Yeah.

## **Kashyap Jhaveri**

So in second half one can expect sort of slightly higher growth in...

## **Anoop Pabby, Head - Corporate Strategy Group**

Yeah. And so year-on-year we will end of the quarter four we will post a 20% growth on disbursements, we are sure of that.

## **Kashyap Jhaveri**

Okay, sure. Yeah, that's it from my side. I will come back...

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Kashyap, just to answer the question which you asked, June balance sheet was Rs.22,950 crore.

## **Kashyap Jhaveri**

950 crores.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Yeah.

## **Kashyap Jhaveri**

Sure. Thank you.

Thank you. We have the next question from the line of Shweta Mane from Arihant Capital. Please go ahead.

## **Shweta Mane**

Yeah, good afternoon sir. Sir the interest expenses it also includes borrowing cost, right?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Right.

## **Shweta Mane**

So if you could give just a percentage break-up how much of it would be the borrowings?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Sorry, I did not get your question?



## **Shweta Mane**

Sir out of the total interest cost how much of it would account for borrowing cost?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Just a minute. See total expenses whatever is there, we have clubbed two things over there. One is the interest cost and second is the other borrowing cost. Now this other borrowing cost includes bank charges what we pay, the financial charges what we pay and credit rating et cetera, et cetera, those charges we pay to the people and that is other borrowing cost, everything put together is Rs.10.84 crore.

## **Shweta Mane**

Okay.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

For the full half year and 7.50 crore for second quarter whereas Rs.602.53 crore is the pure, pure, I mean borrowing cost which is interest cost.

## **Shweta Mane**

Okay. That will help. Sir secondly bank borrowing which accounts for somewhere around 69% is purely at base rate? Yeah, as per the RBI revised guidelines banks can't lend based on a fixed rate basis. Everything or the entire exposure what we are taking on especially housing finance companies or any other NBFCs have to be linked with their base rates.

## **Shweta Mane**

Okay.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

That is variable in nature.

## **Shweta Mane**

So that is entirely at base rate?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Correct.

## **Shweta Mane**

Sir and if you could provide the average yields on the entire book and also in terms of say housing, project loans, LRF and LAP?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Everything put together it is ranging somewhere 13.42%.

## **Shweta Mane**

Okay. And if you could provide it on the individual portfolios?

### **Prashant Chaturvedi, General Manager, Finance and Resources**

Individual portfolio, we can send you exactly what is the break-up of LAP and project loans and the individual things. But I can tell you, it's quarter to 13% on the individual loan book and it's about 18% on the project loan book and about 15.5% on the LAP.

### **Shweta Mane**

Okay. Sir and next thing is how much of the book is floating and fixed rate, the total?  
The total book is mostly floating now.

### **Shweta Mane**

Yeah.

### **Prashant Chaturvedi, General Manager, Finance and Resources**

It's about 98.34% is variable, okay. And very miniscule percentage is there towards fixed.

### **Shweta Mane**

Right. Sir then one last thing. If you could provide the break-up of say individual housing loan and project loans, just the percentage break-up?

### **Prashant Chaturvedi, General Manager, Finance and Resources**

6.5% is the project loan, okay.

### **Shweta Mane**

Yeah.

### **Prashant Chaturvedi, General Manager, Finance and Resources**

And another 12% is the non-housing loan so as to say.

### **Shweta Mane**

Right.

### **Prashant Chaturvedi, General Manager, Finance and Resources**

Of which, I mean out of 12%, I can say that about 10.86% which is closer to 11% is a LAP. And then remaining is LRF followed by NRPL which is very miniscule percentage. So mostly it is LAP. And just to clarify for NHB guideline sake, we have to categorize this LAP under non-housing but this LAP mostly it has been given to the individuals. So you can add that to the overall individual portfolio of 82%, right. And then 6.5% is the project loan in the overall book.

### **Shweta Mane**

Okay. Sir, and just, lastly in extension to your previous, to the previous question asked. Sir this is again regarding your disbursement and sanctions growth, like as it has been rightly observed quarter-on-quarter it has shown little bit muted growth. And, whereas the Q4 turns out to be a very strong quarter. So, is that seasonal in nature like how would you attribute this to like even going

ahead second half would always be a stronger?

**Prashant Chaturvedi, General Manager, Finance and Resources**

See this is a trend in the entire housing finance industry we think that about 40% of the overall disbursement takes place in the first half and 60% of the disbursement takes place in the second half.

**Shweta Mane**

Right.

**Prashant Chaturvedi, General Manager, Finance and Resources**

That is exactly what we had seen in the last three to four...

**Shweta Mane**

Yes.

**Prashant Chaturvedi, General Manager, Finance and Resources**

So this time we have disbursed approximately 45% of our target.

**Shweta Mane**

Okay.

**Prashant Chaturvedi, General Manager, Finance and Resources**

The first half, right. Irrespective what we are disbursing in a particular quarter. Now we were growing at 40% CAGR in last 4.5 years. We don't want to grow at 40% CAGR for next two to three years. We are intending to grow with 25% to 27% kind of a number on the disbursement. And if we have to disburse Rs.11,500 crore, I think we are on target and we should be able to achieve that growth.

**Shweta Mane**

Okay. Thanks a lot sir. That's it.

**Prashant Chaturvedi, General Manager, Finance and Resources**

Thank you.

**Operator**

Thank you. We have the next question from the line of Nischint Chawathe from Kotak. Please go ahead.  
Yeah. Just one micro question from my side. There is the increase in cash on balance sheet anything to read on that?

**Prashant Chaturvedi, General Manager, Finance and Resources**

Balance sheet I mean every quarter Nischint, there will be some bit of cash and bank balances which will go higher. And it is on account of I would say, disbursement being made by banks. So we were holding such a large amount of sanctions which were yet to be disbursed as on 30th of September.

So we got a call from our bankers that they wanted to disburse part of those sanctions immediately. So we had to take that. So it happens every half year or every quarter. So it's a quarter end scenario nothing else which gets generally deployed in the housing loan portfolio in next 10 to 15 days time.

## **Nischint Chawathe**

Okay. Just one more thing on the cost-to-income ratio any outlook out here, I think the ratio remains flattish, so any outlook how you expect that to play out?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

We are putting a lot of endeavors, lot of efforts there to reduce this number from 29.5% odd to say 1% lower every year. And would like to achieve 24%, 25% number. We have addressed this many a times in our conference call, but we, due to our business model we have not achieved those numbers, right. So we are working very hard internally if you see the overall cost, last year financial year 2011-2012 that was about Rs.266 crore, wherein it included about Rs.41 crore on the advertisement cost.

We have reduced that advertisement cost substantially this time. So it's approximately 35% to 40% reduction in the advertisement cost. Likewise we have controlled lot of variable as well as fixed expenses internally, right. But overall, I think in the basis points or cost-to-income ratio that number is going to take some time maybe in next couple of quarters you will see the impact of controlled mechanism what we're following internally, you're going to see some kind of a reduction in the overall cost-to-income ratio.

But having said that, we're fine on the number as 29% as of now because we're posting 18.66% on the ROE front, we're posting 1.80% on the ROA front. But yes your point is valid that if we can control overall gross OpEx then probably this ROE number can touch 20% or little more than 20%. So that endeavor is on.

Second point on the ROE side, that we have done some bit of assignment transaction in the month of March 2012. We have done one transaction of assignment this financial year and this is I think the first assignment transaction in the industry. If we do that, and if we keep on doing this transaction, we intend to about Rs.3,000 crore this full financial year. That will release my capital and it will enhance my ROA and ROE.

So efforts are on in addition to what we have seen on the cost income ratio.

## **Nischint Chawathe**

Sorry, I didn't get the amount of loan that was sold this quarter?

## **Prashant Chaturvedi, General Manager, Finance and Resources Nischint Chawathe**

And any sense if you could give us in terms of pricing of this particular deal vis-à-vis the previous deals where you had a different structure and you had a credit enhancement. Basically trying to get a sense of how the current structure plays out in terms of valuation?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

See we are saving over there 1.30% spread being the difference between the yield of the pool and the cost what they are charging. That is what we are getting and that is getting added. That will get added I think in the December quarter on it.

## **Nischint Chawathe**

And earlier the deals that you had done in last year in the fourth quarter how much would the spread be that time?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

That time spread was higher, that time spread was approximately quarter to 2% on an average, but that point in time there was a credit enhancement.

## **Nischint Chawathe**

Yeah, the structuring, I mean the structuring was obviously completed.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

So, structuring was different, but the spread was also higher. It was 50 basis point higher than what we have done this time.

## **Nischint Chawathe**

Just last question from my side. On the growth front you did mention that there is really nothing much to read in the disbursement or sanction numbers it could just be a quarter phenomenon or so. And you're still kind of confident of delivering a high growth but you may want to curtail your growth to a lower extent.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Yeah.

Would you want to achieve it or would you achieve it maybe through a slightly higher yield, in the sense that since you're not focusing on volumes, you may possibly get a slightly higher yield or you may possibly choose your consumers in the higher end or anything of that sort?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

No, we have to curtail our disbursement numbers on a lower side. We don't think that we will be charging 1% higher on the yield side. That maybe possible in the current scenario in the Tier II, Tier III towns but that will not stand in the long-term. Otherwise people will pre-close the loan and then they will go to somewhere else, right.

So we need to balance the growth and the yield what we can charge. We already charged 50 basis points to 75 basis point higher in Tier II and Tier III towns as compared to the banks and other players over there. So we think that and net interest margin somewhere in the range of 2.8% to 2.95% odd, we should be fine and disbursement growth somewhere 25% as I said, I think is a desirable number.

## **Nischint Chawathe**

Sure, okay. Thank you very much and all the best.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Thank you.

## **Operator**

Thank you. We have the next question from the line of Gautam Mago from Sequoia Capital. Please go ahead.

## **Gautam Mago**

Hi, Prashant. Just one quick question. Why is the growth in PAT so much less than the growth in PBT for both second quarter and for the half year 19% versus 28% and 19% versus 36%?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Gautam, if you see the overall numbers on the operational cost and the numbers on the employee cost, what Nischint was asking that is on slightly on the higher side. So the operating expenses for the quarter overall has increased by 27.94%, if they end then we have provided extra on account of provisioning things.

So we were required to provide only for example Rs.7 crore this quarter on the standard assets number. Because the overall quarter-on-quarter number if you see on the NPL front has come down, right. So, we have provided Rs.8 crore extra over there. So which was not needed. So I could very easily add that Rs.8 crore into my PBT number and hence the increased PAT number would have been shown, right. But we provided and just created I think extra cover, which is 116% odd.

That is how you are seeing 19% number which is not actually 19% number but much higher than that. So you are guessing that the -- is the right explanation that there is a provision for contingencies which does not give you a tax benefit.

**Prashant Chaturvedi, General Manager, Finance and Resources**

Right.

**Gautam Mago**

Right, so if I just look at September '11 to September '12 the six month number, 16 crores was the provision in September '11 and 30 crores the provision in September '12, right?

**Prashant Chaturvedi, General Manager, Finance and Resources**

Provision number on September...

**Gautam Mago**

For the six month ended September.

**Prashant Chaturvedi, General Manager, Finance and Resources**

Rs.14.93 crore.

**Gautam Mago**

Yeah, I am just saying 15 roughly and 30 roughly between six months of last year the expense of this.

**Prashant Chaturvedi, General Manager, Finance and Resources**

Right.

**Gautam Mago**

Right, so now you're saying that extra 15 crores of provision is basically, it should give us 5 crores of tax benefit which is not giving us. Is that the right way to think about it?

**Prashant Chaturvedi, General Manager, Finance and Resources**

Any provision, no, no any provision which you make in the profit and loss account is not allowed for taxation purposes.

**Gautam Mago Prashant Chaturvedi, General Manager, Finance and Resources**

We have to create a additional cover, we are following a practice Gautam, both, in both the companies which is First Blue and DHFL that we have to provide more than 100% as a provisioning coverage ratio.

**Gautam Mago**

Right.

**Prashant Chaturvedi, General Manager, Finance and Resources**

These days 40 basis point every growth what you are attaining on the balance sheet side you have to provide as per the revised NHB guidelines. So if we can create some extra cushion by providing extra on the provisioning front, it is going to get benefit in future.

## **Gautam Mago**

No, no, I understand that. I am just trying to understand the mathematics of it right, I think I got it but if there is anything else I'll separately call you.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Sure.

## **Gautam Mago**

To understand the math.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Sure.

## **Gautam Mago**

Thank you.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Thank you.

## **Operator P S Subramaniam**

Hi, good morning. Question was on the borrowing mix, just wanted to understand how is it that NHB would allocate borrowings because from what I understand we do a lot of low ticket housing, but the share of NHB borrowings is pretty low, it's actually less than 10% of our overall borrowings, I was trying to understand if there is any potential for the share of NHB borrowings to go up in the overall borrowing mix?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

See what we are, there are two types of refinancing what NHB is doing for housing finance companies. One is a special rate financing, which is, you can say that scheme like Rural Housing Fund and then the second scheme is a normal scheme, right.

Now if take refinance under Rural Housing Fund then you will get the money at 7.5% to 8%. Okay, but if you go in a normal scenario, you get a miniscule benefit as compared to the market from NHB, that is one. So most of the money what we have taken, we have taken under RHF facility.

Second thing is, that there is a overall cap what NHB internally has, means they can take on single party and group party exposure limits et cetera, et cetera. So because of which they are unable to take or increase their share beyond a point. Now, your base has increased from Rs.19,300 crore last year to maybe Rs.30,000 crore this year overall growth.

So the percentage because of that reason has come down. But there is a appetite which NHB has shown to disburse money under Rural Housing Finance and other schemes also, which may not get counted in the overall exposure.

Now secondly, there is ECB guidelines which everybody is waiting in the housing finance industry. So after 10 years ECB window has been opened for housing finance companies. And both NHB and housing finance companies can borrow now overseas by issuing their bonds, debentures, et cetera, et cetera.

We can directly raise money and NHB can directly raise money and channelize that money through housing finance companies.

Now as we understand multinational agencies like ADB, IFC in the past they had given money for a particular scheme which is I think economically weaker section or a ticket size of upto Rs.15 lakh. So if RBI issues guidelines going forward in next two months to three months we can see some kind of a increase in this proportion from 7.78% to maybe 11% to 12%.

### **P S Subramaniam**

Okay. The other question was on the fee income sir, I mean the growth there has been just around 2% if you could elaborate what is causing the slowdown and also the outlook on the same?

### **Prashant Chaturvedi, General Manager, Finance and Resources**

You are talking about TPP income, third party products income?

### **P S Subramaniam**

That's right, sir.

### **Prashant Chaturvedi, General Manager, Finance and Resources**

Yeah. That has remained flat and the reason being that we, as we address last call in the last call also, that we have shifted our accounting from receivable basis to receipt basis. So if we are not receiving a particular amount at the quarter end or the month end, okay, we are not accounting it for. So once we get, cheque in hand, right, then only we deposit that. However, we expect it to grow higher in the second half. But yeah, on the first half it is almost I think almost flat 1.95% is the number of growth what we have shown, right.

Having said that, we are quite confident that it will go up and higher by at least 15% to 20% on the number what we posted last year.

### **P S Subramaniam**

Okay, if I just understand, you will be receiving this commission income from the insurer or from the customer sir?

### **Prashant Chaturvedi, General Manager, Finance and Resources**

From the insurer.

### **P S Subramaniam**

Okay. So the way it works is when you sell your housing loan product and the insurance with it, you get the cheque from the customer, but you're not recognizing it when you actually sell the...

### **Prashant Chaturvedi, General Manager, Finance and Resources**

No, we get the cheque from the customer on premium front. So customer pays premium.

### **P S Subramaniam**

Okay.

### **Prashant Chaturvedi, General Manager, Finance and Resources**

And we remit that premium amount to the insurance company.

### **P S Subramaniam**



Okay.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

And that insurance company pays us back the commission what we are entitled for.

Okay. So just to get a sense if you could give us what is the like-to-like premium growth that you would have done during the quarter?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

I'm not having the premium number as of now. We can mail it to you.

## **P S Subramaniam**

Okay. Thanks sir. That's it from my side. All the best.

## **Operator**

Thank you. We have the next question from the line of Zaid Motorwala from Motilal Oswal Securities. Please go ahead.

## **Analyst**

Yeah hi, good afternoon. Mr. Pabby mentioned earlier that the segment that First Blue operates in has kind of witnessed some kind of slowdown. So can you please provide some insights on why there has been a slowdown and what the expected course of action is for the future?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Anoop?

## **Anoop Pabby, Head - Corporate Strategy Group**

Yeah hi.

## **Analyst**

Hi, can you hear me?

## **Anoop Pabby, Head - Corporate Strategy Group**

Yes, I can hear you. Thanks, we just explained that the slowdown was in the entire customer segment that First Blue operates in and largely the upper end of the housing segment was not really picking-off in terms of housing sales and obviously housing finance opportunities then come down accordingly. What we have also said is that the company is confident for maintaining its 18%, 20% growth rate of the year.

The disbursement in the first half have grown by 6% or so, we'll make up, now the festival is coming in and the housing purchases have picked-up in Delhi NCR and Mumbai with the larger markets where we operate in Bangalore and Hyderabad would result into a growth of 18% to 20% by end of the year.

Okay. And just one more question. See the cost of borrowings for Dewan Housing, I am talking about the standalone entity have reduced but for First Blue the cost of borrowings have kind of increased a little bit. So what is the reason for that?

## **Anoop Pabby, Head - Corporate Strategy Group**

Largely on account of the impending merger most of the banks were not sure whether they are lending, going to lend to the merged

entity or a single this thing. And the NHB borrowing which was with us, with First Blue has not been renewed it has instead been given to the group exposure, under the group exposure to the parent company. So that is why that cheap money has gone out and we had to borrow from market at market rates.

## **Analyst**

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

## **Operator**

Thank you. We have the next question from the line of Aalok Shah from Emkay Global. Please go ahead.

## **Aalok Shah**

Yeah, thanks. Thanks for taking up my call. Three questions sir, firstly have we reduced the stake in Aadhar Housing Finance from 50% to 40% from some light on that.

Second point is, what is the borrowing program for H2? And seeing this beneficiary point coming in form of ECB guidelines relaxation, the easy norms and debt mutual fund investment, what would be the possible cost benefit on the same?

And lastly, what is our cumulative provisioning on balance sheet as at H1, FY13?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

See on the first point, we have sold 10% out of our 50% what DHFL was holding in Aadhar to the promoter group and that is nothing but in line with the NHB directions what we got from them. So in March quarter DHFL sold, DHFL Vysya Housing

Finance 30% stake.

## **Aalok Shah**

Correct.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

To the promoters and on the same line 10% stake we have sold in Aadhar to the promoters. We have done a fair valuation of those shares and we got it done from Grant Thornton and they have showed that Rs.10.70 per share is the We intend to lower it down further and release the Tier I capital for DHFL. So that it can get counted on the CAR front. On the regulatory front, one housing finance company cannot hold more than 10% in another housing finance company, that is the norm and because of which we have to dilute the stake from DHFL's book in Aadhar Housing Finance. So that was on your first question.

Second question that in the second half of this financial year we intend to diversify as we said.

## **Aalok Shah**

Okay.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

And looking more on the capital market instruments, we have issued a lot of NCDs, we have taken money from the CP market, we are focusing on getting more money from NHB. So the reliant on single source of funding should not be there. So, it's a diversification of funding and we can see some kind of a cost reduction over there.

## **Aalok Shah**

Okay.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

The recent guidelines which have been issued by SEBI as well as by RBI. On RBI front it should get, give me benefit on the liquidity side because once priority sector status was completely taken out, there was some kind of, this point was very sensitive. So we can see that if priority sector status has been restored then it should give us lot of liquidity, okay.

We're getting appetite from banks to take proposals in the range of Rs.500 crore to Rs.1000 crore of a ticket size. So once there is a liquidity we can of course negotiate a little harder on the interest rate front.

On the SEBI side, they have given 10% additional sectoral cap limit to housing finance company which should also give some kind of an ease to mutual fund to lend to housing finance companies like us, HDFC and LIC more, right. So that should also very positive signal from the market.

More importantly, apart from these policies both SEBI and RBI, I think have realized that housing finance companies are different and separate from other NBFCs because of underlying assets, we are having immovable properties as an underlying asset, which is appreciating in nature rather than it being depreciating in nature.

## **Aalok Shah**

Right.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

So the overall asset coverage ratio is much more higher, much, much higher what we can see may be in other NBFCs. So, that categorization is going to help the industry overall. And we believe DHFL is going to take substantial benefit out of that because of its Rs.10 lakh ticket size focus.

## **Aalok Shah**

Okay. And on my last question the cumulative provisioning on the balance sheet as at H1, FY13 if you could share that number?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Sorry, can you just come again on this?

## **Aalok Shah**

The cumulative provisioning on the balance sheet.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Cumulative provisioning is Rs.185 crore on a standalone DHFL number.

## **Aalok Shah**

Okay. Thank you, sir. That's it from me.

## **Operator**

Thank you. We have the last question from the line of Elizabeth John from CRISIL. Please go ahead.

## **Elizabeth John**

Hi, good afternoon.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Good afternoon.

### **Elizabeth John**

On the gross NPA front I mean definitely there is a reduction but on a broader level I wanted to understand that how has the asset quality behaved in the developer loans category?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

No, developer loan ma'am, as we said, we are not focusing on greenfield projects, wherein developer's yet to start work and getting NOCs and regulatory permissions et cetera, et cetera.

We are mostly focusing on projects which are, which is cash driven model. Wherein 60% to 70% of the project for example is already complete and developer is seeking out additional funds for completing that 30%-40%. So they are As we are getting money from their buyers, we are getting that money first squared-off in our account. So there is a lot of prepayment what we are seeing. And I think there is no project loan account which is categorized as NPL as of now.

### **Elizabeth John**

Okay. And another part, a very small question was this 70 lakh profit that has come from sale, stake sale in Aadhar where is that classified in, in the PPT format?

## **Prashant Chaturvedi, General Manager, Finance and Resources**

It is, it has been clubbed under treasury income ma'am. So it has been clubbed with total operational income. Rs.817 odd crore if you can see in the results. So it's part of that.

### **Elizabeth John**

Okay, fine. Thanks.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Thank you.

### **Operator**

Thank you. I would now like to hand the floor over to Mr. Prashant Chaturvedi for closing comments. Over to you sir.

## **Prashant Chaturvedi, General Manager, Finance and Resources**

Thank you very much all for participating in the call. And we ensure that we will be doing better internally, we will try to improve on our growth, we will focus and put lot of endeavor to showcase a better show in the next quarter. Thank you very much.

### **Operator**

Thank you, sir. Ladies and gentlemen, on behalf of Dewan Housing Finance Corporation Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.