Management Discussion And Analysis

Overview of The Indian Economy

The Indian economy is considered as one of the fastest growing economies in the world. Accelerated growth led by manufacturing and services sectors has enabled the corporate to record strong performances. In turn tax collections have been buyonut, improving state of the public finances.

A GDP growth of around 9% consecutively years and robust domestic consumption reflect encouraging signs of continued growth. During the year, the capital market overall did well despite some volatility during the last quarter. The Rupee proved to be a sturdy and reliable currency with a surge in the inflow of foreign direct investments and portfolio investments, as also weakness exhibited by the US Dollar. Foreign exchange reserves improved substantially. Amidst the backdrop of global volatility and incipient signs of a global slowdown, India's economy shows resilience, characterized by healthy macro economic conditions. This along with other positive factors such as a favourable demographic profile and rising income levels holds out promise for furthering the consumption led growth.

Housing Scenario

High interest rate scenario and over heated asset prices have affected the growth in real estate even as demand supply mismatch continues in the property market and inspite of this the demand for home loans was strong. Some of the reasons for continued robust growth in home loans were fiscal concessions available to self-occupied residential home loan borrowers and rising disposable incomes from an increased number of double income households. Most customers of the Company borrow for self occupied houses. Given the acute shortage of housing, it is expected that demand for home loans will continue to remain strong.

Measures on the housing sector in the Union budget 2007-08 were a mixed bag. The positives included the announcement of the introduction of reverse mortgages for senior citizens and mortgage guarantee companies, both of which augur well for the sector. The drawbacks, however, included the amendment in the benefits available to housing finance companies (HFCs) under Section 36(1)(viii) of the Income Tax Act. Under this section, HFCs were permitted to transfer up to 40 percent of its taxable profits from the housing finance business to a Special Reserve and claim this amount as a deduction in computing the tax liability. The Finance Act 2007 has reduced this permitted transfer from 40% to 20% with effect from Assessment Year 2008-2009 i.e. Financial Year 2007-08. As a result, the effective tax rate is expected to be higher. The other drawback includes the levy of service tax for renting of commercial property.

During the year, the regulators have tried to ensure through the issue of policy measures and directives that players in the housing finance market continue to adhere to prudent lending norms.

Current Scenario

The housing finance market has witnessed a gradual decline in the off-take as a result of rising property prices and interest rates in the economy, in spite of higher disposable incomes, continued fiscal incentives on interest and principal repayments and increased urbanisation.

The real estate prices, which have doubled over the past three years and with repealing of Urban Land Ceiling Act (ULCA) in many States, seem to be stabilizing now. Given with the combination of stable interest rates and housing prices, demand for housing loans will go up. While banks are slowing down their retail loan exposure which mainly comprise home loans, housing finance companies should benefit more. Moreover, we are optimistic about maintaining or improving the key fundamental indicators such as net interest margins (NIMs) and reduction in non performing assets due to improving incomes and strong recovery mechanisms.

Though the housing shortage continues to be high in the country and especially in rural areas, it is expected that the demand for housing and home loans in urban areas will continue to rise faster as a result of the increased urbanisation in the country. Not only have the metro cities witnessed rising population, but even Tier I and Tier II cities have been experiencing similar trends of increasing population and demand for housing. With investments flowing into urban infrastructure, this trend can only intensify in the times to come. The demand for housing and housing loans will therefore continue to grow in the medium to long-term.

Sharp increases in home prices and interest rates have affected home buyer's, affordability and as a result, a slowdown in disbursement growth in the home loan segment-could be imminent and growth could moderate over the next few years from over 30% shown in the last three years.

The Indian Housing Sector

India's robust economic growth and the resultant increasing incomes are speeding up the pace of urbanisation. This, along with the increasing finance penetration, has led to a housing boom in the past few years. The total stock of housing by 2007 were estimated at 129.4 million units, expected to grow at a compound annual growth rate (CAGR) of 3.4% till 2011, adding, on an average, 4.6 million units annually till 2011. The current stock represents 86.08 billion sq ft floor space area (FSA). On an average, the addition to FSA is estimated to be 4.6 billion sq ft till 2011, growing at a CAGR of 4.75 per cent over the next 5 years.

Increasing household formation, driven by growth in population, urbanisation and income growth, is primarily driving demand for housing. This demand manifests through an increase in housing stock and area of stock. Estimated annual additions in urban areas are expected to grow at 9% from 1.96 billion sq ft to around 3 billion sq ft, primarily reflecting increased urbanisation. Corresponding annual additions in units will grow at 6% to reach 3.09 million units in 2007-11 from 2.31 million units in 2002-06. Estimated annual additions in rural areas have grown at 4% from 1.36 billion sq ft in 2002-06 to 1.66 billion sq ft. Corresponding annual additions in units in rural areas are estimated to grow at 1% to 1.59 million in 2007-11 from 1.48 million in 2002-06.

Business of the Company and its Products and Services

Products

Your Company has regularly come up with new products and value added services, and has been expanding its reach domestically as well as internationally. Your Company offers various products including:

1. Home Loans for
   i. Plots
   ii. Construction
   iii. Purchase of Flats
   iv. Improvement Loans, and
   v. Extension Loans
2. Other Loans including
   i. Lease Rental Financing
   ii. Mortgage Loans
   iii. Non Resident Property Loans, and
   iv. Reverse Mortgage Loans for senior citizens

Competitive Strengths

1. Extensive industry experience

Your Company has been in the housing finance business since 1984. We believe that our experience helps us in providing value added advantages to our customers and manifests in our ability to identify housing finance requirements and address them with flexible products to suit the financing requirements of our customers. Your Company has, in the past, tied up with corporate clients, co-operative societies to cater to the housing finance needs of their employees / members. As of March 31, 2008, nearly 84% our total outstanding assets comprised of home loans.

2. Strong network coverage

As on March 31, 2008, your Company has set up 175 locations across India via its network of 59 branch offices, 83 service centers and 31 camp locations. Your Company also has international representative offices located at London and Dubai.

3. Unique business model

Unlike other HFCs and Banks which operate on the Direct Selling Agents (DSA) model, your Company relies on its employees to build customer relationships which, we believe, translates into better understanding of customer financing requirements, greater brand awareness and consequently, improved credit appraisal mechanisms. As on March, 31, 2008, we had 1,10,535 borrowers.

4. Niche Marketing Strategy

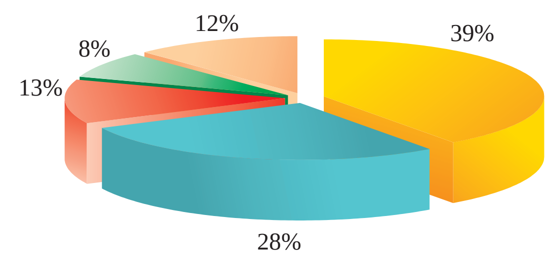
Your Company concentrates on lending to the Middle and Lower Middle Income ("LMI") segments. Your Company has developed robust credit appraisal mechanisms to target unconventional class of customers including the likes of entrepreneurs, traders, rurally employed professionals, etc. Stemming from the scarce presence of other Banks and HFC's who are more focused on the conventional class of customers including organized, salaried-class and Mid to High-Income customer segments whose credit quality is relatively easier to assess, and who have greater access to various forms of financing.

5. Strong Asset Quality

Improvement in our asset quality has been consistent and significant in the last few years. Your Company has taken substantial measures to augment recovery and contain NPAs. Your Company has implemented the provisions of SARFAESI Act to its advantage for recovery of NPAs. These efforts have yielded results and Net NPAs have been successfully brought down over the last three years.

Your Company concentrates on financing to individuals. As shown in the following graph, your company has lent over 75% of its assets to salaried individuals, who by their stable nature of income, result in lower delinquencies

DHFL's Customer Profile



1. Professional management

Your Company has a professionally managed Board which oversees and guides its strategy and operations. The Company's Board has constituted few sub-committees of the directors for taking timely decisions and to ensure effective governance. The members of Company's management team and employees come from a diverse set of backgrounds with relevant experience, including credit evaluation, risk management, treasury, technology and marketing. The diversity of experience helps us adapt a creative and cross-functional approach.

2. Centralized and modern technology platform

Your Company's branch offices have been linked to a central server resulting in improved operational efficiency and cost effective services. Your Company has upgraded existing information technology systems with newer applications packages which have enhanced connectivity resulting in the development of a centralized credit information database which can be accessed online on a real time basis resulting in increased efficiency. An increased focus on marketing, together with upgrades in technology and expansion of our centralized network allows us to intensify and focus on its products

Business Strategy

Your Company is systematically implementing the following business strategy to expand its business which is described below:

1. Strengthening the Brand

Being one of the foremost HFC's in India, your Company enjoys considerable brand loyalty within its target market with over 2,00,000 serviced customers to date. Your Company plan to increase its presence across the country, by expanding its service network, and exploiting cross selling opportunities to boost its business.

2. Expanding network and connectivity

Your Company plans to expand its operations across India in a phased manner in order to increase its share of the housing finance business by tapping underserved segments of the Indian economy. We believe that this would result in optimum utilization of the skills that your Company has attained by operating in a niche segment for over two decades and that we will be able to staff the organization with individuals capable of driving this growth by enabling them with greater delegation of authority and de-centralizing decision making processes.

Your Company is expanding its pan-India presence by setting up new offices across regions where we have been hitherto not present including Northern and North Eastern India.

Your Company has entered into an agreement with a leading PSU bank, Punjab & Sind Bank (P&SB) which would help your Company to reach out to potential customers in tier-2 centers in Punjab, Haryana and Chandigarh. P&SB has branches in locations where we are not able to reach through our existing offices in Chandigarh, Patiala and Jallandhar.

Your Company has entered into Memorandum of Understanding with UAE Exchange, a leading money transfer company headquartered in United Arab Emirates (UAE). The agreement would help DHFL reach out to non resident Indians (NRIs) in the whole of UAE through a well spread out network of 54 branch offices of UAE Exchange.

To support the growth, your Company has an integrated branch network which has resulted in optimization of its operational costs and has improved delivery mechanism. The Company has linked all branch offices to a central database which helps in periodic assessment of our portfolio and provides specific advantages in terms of efficiency and cost savings.

3. Tapping new Segments

Your Company has successfully exploited niche segments. However, your Company perceives huge potential amongst the non-salaried class including small entrepreneurs, traders etc. These are largely not within the radar of Banks and HFCs due to irregular income flows. Your Company has entrusted its subsidiary DHFL Vysya Housing Finance Ltd., with the responsibility to evolve techniques to measure credit for this segment as well as run a pilot funding programme to evaluate behavioral trends and credit performance in such segments. We expect that we will be able to exploit latent opportunities in this segment to our advantage.

4. Customization of Products and Services

Some of your Company's current products and services are specially designed to suit the needs of specific segments of customers and we continuously emphasize on the development of more new products in this category. Your Company has already introduced a Reverse Mortgage scheme called “Saksham” for the first time in India. “Saksham” helps senior citizens of the country in monetization of their residential property which they own and use as a primary place of residence.

5. Reduction of funding costs

Your Company has utilized various sources of funding to optimize our funding costs, protect interest margins and maintain a diverse funding portfolio that will enable us to further achieve funding stability and liquidity. We have sourced funding primarily from banks, refinance from NHB, Public Deposits, Redeemable Preference Shares and Non Convertible Debentures (NCDs). We have diversified resources profile by accessing funds from multilateral agencies at competitive rates.

Your Company has a credit rating of AA+ from CARE which allows it to access debt finance at competitive rates of interest. Based on its improved ratings, the Company expects to source increased funding at competitive rates from the capital markets and reduce its proportion of bank finance to bring down its funding costs.

6. Optimizing cost of operations

Your Company expects to reduce its operating costs as a percentage of top-line via efficient implementation and utilization of its technical resources and optimal utilization of manpower and infrastructure. This will be enabled by leveraging on existing fixed costs while simultaneously increasing business and manpower productivity.

Your Company utilizes the services of its employees for business origination, which enables it to maintain high asset quality. The lower levels of NPAs experienced by your Company results in savings on recovery costs.

7. Inorganic growth by acquisitions

Your Company is planning strategic alliances and acquisitions as a part of its growth strategy. We believe that such strategies will help in immediate expansion of Company's geographic presence and customer base.

Future Outlook of the Company

An incremental growth rate of about 57% has been achieved for the year 2007-08. Interest movements showed an upward movement during the year. Banks, Financial Institutions have increased the rate of interest on their lending, due to stringent liquidity situation created in the money market. Hence, the year 2008-09 will be a more challenging year for HFCs and Banks. When the interest component is more, to that extent the purchasing power is reduced. However, taking into consideration the concessions allowed in the income tax, the net interest burden will be still within the affordable limits and as a result the demand will continue, and the incremental growth rate of around 25% to 30% will be maintained.

Financial Highlights

Balance Sheet Movements:

Share Capital

The paid-up equity share capital of your Company increased to Rs. 60,52,29,750/- divided into 6,05,22,975 equity shares of Rs. 10/- each, consequent upon the conversion of Optionally Convertible Preference Shares and Equity Warrants into 1,04,00,456 the equity shares .

The preference share capital of the Company is Rs.7,00,00,000 divided into 70,00,000 Redeemable Non Convertible preference shares of Rs. 10/- each

Reserve & Surplus

Your Company's reserves increased by 30.87% to Rs. 377.55 crore from Rs 288.48 crore in the previous year. The growth is attributed to :

(i) share premium amount on allotment of Redeemable Preference Shares & OCPS and

(ii) transfer of profits to the reserves.

Special Reserve has been created over the year in terms of Section 36(1)(viii) of the Income Tax Act, 1961 out of the distributable profits of the Company. During the year, your Company has transferred Rs. 45 crore as against Rs 12 crore in the previous year to General Reserve.

Fixed Assets

During the year, the gross block of assets has grown by 5.62% over previous year. The additions on fixed were at Rs. 3.37 crore. The primary reason for addition to fixed assets are

(i) Investments in computes and software amounting to Rs 1.50 crore.

(ii) Other additions of Rs. 1.87 crore.

Loan Funds

The year was characterized by rise in global interest rates, credit growth of banks outstripping deposits growth, inflationary concerns in the wake of upward pressure on oil prices. The RBI responding to these factors increased the reverse repo and repo rates thereby signaling the hardening of interest rates.

In this backdrop, your Company through prudent Assets Liability Management was largely successful in containing its cost of borrowings. Diversification of funding sources optimization of the tenor and interest rates structured and timing of borrowings were some of the measures taken by the Company in containing cost of borrowed funds with reference to its interest rate benchmarks.

The year witnessed some of the most challenging times for fund raising at competitive costs. Reserve Bank of India (RBI) hiked repo rates, reverse repo rates and Cash Reserve Ratio (CRR) among other monetary measures to address some of the macro economic concerns facing the industry. Liquidity remained tight during second half of the fiscal year that kept short-term interest rates volatile.

In spite of such adverse environment, your Company was largely successful in mitigating the impact of any sharp rise in its cost of borrowings with reference to its interest rate benchmarks through prudent and active liability management practices.

During the year under review, fresh term loan of Rs. 1257.27 crore was availed from the Consortium Banks / Financial Institutions, taking the total term loan outstanding to Rs. 3160.64 crore. The loans availed from the banks qualify for priority sector lending. These loans were drawn at varying spreads below the prime lending rates of the respective banks. The consortium of banks enhanced the banking limits of your Company to Rs. 4162 crore. As at the year-end, the share of funds provided by banks and other institutions accounted for 80% and 4% respectively.

During the year under review, the National Housing Bank extended refinance to your company aggregating to Rs. 45 crore. As on 31st March, 2008 the refinance outstanding from the National Bank amounted to Rs. 289.77 crore.

During the year under review, medium-term funds to the extent of Rs. 175 crore were raised through the private placement of non-convertible debentures with institutional investors. Short-term borrowings were made in the form of unsecured NCD / loans to the extent of Rs. 154 crore. Out of the said borrowings Rs. 50 crore are outstanding as on 31st March, 2008.

The term loans are secured by way of the first charge on all the movable and immovable assets of your Company, both present and future and shared on pari-passu basis with all the secured lenders and are further secured by personal guarantees of the promoter directors.

Housing Loan approvals and Disbursement :

In-spite of increase in rate of interest and consequently the low demand for housing loan, the operational performance of your Company is noteworthy in the financial year 2007-08. During the year under review, loan approvals by your Company amounted to Rs. 2009.55 crore as compared to Rs. 1502.89 crore in the previous year. Loan disbursement aggregated to Rs. 1761.53 crore as compared to Rs. 1472.87 crore in the previous year. Cumulative loan approvals and disbursement since inception upto the 31st March, 2008 reached Rs. 7870.67 crore and Rs. 7102.64 crore respectively. Cumulative disbursement worked out to 90% of cumulative approvals.

During the year, an amount of Rs. 95.73 crore was disbursed under the Golden Jubilee Rural Housing Refinance Scheme of the Government of India.

The Company's endeavour is to reach out to Low and Middle Income household in smaller town and cities.

Keeping in mind its credo of value addition, the borrower of your Company is covered under the general insurance which offers accidental and property insurance which is offered by Future Generali India Insurance Co. Ltd. Your Company also offers optional life cover to its customers under a referral fee programme with SBI Life Insurance.

Investments :

The decisions to invest/disinvest upto the approved limit delegated by the Board are taken by the Vice Chairman & Managing Director who is assisted by senior officers. The investment function is carried out primarily to support the core business of housing finance to ensure adequate levels of liquidity and to maintain statutory liquidity.

Sundry Debtors

For the year ended 31st March, 2008, sundry debtors amounted to Rs. 1.27 crore as against Rs. 1.22 crore in the previous year ended 31st March, 2007. The increase in debtors was primary on the account of increase in business operations. During 2007-08, your Company made provisions of Rs. 5.27 crore for the Non-Performing Assets as per the prudential guidelines for Non-Performing Assets (NPAs), issued by the National Housing Bank (NHB) under its Directions of 2001, as amended from time to time.

Cash and Cash Equivalents

During the year, your Company generated net cash flow of Rs. 51.63 crore from the operating activities.

Deferred Tax Assets and Deferred Tax Liability

Your Company accounts for deferred tax in compliance with the Accounting Standard 22 issued by the Institute of Chartered Accountants of India.

Current Liabilities and Provisions

During the year, the current liability and provisions have increased to Rs. 66.59 crore as against Rs. 44.02 crore in 2007. This is mainly on account of increase of other liabilities by Rs 12.50 crore largely on account of increase in business operations. Net provisions increased by Rs. 0.23 crore largely on account of tax provisions.

Results of Operations :

Income

Your Company's income during the year remained steady in spite increase in rate of interest and high cost of borrowings. The income for the year increased by 57.51% to Rs. 523.42 crore as against Rs. 332.29 crore in the previous year.

Interest and other Charges

The interest rate scenario has suddenly taken a reverse route and started galloping towards north. Banks / Financial Institutions and HFCs have started increasing the rate of interest on their lending and as a result interest on loans and other charges increased from Rs. 232.16 crore to Rs. 364.63 crore due to availing of fresh terms loans from banks, issue of secured and unsecured Non Convertible Debenture.

Administration and other expenses

There was an increase of 51.77% in the Staff Cost from Rs. 11.59 crore in 2006-07 to Rs. 17.59 crore in 2007-08. This was mainly due to increase in work force salary revision and payment of arrears for the previous year. The Company is also investing in training and upgrading skills of Human Resources so that it can keep pace with the development.

Other Operating Expenses have also registered an increase of 30.74% mainly due to increase in expenses on rent, rates & taxes, bank charges and miscellaneous expenditure.

Operating Expenses comprising both staff cost and other operating expenses have registered an increase of 38.80%.

Net Profit

The operating profit before charging depreciation and tax amounted to Rs. 107.85 crore, as against Rs. 61.40 crore in the preceding year, representing a rise of 75.65%.

The Profit Before Tax (PBT) for the year under review, increased by 77.80% from Rs. 59.46 crore in the previous year to Rs. 105.72 crore. Profit After Tax (PAT) went up by 70.62% to Rs. 82.58 crore from Rs. 48.40 crore in the previous year.

Dividend

1. Interim Dividend

   In October 2007, your Company paid an interim dividend of Rs. 1.50 per share on enhanced share capital of the company, which involved an outgo (including the dividend distribution tax) of Rs. 10.62 crore.

2. Final Dividend

   Your Directors now recommend a final dividend of Re. 1/- per equity shares of Rs. 10/- each. Thus, the total dividend for the financial year 2007-08 would be Rs. 2.50 per share (on the par value of Rs. 10/-) as against Rs. 2.50 per equity shares of the financial year 2007-2008.

The total dividend outgo for the current fiscal would amount to Rs. 1857.20 lakh including dividend distribution tax of Rs. 269.44 lakh as against Rs. 1680.17 lakh including dividend distribution tax of Rs. 238.94 lakh in the previous year.

Earning Per Share:

The Earning Per Share (Basic), increased to Rs. 14.43 in the current year form Rs. 9.22 in the previous year.

Transaction in which the management is interested in their personal capacity

During the year, there are no materially significant related party transactions entered into with the management that may have potential conflict with the interest of your Company. For detailed discussions, refer Note No. 15 B of Schedule [R] in Note to the Accounts.

Internal Audit and Compliance

Your Company has an adequate Internal Control System commensurate with the size of the Company and the nature of its business and is minimizing the operational risk by way of effective internal control systems, systems review and on-going internal audit programme. The Internal Auditors of the Company undertake a comprehensive audit of functional areas and operations at all branches of the Company. The Internal Audit Reports and findings are referred to the Audit Committee of the Board.

Your Company has internalised its Legal and Technical appraisal functions to ensure optimum control over these functions. Your Company has a multi-level authorisation structure to ensure that higher levels of exposure are duly authorised by personnel and committees with requisite experience and authority. Training programmes and guidelines are provided with the object of implementing appropriate links between the policy goals and the operational level.

Risk Management

Risk to a varying degree, is inevitable in all business transactions in an organisation which is in financial services industry. Hence it is critical to have strong risk management capabilities that include effective monitoring, reporting, controlling and mitigation process. The risk management framework of your Company is driven by the following fundamentals:

- Identification of the diverse risk faced by the Company
- Evaluating the probability of their occurrences and their impact.
- Set an appropriate balance between risk and reward in order to maximise share holder return.
- Set tolerance limits and establish adequate review mechanisms to monitor and control the risks.
- Incorporate robust reporting mechanism and adoption of appropriate mitigation processes

To support the above, the overall risk governance framework of the company includes strong corporate oversight, independent audit function and well laid down policies and processes. Being in the financial services sector the company's risk exposures include: Credit risk, Operational risk, Market risk, Interest rate risk, Liquidity risk and Leverage risk.

Credit Risk

Lending involves a number of risks, largely related to the credit-worthiness of the borrowers. Credit risk involves inability or unwillingness of a customer or counterparty to meet their commitments. This is inherent and most dominant of the risks in the lending business. This is made up of transaction risk and portfolio risk. The credit risk arises because of the quality of the loan portfolio and it is extremely important to control this risk in Housing Finance Industry. The same can be done by having a strong credit control mechanism in place with clear policies and guidelines in respect of scrutiny of any loan proposal.

Risk Mitigation

Your Company has a prudent credit risk management process which contains:

- A sound credit approval process.
- Appropriate credit administration, measurement and monitoring process.
- Ensuring adequate controls over credit risk.
- Effective training programmes

Your Company has well laid down credit policies at the product level with clear delegation of authority. The framework covers policies about "Know Your Customer" and Anti Money Laundering, regular credit assessment, new product launches, delegation matrix etc. Your Company's credit evaluation and credit portfolio management methodologies are designed to ensure consistent underwriting and early identification of problematic loans using techniques like lagged delinquency analysis, early default analysis, static pool analysis etc. Based on the review mechanism, credit policies are being reviewed and appropriate changes to the policies are undertaken. Your Company has a separate credit vertical for each of the businesses independent of the marketing and sales teams, which takes decisions at an individual transaction level for all transactions. An empowered, independent internal audit team conducts regular review of credit files on a sample basis to ensure adherence to the policies.

Your Company also uses the services of credit agencies/market survey to evaluate the credit worthiness of its customers in the housing finance business.

Operational Risk

Operational Risk is defined as the risk that your Company will incur due to inadequate or failed internal processes, people or systems. During the year, the transactions of your Company have increased manifold necessitating additional focus on having robust operational controls.

Risk Mitigation

The management of operational risk is carried out through a comprehensive system of internal controls, documented delegation of authority, separation of duties between key functions and detailed standard operating procedures. In all critical functions like treasury, etc. the front office and back office functions are segregated. The key operational processes are centralised at the Corporate Office that reduces the operational risk at the branch level.

Your Company has an empowered in-house internal audit team spread across the country and also has reputed external audit firms to focus on special areas and new product launches. All the operational branches are being reviewed on the basis of a Risk Potential, which measures the effective control mechanism at the branch level. The branches are graded based on the level of activity and the frequency and coverage of audit is determined on this basis.

To enhance the control over information systems, your Company has periodic audit process to ensure information security and has also setup a remote disaster recovery site to ensure sustenance of business operations.

Market Risk

Market risk refers to uncertainty of future earnings resulting from changes in the values of financial instruments. This could arise from changes in liquidity conditions, interest rates and foreign exchange rates as well as their correlations. Evaluating this risk and arriving at appropriate mitigating actions has assumed greater importance, due to the unprecedented volatility witnessed during the current year.

Risk Mitigation

Your Company has a comprehensive Financial Risk Management Policy that limits the financial exposure of your Company to acceptable levels. A management committee consisting of Senior Officials of the Company under the supervision of Vice Chairman & Managing Director and Chief Operating Officer reviews and approves all market risk policies and recommends the tolerance limits on borrowings, the fixed vs. floating rate exposure on the borrowings, the ALM position of the company and also fixes the framework of operations for Asset Liability Management Committee (ALCO). ALCO which includes members from operations, treasury, finance and accounts reviews the treasury operations and pricing of products on regular basis.

Interest Rate Risk

Interest rate risk arises when there is a mismatch in the interest rate profile of assets and liabilities adversely impacting the net interest income. Your Company measures interest rate risks by the 'duration gap' method. The duration gap is a risk measure that tracks the gap between assets and liabilities sensitive to interest rate changes, to assess the impact of interest rate changes on the cost of funds to the company.

Risk Mitigation

Your Company manages the duration gap within the set risk limit by altering the tenure and structure of borrowings and through the use of derivative instruments like interest rate swaps. Considering the volatility of interest rates in the market, your Company strategy is to optimise its borrowings between short term and long term debt as well as floating and fixed rate instruments.

Liquidity risk

Liquidity risk is the risk that your Company may be unable to meet its financial obligations in a timely manner at reasonable prices. This risk could arise out of a mismatch in maturity profile of the assets and liabilities. Managing liquidity risk is essential for your Company to maintain the stakeholders' confidence.

Risk Mitigation

The mitigation techniques deployed by your Company is to spread the borrowing basket among different lenders like banks, financial institutions, National Housing Bank etc. to reduce the concentration risk. It also monitors the structural liquidity mismatches between the assets and the liabilities on a projected cash flow basis and periodically reviews the open credit lines available with the banks. The key elements of the framework used to manage the framework used to manage liquidity risks are as follows :

- Periodic reviews of maturity mismatch analysis after measuring and forecasting cash commitments.
- Diversifying funding sources in terms of source, instrument, term etc and reducing dependence on any one fund provider.
- Maintaining sufficient approved but un-drawn credit lines on a continuous basis to prevent disruption of business on account of liquidity constraints.

The interest risk, operational risk and the liquidity risks are reviewed on a regular basis by the ALCO and also reported periodically to the Board of the Company.

Weaknesses

Competitive Lending Rates

The Housing Finance Industry has witnessed the entry of Financial Institutions and major Banks in the last few years. These Institutions have access to cheaper funds and are therefore able to lend to the customers at a lower rate. There is an intense competition in the industry that can be gauged by interest rate variations from time to time.

Absence of Level Playing Field

Private Housing Finance Companies have a different set of regulations as compared to Banks. This acts as a major hindrance in obtaining cheaper source of funds

and competing with banks on the interest rate front and consequently affects the market share adversely.

Internal Control Systems and their adequacy

Your Company has an internal control system in place, which is commensurate with the size of its operations. The Audit Committee of the Board reviews the findings and recommendations of the internal audit department.

Use of Technology

During the year, your Company further strengthened the IT infrastructure and systems to support the operations.

The Company is in the process of upgrading the infrastructure at its branches to provide a standardized look and feel.

Human Resources

During the year, your Company has significantly increased the number of employees from 437 to over 566, for scaling up its Housing finance business nationally. There is a robust on-boarding programme in place to ensure the smooth assimilation of these new recruits as well as their business-readiness. In order to widen its talent pool, your Company institutionalised a programme for inducting fresh graduates. Your Company further strengthened its commitment to meritocracy by modifying its compensation systems to link rewards more closely to individual performance. Your Company continued to invest in training and development to continuously upgrade the capabilities of its human resources.

Cautionary Note

Some of the statements included in the 'Management Discussion and Analysis' may be forward looking statements based on the management's current expectations and beliefs concerning future developments and their potential effect upon the Company and its subsidiary. There can be no assurance that future development and their potential effects upon DHFL and its subsidiary will be those anticipated by the management. These forward-looking statements are not a guarantee of future performance and involve risk and uncertainties, and there are important factors that could cause actual results to differ, possibly materially, from expectations reflected in such forward looking statements.