

Y 2012 Earnings Call - Dewan Housing Finance

Dt-11 May'12

Operator

Good evening, ladies and gentlemen I'm Sangeeta Singh your host and on behalf of Dewan Housing Finance Corporation Limited it gives me great pleasure to welcome you all to its Annual Analyst Meet 2012 to discuss its Financial Performances and Results for the Financial Year Ended 2012 and Fourth Quarter Ended Financial Year 2012. To discuss the financial performances of DHFL and address your queries we have here with us Mr. Kapil Wadhawan, Chairman and Managing Director, DHFL; Mr. Anil Sachidanand, CEO, DHFL; Mr. Anup Pabby, CEO, First Blue House Finance Limited; Mr. Prashant Chaturvedi, General Manager, Finance and Resources, DHFL; Mr. Ghanshyam Rawat, Head Treasury and Finance, First Blue Home Finance and Mr. Kaustubh Shah AGM Investor Relations, DHFL.

Ladies and gentlemen, Dewan Housing Finance Corporation Limited was founded in 1984 by late Shri. Rajesh Kumar Wadhawan with the vision to provide financial access to the lower and middle income segment of the society.

Today DHFL is the third largest housing finance company in India with the network across 421 locations catering to the semi-urban and rural bells of India. And on this high note, I would now like to hand over the floor to Mr. Kapil Wadhawan for his opening remarks.

Kapil Wadhawan, Chairman and Managing Director

Good afternoon ladies and gentlemen I think firstly a small apology for this slight delay. But nonetheless let's get started. Good afternoon welcome to the welcome to DHFL's earnings conference call for the period ended December 2011.

I will first give a small overview on the current macroeconomic scenario which I'm sure everybody is fully aware of.

Followed by a brief backdrop on DHFL and First Blue's performance for the quarter and period ended December 2011, post which we will open the floor for Q&A. Macroeconomic scenario, the FY12 turned out to be a year of threatening for most economies the world over. India witnessed rapid slow down in growth coupled with near double-digit inflation. Policy flip flops in many key areas of reforms, coupled with the coming together of various macroeconomic risks have heightened uncertainties prevailing in the market today.

The combined impact of these events has taken a toll on the investment cycle and attractiveness of India as a destination for foreign capital. We believe meaningful progress in some of these areas is necessary to restore investors confidence, with subdued economic growth expected to continue for sometime. We believe inflation will remain within the 6.5% level for major part of FY13 and may inch above 7% only after December 2012. This presents a reasonable eight month window of opportunity for the RBI for first ease rates and then fall as inflation begins to rise once again in December 2012. The liquidity deficit persisted to FY12 but became aggravated during the second half of 2012. The government RBI has also scheduled a large part of borrowings for the first half of 2013.

Some softening of the liquidity situation is likely in April and May of this year but should firm up once again due to large net borrowings slowing money supply growth and stress from the external situation.

This may have a moderate impact on our short-term borrowing program scheduled for FY2013. Mortgage industry managed to tied over the challenges and record reasonable overall growth however certain segments did see some tapering off in demand due to elevated real estate prices in certain pockets of the country and also on account of high interest rates. We believe that the large part of FY13 would be spent in spill over effects of downturn in FY12. However, we expect things to improve in the second half of this current financial year.

Some of the key business highlights. Our group continue to deliver robust performance with consolidated assets under management crossing Rs. 27,000 crores as at the end of March. Both DHFL and First Blue Home Finance Limited were able to achieve their targets set at the beginning of FY12 because of niche customer focus.

DHFL successfully raised 304 crores through a QIP offering to institutional investors in Feb of this calendar year. This was the first QIP of the calendar year 2012 and was over subscribed very marginally in spite of challenging markets.

DHFL ran a rigorous securitization program in the last quarter of the financial year as well and assigned pool of assets aggregating to Rs. 16.4 billion. The assignment transaction were at par transactions hence there was no upfront profit booking. We intend to continue these efforts in the future and borrow aptly through the assignment securitization route. Ensuring compliance with clause 32 of the NHB directions 2010, the company has divested its holdings in DHFL Vysya Housing Finance Limited from 58.20% to 9.47%. Grant-Thornton was appointed for valuing the stake sale in DVHFL and also after due consideration the stake was diluted to the promoters at Rs.

97 per share.

This effectively works out to 1.4 times of book value of DVHFL. The company has earned a profit for the year... the company has earned a profit pursuant to the sale of 31.87 crores on the sale of these shares with the view to focus on its core business and also completely divested its holding in DHFL Property Services Limited and Wadhawan Retail during the year. Accordingly DVHFL, DHFL Property Services and Aadhar Housing Finance Private Limited are no longer subsidiaries of the company. However DHFL continues to maintain its 50% stake in Aadhar. For FY12 our standalone DHFL loan book grew by 37% year-on-year and disbursements by 39%.

The NIMs were stable at 2.86% mainly due to elevated interest rate levels and hope that it will start moving closer to 3% as interest rates start their southward journey. FBHFL that's First Blue Home Finance delivered satisfactory performance in this challenging environment with loan book growing by 17% and disbursements growing by 15% year-on-year.

Profit after tax for FY12 increased by 26% to Rs. 101.15 crores resulting in improvement of key financial parameters like return on assets to 1.75% and return on equity to 18%.

We are confident of delivering good performance in the future and are poised to achieve many more milestones in the years to come. With this opening statement I would like to run through a brief presentation back for you after which I will handover for Prashant to take over and dwell deeper into the financial numbers. Thank you.

As I mentioned the company raised 304 crores via a QIP issue by issuing 11.91 million shares and this was raised at Rs. 255 per share translating into a 10.2% post issue equity dilution.

The total assets and the management for DHFL standalone crossed 20,000 crores in FY12, the company assigned pool of assets of \$16.4 billion -- sorry I wish that was true Rs. 16.4 billion. Aadhar Housing Finance Limited focused on the LMI segment, largely on the lower segment has successfully completed its first year of operations with presence in 15 locations covering six low income states across prominently in UP, Madhya Pradesh, Chattisgarh, Bihar, Jharkhand and Orissa.

The company has filed and is awaiting the approval from the High Court with regard to the process of merger of First Blue Home Finance and that's very well under way and post this approval, we will go ahead and operationally merge the two entities together for which lot of work has already happened in the background.

Ensuring compliance as I mentioned in my opening remarks, we have paid down or divested the holdings and DHFL Vysya from 58.2% to 9.47% again a valuer was appointed to give a dispassionate fair value to the stakes held and that worked out to Rs. 97 per share which was 1.4 times.

With a view to again to focus on the core business and pursuant to persistent demands from our investor community as to why, even though the investments are small why these investments should continue in the DHFL's books, we have decided to take them away from DHFL.

However, in Aadhar we still continue to maintain a 50% stake which inline with regulation, regulatory requirements will also start getting paid down over the next six months.

I think it's been a challenging journey and starting from 84, we complete 28 years of DHFL's existence the second housing finance company to be formed in the country at that time with challenges obviously came a lot of accolades as well in this part, in this overall progress.

And as we are today, our consolidated AUM is at 27,000 crores and in the next three years time the intend is to with a moderate 25%, 30% growth rate to double this double the size of the balance sheet. So, as we speak this is the current holding structure it looks very different from what it was in the last quarter where DHFL continues to have a direct First Blue Home Finance investment through its subsidiary called DHFL Holdings. And Aadhar its 50% equity owned by DHFL now.

Again it's come with a lot of pain. But, yes all the four entities put together, plus the alliances that we have with major public sector banks and a large private sector bank has helped us in spreading our reach far and wide into Tier 2, Tier 3 markets and 421 locations are currently represented by one of our brands throughout the country.

Again strong Board of Directors has a lot of independent representation from independent directors. Strong management team and I think this will only get strengthened for us the First Blue merger as we really try and allocate or deploy resources, strong resources in the merged DHFL, First Blue going forward.

The opportunity landscape is well known and post the acquisition of First Blue we are now actively engaged in lending to all segments in the market, be it the above Rs. 10 million segment or the Rs. 5 lakh or Rs.10 lakh segment and even lower now with Aadhar Housing Finance. Just a quick comment on Aadhar it's actually posted stupendous performance in its first year of operations.

All the capital that was raised of 100 crores via DHFL and IFC Washington is not fully deployed and they are consistently upping their numbers both in terms of approvals as well as sanctions and doing it inline with how we would like the operations to be with absolute focus on systems, processes, controls, strong credit underwriting standards et cetera.

Again this fact is well known even though DHFL has been growing way above the overall growth in the mortgage industry which is at

about 12% to 14%, I think the mortgage penetration in India still continues to be extremely low if you compare it with both some of the emerging economies as well as the already stable developed economies.

Housing finance companies -- and it was expected when in the early 2,000 the banks started to get into the housing finance business and there was by lot of human cry on whether the HFC model is the right model to have, I think in this last decade, we have been proven right that, a focused approach towards mortgage financing that's housing finance is the way to go

And clearly some of the banks, for example one of the largest banks in the country which has consistently been focusing on housing finance today is through -- even though it has not a large significant presence on the ground across the country, is nearly just 200% over and above the current lending that we are doing per month and that's with almost 20 times more or 200 times more presence in terms -- 20 times more network presence on the ground.

So, you can imagine that, this is a focus business requires focus system and processes. Again a greater testimony is for the public sector banks and the private sector banks to tie up with us, on sourcing business through their own network.

I think clearly, all these numbers surely will be shared in the Q&A. As we progress, and anything else which is more -with this thank you, I would now hand over the mantle to Prashant to run through the numbers with that. Thank you very much.

Prashant Chaturvedi, General Manager, Finance and Resources

Good afternoon, everyone. Now, I'll take you through some finer details of the financial performance for both DHFL and First Blue Home Finance for the financial year and the quarter ended March 2012.

On DHFL performance total income for FY12 was Rs. 2,469 crore which is up 70.18% year-on-year for Q4, 2012 it was Rs. 721.11 crore which is up 65.91% Y-o-Y. Net interest income for the full year was Rs 469.36 crore which is up 40.58% year-on-year and for the quarter it was Rs. 128.52 crore which is up 34.77% year-on-year. Interest expenses for the full year was Rs.

1,789.01 crore which is up 85.48% year-on-year and for the quarter it was Rs. 521.25 crore which is up 78.41% Y-o-Y.

Operating expenses for the full year was Rs. 252.84 crore which is up 50.58% and for the quarter it was Rs. 79.34 crore which is up by 45.85% year-on-year.

Profit before tax for the full year was Rs. 398.41 crore which is up 30.18% and for the quarter, it was Rs. 125.49 crore which is up 55.02%. Profit after tax for the full year was Rs. 306 crore which is up 33.40% and for the quarter, it was Rs. 93.76 crore which is up 59.87%.

Loan book for the financial year ended March 2012 was Rs. 19,355.38 crore which is up 37.16% year-on-year. Sanctions for the full year were Rs. 12,845 crore which is up 43.53% and for the quarter, it was Rs. 4,464.41 crore which is up 62.93%.

Disbursements for the full year was Rs. 9,065.24 crore which is up 39.35% and for the quarter, it was Rs. 3,092 crore which is up 52.06%. Total borrowings for the financial year ended March 2012 were Rs. 19,148.61 crore which is up 28.95% for the year.

Gross and net NPL as on March 2012 is stood at 0.68% and 0%. We have provided full against gross NPL, net interest margin was 2.86% for the financial year ended March 2012. And return on assets was at 1.92% and return on equity we posted at 19.02% for the full financial year. On the First Blue House Finance performance total income for the full year was Rs. 746.54 crore which is up 29.08% year-on-year and for the quarter, it was Rs. 206.73 crore which is up 28.93%.

Net interest income for the full year was Rs. 201.49 crore which is up 25.53% and for the last quarter, it was Rs. 53.54 crore which is up 9.90%. Interest expenses for the full year was Rs. 501.88 crore which is up 33.67% and for the last quarter it was Rs. 138.25 crore which is up 38.76%.

Operating expenses for the full year was Rs. 79.82 crore which is up 5.09% and for the quarter it was Rs. 21.53 crore which is up 6.73%.

PBT, profit before tax was at Rs. 139.52 crore for the full year which is up 24.22% and for the last quarter it was Rs.

36.03 crore which is up by 13.66%. Profit after tax for the full year was Rs. 101.15 crore which is up 25.73% and for the last quarter it was Rs. 27.16 crore which is up by 18.45%.

Loan book at the end of the financial year stands at Rs. 6,114.34 crore which is up 16.98% year-on-year. Sanctions for the full year was Rs. 3,152.09 crore which is up 20.25% year-on-year and for the last quarter sanctions were Rs. 1,060.60 crore which is up 53.05%.

Disbursement for the full year was Rs. 2,241.10 crore which is up 15.24% and for the last quarter it was Rs. 651.27 crore which is up 27.98%. Total borrowings for the financial year 2011 and 2012 were Rs. 5,523.04 crore. Asset quality remained healthy in First Blue with gross NPL as on March 31, 2012 at 0.84% and provisioning coverage ratio was maintained in excess of 100% at a rate of 130% which is up from 102.77% in the previous year.

Return on assets and equity for the financial year 2011-2012 were at 1.75% and 18% respectively. Now, we will open the floor for Q&A session. Thank you.

Questions And Answers

Operator

Thank you very much sir. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions].

Kapil Wadhawan, Chairman and Managing Director

Well, there will be question asked from the people who are participating in the call. But if anyone of you wants to ask the question, you can just request for the mic and probably you can start.

Ketan Mehta

I'm Ketan Mehta here. Sir, could you give some flavor about the rates prevailing in the tier II and tier III cities and what makes you so confident about growth rate picking up in the second half of this year are you looking at the first half being flat, I mean your views on this please. Thank you.

Kapil Wadhawan, Chairman and Managing Director

I think it's honestly a tall order, looking at the overall -- numbers which have been announced and consistently the de-growth in -- number per se. Persistent lagging out the inflation installation and clearly there are supply constraints and but of course it's not purely demand --. But having said that DHFL's focus has always been the Tier 2 and Tier 3 markets. In fact our genesis, our average ticket size today of close to 10 lakhs is by far the lowest in the industry if I compare both my tier banks as well as house finance companies.

Clearly with a large footprint in Tier 2, Tier 3 markets for the entire financial year last year we really didn't see too much of stress in these locations when it came to housing market. Though interest rates inched up a bit but we are willing to give that or borrowers are willing to give that 25%-50%... 25 to 50 basis points excess premium. And more importantly do not -- with other lenders. So, our growth rate in the last year are all close to 40%. And consistently over the last five to six years our CAGR of about 45%. We are extremely confident that even though there might be flips on the economic front the demand for genuine housing still continues to be very, very robust.

Now, there are certain urban locations which clearly saw some slow down in registration numbers and lack of--. But that was, it's not driven purely by either interest rates having gone up or elevated risk say prices. There were policy issues the city like Mumbai for example in the last 18 months I don't think that there have been too many approvals which have been given for real estate firms. And that's why we saw a bid dip there in this market. But all in all the first quarter usually being a dull quarter, first two quarters a lot of social activity picking up till the second half we expect to continue with the 25% to 30% for this year and this is what we have projected.

Ketan Mehta

The one final question. The PSU Banks have not reduced their rates especially for the housing and the property investments. Are you looking at the same level of interest rates at least for the next two to three quarters?

Corporate Participant

The base rates post the reduction in the repo and the reverse repo rate in the last monetary policy. The signal is very clear to the banks to start reducing rates. Some of the banks went ahead and reduced the base rates surely not what we had expected, we expected the rates to come down further.

But I guess with RBI's focus is continuing to be inflation and inflation moderating and being stable where it is, hopefully we will see some more interest rate cuts going forward, because infrastructure spending for example is not happening at all. The overall industrial activity in the country is at all-time low. And the prime reason for that is very, very high cost of borrowing.

So, our expectation and hope will be to see consistent pairing down of the interest rates. Now what eventually the policy decide is...

Operator

The next question is from the line of Rajatdeep Anand from ICICI Prudential Life. Please, go ahead.

Rajatdeep Singh Anand

Yeah. Good evening. Can you hear me?

Prashant Chaturvedi, General Manager, Finance and Resources

Yeah.

Rajatdeep Singh Anand

Yeah. So, I had three questions. First on the entire business momentum there seems to be a bit of a slowdown, the quarter-on-quarter loan growth is lowest in history, fee income adjusted for the assignment that we have done is also quite low considering that Q4 is a seasonally strong quarter. Yields seems to be going to 14%. So if you can give us an update on the entire business?

Secondly how do you plan to go about this entire merger between First Blue and DHFL and by when do you foresee these two to be merged entities?

And lastly this assignment, is this something which we have done for the first time and why have we chosen to do this?

Kapil Wadhawan, Chairman and Managing Director

Let me take the second question that's on the First Blue and DHFL merger. Now this was, the approval -- the no objection that came from the NHP clearly asked us to merge DHFL and First Blue together. So it was, the NOC was subject to are merging the two entities legally and becoming one.

So pursuant to that we started the process almost six, nine months ago. Not just on the legal side but also to ensure that operationally we don't loose out on the opportunities that we have got. Pursuant to this purchase of this company, the acquisition of this company, we are awaiting approval from the High Court -- meet is happening tomorrow. So, post the approval from the High Court, we will go ahead and operationally merge the two entities together.

Rajatdeep Singh Anand

By when do you foresee this happen?

Kapil Wadhawan, Chairman and Managing Director

We don't want it to spill to the second quarter, but as it looks like before the end of the first half of this current financial year, we will do the merger process.

Prashant Chaturvedi, General Manager, Finance and Resources

Yeah hi Rajat, this is Prashant.

Rajatdeep Singh Anand

Hi.

Prashant Chaturvedi, General Manager, Finance and Resources

See on the question on assignment and weather we have done assignment/securitization transaction first time. We have not done it first time. We used to do and securitization transaction in 2002-2003. And thereafter, we focused on announcement of our balance sheet, right? Because the cost benefit analysis was not in favor of the company.

Now we have assigned about 1,600 crore rupees in the last quarter of 2011-'12. The reason for these assignments were two. First of all, we took this money at, at least 50 basis point lower than the term loans what we were getting from the banks.

So banks were having a base rate of 10.75%. And we used to get 11.25% to 11.5% kind of a monthly rate from banks on the term loans.

Rajatdeep Singh Anand

Okay.

Prashant Chaturvedi, General Manager, Finance and Resources

By doing assignment transactions all these transactions have been done at the base rate of those respective banks. Right? So three transactions have been done at 10.75% and there are couple of transactions which have been concluded at 10% rate. So there is a substantial interest rate or interest cost saving what we have attained by doing this assignment transactions. And second reason was to diversify the overall liability of the company. So everything should not be taken from the banking lines in terms of a term loan, but assignment is going to be one of the routes for raising borrowings for the company going forward also.

That is what on the assignment side. And yes we agree that third party product income and the normal processing fees also has been on a lower side in the last quarter of 2011-'12. The reason being that some of the calls what we had taken in 2010-'11 for example the fees which we used to book on a receivable basis for our vertical in the property services we converted and shifted towards the booking of income on receipt basis. So same way we have analyzed the situation this time and on the TPP income even in the cross-selling wherever contingency in the revenue recognition was involved we have not taken into account those revenues and we have booked revenues where there is a fair amount of certainty is there that we will be receiving this money. So, there is some Rs. 7 odd crore reduction has been seen in the cross-selling income and processing fees has been about 0.89% of the disbursement which has gone down by 10 basis points and we believe that both of these things are temporary in the last quarter of '11-'12 and we wish that we'll come up in terms of fees of these two segments.

Rajatdeep Singh Anand

Okay. Just one last question then I think the ROA compression in the last year has been quite sharp from what used to be a 2% ROA business post the acquisition it became 1.3% ROA business. So, where are we ultimately likely to settle in terms of ROA and ROE?

Kapil Wadhawan, Chairman and Managing Director

Rajat the ROA as I presented some time back is 1.92% for DHFL. And about 1.75% for the First Blue. And the ROE for DHFL is 19.02% right? We think, and we are confident that ROA is somewhere in the range of 1.9% to 2.05% on a higher side. It is something which can be maintained and ROE is a function of leverage what you are doing on a balance sheet. So, if we believe that we are having a leverage 10 times on 2% ROA then something like 19%, 20% should be ROE going forward.

Rajatdeep Singh Anand

Okay, so those were my questions. Thanks for taking them. I might come back later on.

Kapil Wadhawan, Chairman and Managing Director

Okay Rajat.

Corporate Participant

Any one from the audience, who would like to ask the question?

Analyst

Yes. Good afternoon sir. My first question is actually based on your recent interview where you mentioned your assets under management would be expanding to 65,000 crores by FY50.

So I wanted to know how we are going to achieve this target in terms of are we going to go the organic route or the inorganic? My second question is based on a consolidated basis for the year ended 2012. Our loan book has grown from 19,000 crores to 25,000 crores, but our bottom-line has more or less remained the same so in your view what would be the cause for this?

Kapil Wadhawan, Chairman and Managing Director

I think taking the first question, first I think we have done with the inorganic. We have made two acquisitions in the past and both have been extremely successful. Going from here getting to that 65,000 crore asset book size clearly we have been growing at 45% compounded for the last many years. We expect that the impact of the base the higher base is, we don't believe that we can continue to grow at that rate going forward and it's not healthy. The 25% to 30% growth is clearly out there in terms of market opportunity.

So, even if we grow with that 25% to 30% growth rate compounded for the next three years we will get to that number. As regards profitability I think Prashant has already mentioned about the return on assets the net interest margins these last 18 months has not really been encouraging for the economy as a whole and many sectors have suffered in the process a lot of companies in those sectors have suffered in the process. I think maintaining close to 2% return on asset maintaining a close to 3% net interest margin we believe is healthy by all standards both locally as well as internationally.

Now, I think clearly going forward this consistency will continue, we're in the process of consolidating on acquisitions and post that consolidation surely there will be some benefits in terms of cost spectrum which surely will get reflected in our performance and the numbers. But the numbers are extremely satisfying considering the overall state of shares in the marketplace.

Analyst

Thank you so much.

Analyst

Hi, I had two questions. One, could you give us some details on your arrangements with these two PSU Banks and the private sector bank you mentioned. How exactly to do business with them is there a arrangement to buyback loans or whatever the details are? Second, could you give us some details on your accounting policies with regards to securitization and assignment?

Kapil Wadhawan, Chairman and Managing Director

I'll take your second question first. On the accounting side, none of these transactions on the assignment of pool has been done at premium. So all these transactions are at par transaction. Basically it is simple accounting if the yield on pool is for example 13% and we have sold this pool to bank at 10.75% the difference between two to about 2.25% will be booked under the interest income of DHFL. Right?

And it will be booked over a period of the loan. So, it's on accrual basis. So no extraordinary booking of income will be there in all the assignments, securitization and transactions what we have executed over there.

Analyst

And what about the capital treatment?

Kapil Wadhawan, Chairman and Managing Director

The capital treatment is subject to the acceptance by rating. At this moment, we don't think that there is going to be substantial capital release by doing this transaction. Because the first charge, which is ranging from 10% to 15% over -is going to be with the company. So, how much capital released, we can see and seek from the rating agencies that we have yet to discuss but as of now there is no capital released under the revised guideline of RBI what the rating agencies are following.

Analyst

So you are saying first charge I think the first credit charge is 10% to 15%?

Prashant Chaturvedi, General Manager, Finance and Resources

First charge will be on the company to the tune of say 10%.

Analyst

And could you tell us which banks you have done this with?

Prashant Chaturvedi, General Manager, Finance and Resources

We have done with three or four public sector banks which is Corporation Bank, IDBI Bank and few others which is Syndicate Bank, Andhra Bank and we have done it with UTI, Axis Bank.

Analyst

These would not be the two partner banks that you mentioned?

Prashant Chaturvedi, General Manager, Finance and Resources

No. These are not partner banks. That's a different arrangement which is a joint syndication arrangement which is different from the assignment rule. In the joint syndication arrangement what we do that if Rs. 100 is generated under that assignment under that joint agreement rule then Rs. 50 will go in the books of bank and Rs.

50 will rest in my balance sheet and the interest will be booked in our balance sheet to the tune of 50% right? And there is recourse which has been given to these banks.

Analyst

So, if I understand correctly, the loan is sourced by that bank?

Prashant Chaturvedi, General Manager, Finance and Resources

Loan is sourced by us, right? It is processed by us in those location right? Whatever we process, 50% goes in their book so that they can take priority sector benefit on that 50% with they fund, we don't use our fund. So it's sole transaction to them. So, it's a priority sector to them and we use their CASA and their infrastructure to generate these transactions.

Kapil Wadhawan, Chairman and Managing Director

The source itself, the loan gets split, as in if there are 10 loans originated and the arrangement is 50:50 so, logically they should take five loans and we take five loans. The big benefit there for us is the access that we get to their network.

The loans are sourced because they have significant presence on the ground, Punjab National Bank for example in the North. Today we actually attain a strong position in that market, prior to getting into this arrangement our focus in the Northern market used to bare minimum. We used to be less focused on that market but post this, this has given our access to their branch network, their customers which source along with them jointly. The processing of this loan happens as per DHFL central processing...

Analyst

Right. And how many years is the arrangement with these banks?

Kapil Wadhawan, Chairman and Managing Director

Clearly there is no period defined in terms of, at what time the -- it's all relationship oriented at the same time there is a formal process where a committee has also be constituted to look into issues which may arise during process of lending or sourcing these loans. And yes, there are obviously under any agreement, you will have a set option.

Analyst

It's like an annual arrangement?

Kapil Wadhawan, Chairman and Managing Director

It's effectively an annual arrangement.

Analyst

And if I may just ask one more question, what is the total volume of loans you have done through these arrangements so far?

Kapil Wadhawan, Chairman and Managing Director

Total since we have three banks, three public sector banks, The Central Bank of India, Punjab National Bank and United Bank of India and now Yes Bank. I think cumulatively the total is about 5%, about 5% on the total -- in terms of disbursements happens through this arrangement.

Analyst

In FY12?

Kapil Wadhawan, Chairman and Managing Director

Yeah. FY12, yes.

Analyst

And just to be clear, the total amount of disbursement is included in your disbursements? Or is it only half?

Prashant Chaturvedi, General Manager, Finance and Resources

Only half of the disbursement, what comes in my book has been included in the disbursement.

Kapil Wadhawan, Chairman and Managing Director

The disbursement that we do gets....

Analyst

Thank you.

Analyst

Regarding the company has divested its holding in DHFL Vysya, can you just throw some light on why the disinvestment was necessary?

Kapil Wadhawan, Chairman and Managing Director

It was regulatory -- there was as I mentioned in my opening statements section 32 of the NHP regulation meant that one housing finance company cannot have more than 10% of equity in another housing finance company. So it became necessary for us to divest the additional holding of 48 odd percent in favor of the....

Analyst

And do you have another option of merging Vysya Housing?

Kapil Wadhawan, Chairman and Managing Director

I think, we are already in the merger process with a larger entity and it would not had been prudent for us to open up another front as

well on the -- in terms of merger. Now having we operate with four different platforms today.

First Blue and DHFL will it be one in the couple of months hopefully after receiving the High Court approval. That leaves us with DHFL, DHFL Vysya and Adhar. There are various options for us to consider going forward and I think we want to digest one merger first and then possibly look at other options.

Analyst

And one more question is you mentioned that 25% to 30% loan book growth that you would be targeting so would we be raising funds for that in this year?

Prashant Chaturvedi, General Manager, Finance and Resources

Of course. I mean the total borrowing expected for the year is going to be close to 15,000 crores in terms of debt and we projected lending that expected is going to be close to 15.5 to 16,000 -- so clearly all the funds or the borrowings that will happen, will be inline with what we projected --.

Analyst

It will be entirely made through borrowings no equity raising, correct?

Prashant Chaturvedi, General Manager, Finance and Resources

No, equity raising we don't plan equity raising in financial year 2012-'13 because we have just concluded our QIP issuance of Rs. 304 two months back. So at this moment we are independently running at slightly over nine times of leverage and we are having healthy capital adequacy ratio of 18% so we don't think that this year we will be needing equity.

Analyst

Thank you.

Analyst

Company has raised Rs. 3.04 billion out of which you have diluted your equity 10 points to post issue. So what is the loan component you are going to disburse out of this for you customers?

Prashant Chaturvedi, General Manager, Finance and Resources

All the money that was raised, will be given out as a loan, now clearly what this does, it gives us a leverage in mobility whatever equity we raise we can go out and borrow 10 to 11 times of that from the market. But the entire money raised from this QIP issuance has already been funded to the customers.

Analyst

Thank you.

Operator

The next question is from the line of Sumit - from --. Please go ahead.

Analyst

Sir, this is Suprita from Exa. We have few questions, one, how was your teaser loan portfolio moves and has there been any release of provisions because of conversion teaser loan portfolio into a normal floating loan portfolio?

Secondly, what was the overall credit provision for this year? And thirdly, we wanted to understand the impact of two guidelines which have come up recently one, the limit for indirect housing has increased from 5 lakhs to 10 lakhs do you think that would improve

the prospects in cost for HFCs? And secondly how do you see the impact of the recent guidelines on assignment transaction impacting your cost and sources of borrowings?

Prashant Chaturvedi, General Manager, Finance and Resources

Yeah Smita this is Prashant Chaturvedi.

Analyst

Yes sir.

Prashant Chaturvedi, General Manager, Finance and Resources

See there is initially guideline that if housing finance companies do teaser loans you don't have to provide 2% extra provisioning...

Analyst

Right.

Prashant Chaturvedi, General Manager, Finance and Resources

..on those teaser loans if they are standard in nature.

Analyst

Right.

Kapil Wadhawan, Chairman and Managing Director

One, teaser loan for three months in the year 2009, 2010 in the last quarter so that two year cooling period is already over but NHB has revised recently their guidelines saying that even after two years you need to wait for another one year for reversing the extra provisioning requirement on that. So, about Rs. 13.5 crore what we had provided on those teaser loans in 2010 is still there in the balance sheet and it has not been reversed.

So maybe in 2012, 2013 if they are standard assets then we can reverse those provisioning on those teaser loans. So that was your first question. On the second question where you said that is there going to be any benefit on the indirect limit being increased from Rs. 5 lakh to Rs. 10 lakh. Surely it's going to get lot of benefit for companies like DHFL.

Because about 70% of our lending what we do is under Rs. 10 lakh and there is a lot of requirements with PSUs to meet their priority sector targets.

So going forward, cost of funding should come down closer to the base rate where we were getting about 50 basis points higher than the base rate, it should come closer to the base rate. So that benefit is going to emerge for companies which are focusing on loan portfolio or a ticket size of upto Rs. 10 lakh. What was your third question? I did not get that.

Analyst

Sir with these recent guidelines on assignments and securitization with RBI has come up with. Would you be moving to the securitization route because credit enhancement capital treatment and also credit enhancements are not allowed anymore in assignment transactions?

Prashant Chaturvedi, General Manager, Finance and Resources

We need to analyze the new guidelines which has been issued by the RBI recently where at least seasoning is about 12 months and there is no over -- which is about to be taken by the banks. So the appetite in interest level of various banks have to assessed.

So we are working with the banks to work out that there is, if there is no over -- then how do they balance it out in the, or factor it out in

the overall pricing, if that pricing suites us then we will definitely do those transactions. Otherwise on the other hand, as you rightly pointed out that enhancement of priority sector limits from Rs. 5 lakh to Rs. 10 lakh right? Should be the way going forward as most of our funding should emerge.

Analyst

So, what was the overall credit provisions for this year?

Prashant Chaturvedi, General Manager, Finance and Resources

Our overall provisions in the balance sheet is Rs. 155 crore, standard assets provisioning we have provided for Rs. 55 crores and Rs. 35 crores of contingency reserve which we provided last year have been shifted to the provisions from reserve. So, overall 55 plus 35 about Rs. 90 crore has been transferred for the provision for contingencies.

Analyst

Sir, incrementally how do you see it going forward?

Prashant Chaturvedi, General Manager, Finance and Resources

We are working on a model where incrementally even on the standard loan, we need to provide 0.40% that should be factored in the overall pricing. When I say pricing, it's a lending pricing, we need to load that on to the customer because otherwise it will take some kind of hit on the profit and loss account of HFC.

Analyst

Okay, sir. Thank you very much.

Analyst

Sir, there is one question. Hello?

Prashant Chaturvedi, General Manager, Finance and Resources

Yes, please.

Analyst

Sir, basically on your portfolio on the project loan side, asset has increased to around 6% of your portfolio. Sir, going forward is there any internal limit, internal targets beyond which you will not grow in this project loan book? And also about the incremental lending rates in this book?

Kapil Wadhawan, Chairman and Managing Director

I think in the current state project lending offers tremendous opportunity in the market. And we have assisted as a strategy from going ahead and doing project lending for greenfield projects. Rather 99% of our lending in project finance is to -- is for projects which have attained more than 50% completion.

Now having said that, we are free lend 25% out of our total corpus for any other lending activity. DHFL has been extremely conservative in going ahead and lending for projects. But going forward, you see the project finance portfolio stabilizing at anywhere between 10% to 15%.

Analyst

Okay sir. About the lending rates which you are charging currently?

Kapil Wadhawan, Chairman and Managing Director

I didn't get the question.

Analyst

The IRR in these project loans?

Kapil Wadhawan, Chairman and Managing Director

The base rate for these project loans starts from 16% going up to 20% also, because as I said I mean 50% to 60% of the projects are complete. So the developers basically need some sort of bridge to complete the project and that's for doing the construction. So these are extremely short-term loans, once you give the loan we have seen that some of the loans do get repaid in about three months as well.

Analyst

Okay. Thank you sir.

Prashant Chaturvedi, General Manager, Finance and Resources

Due to paucity of time, we will have the last question from the audience, please.

Analyst

Good evening sir. This is Alok. Three questions from my end -- forward project loan plus commercial loan account for 18% for our total loan book. So, are we looking at a loan mix like a 80 for individuals and 20 for project loans plus commercial loans?

My second question is on a -- guidance for FY13?

And my third question is pertaining to First Blue Home Finance, we have clocked a 70% loan growth for FY12 what's the target for FY13 and especially given the fact that we had acquired this book at 1.9 times book. So, we need to understand how we are looking at that growth?

Kapil Wadhawan, Chairman and Managing Director

I think on the project loans as I mentioned that by regulation we are allowed to do 25% of our release in other than -. But internally basically we determine 80:20 as like I said 80% for housing and 20% for non-housing which is good project even though by definition residential housing projects are also get classified under 75 but for the sake of absolute transparency that is shown separately so 80:20 is the mix going forward even though the regulation permits us to go up to 25%. What was your second question?

Analyst

NIM guidance for FY13?

Kapil Wadhawan, Chairman and Managing Director

Sorry we don't give guidance, we have never guidance. This is a business which if RBI increases the interest rates again all interest rates sensitives are going to suffer. Now having said that we have been maintaining a stable NIM for the last many years at close to 3% we are now at 2.86%. We have pinched up a little bit up in the last quarter hopefully the interest rates going down during the year we expect the -. So anywhere in the range of 2.9 to 3.1 is something which we are comfortable.

Analyst

And on First Blue Home Fiance we did something like 17% loan growth what are we looking at for FY13?

Prashant Chaturvedi, General Manager, Finance and Resources

Again the projection there is 25% to 30% inline with the growth that we have set out for DHFL.

Clearly it's going to be a merged balance sheet, a merged operation. But nonetheless the First Blue brand which still continues to exist because the focus of First Blue is very different both on its customer segments as well as the geography that it operates in.

So a 25% to 30% growth is something which people like for --.

Analyst

Thank you.

Corporate Participant

Okay. I would like to thank you all for coming for this event and attending the conference call. I would like everyone to join us for the --. And if you have any further questions and queries, you can definitely write to the team Investor Relations and we would be glad to respond to you. Thank you everyone. Thanks once again for joining us.