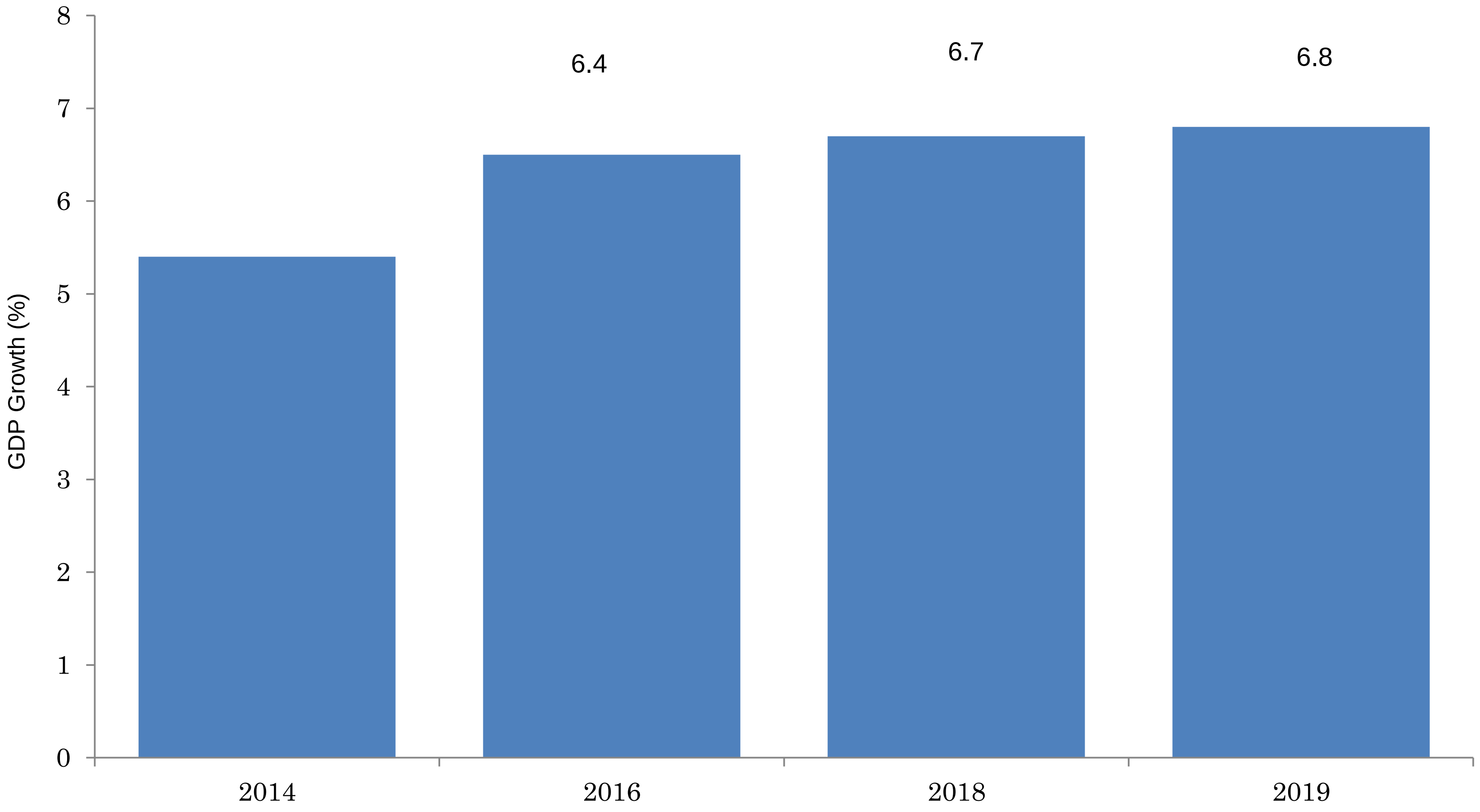
Financial Institutions and Instruments

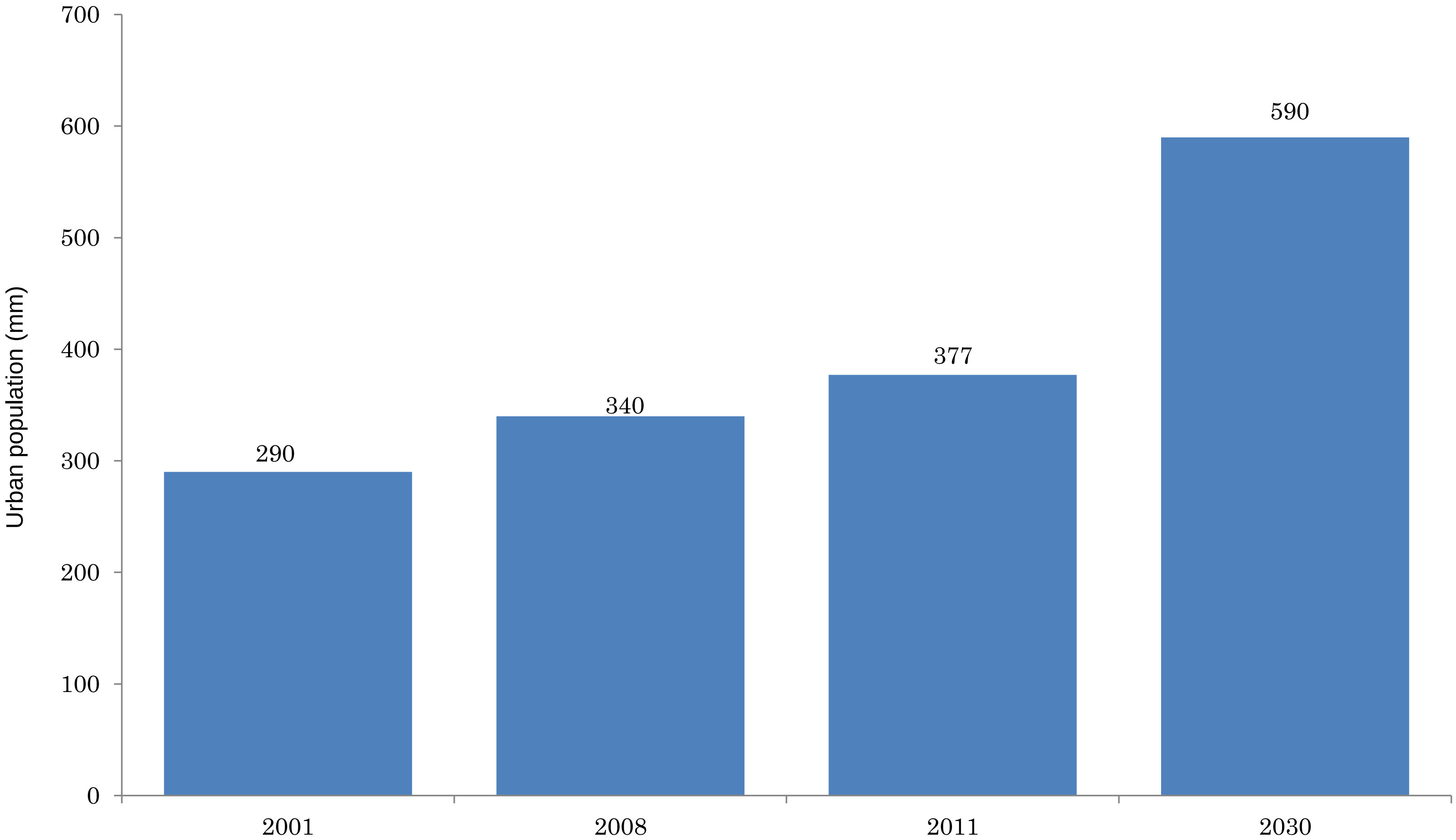
The Great Indian Opportunity

India's GDP is expected to grow at more than 6 percent



Source: Bain & Co. Study

Urban population set to almost double by 2030



Source: Bain & Co. Study

The need for housing finance

5 – the number by which GDP will have multiplied by 2030

590 million people will live in cities, nearly twice the population of USA today

270 million people net increase in working-age population

70 percent of net new employment will be generated in cities

91 million urban household will be middle class, up from 22 million today

68 cities will have population of I million plus, up from 42 today

700-900 million square meters of residential space needs to be built – or a new Chicago every year

1.2 trillion dollars investment is necessary to meet projected demand in India’s cities

Indian government has promised 100 new smart cities

A smart city broadly means a city which uses high-end information and communication technologies, to deliver better services and improve the overall living conditions of its residents.

Evolution of institutional Housing Finance in India

- **1977**: India's first Housing Finance Company (HFC), HDFC comes into existence

- **1988**: Creation of NHB under the National Housing Bank Act of 1987

NATIONAL HOUSING BANK
Wholly Owned by Reserve Bank of India

- **Late 1990s**: New generation of retail banks enter consumer lending beginning with housing loans

1975 | 1985 | 1995 | 2005 - Present

- **1984 & beyond:** New HFCs enter the market growing to 57 HFCs in 2013

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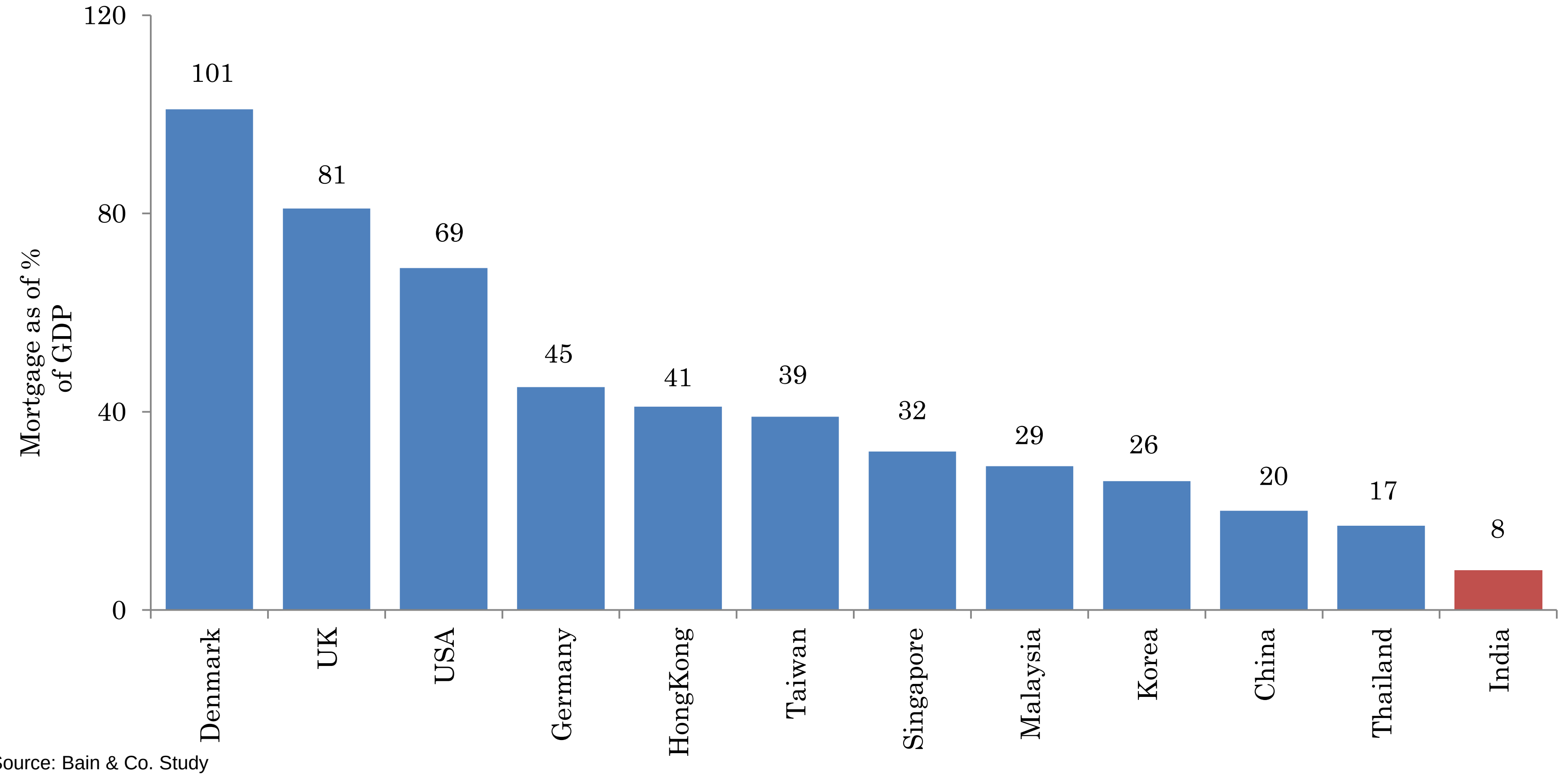
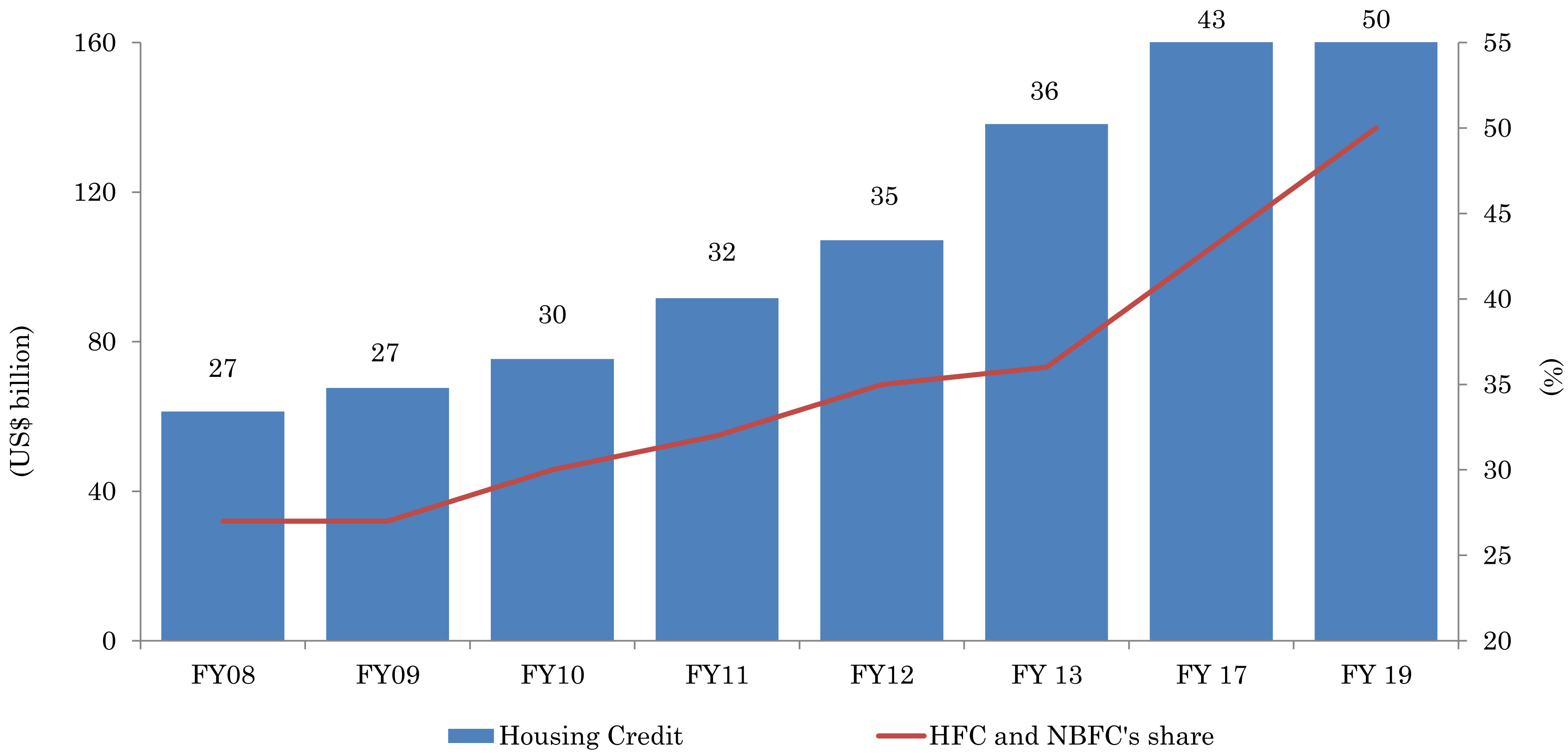
However, the Mortgage Penetration in India is only 8% of the GDP



Source: Bain & Co. Study

Opportunities



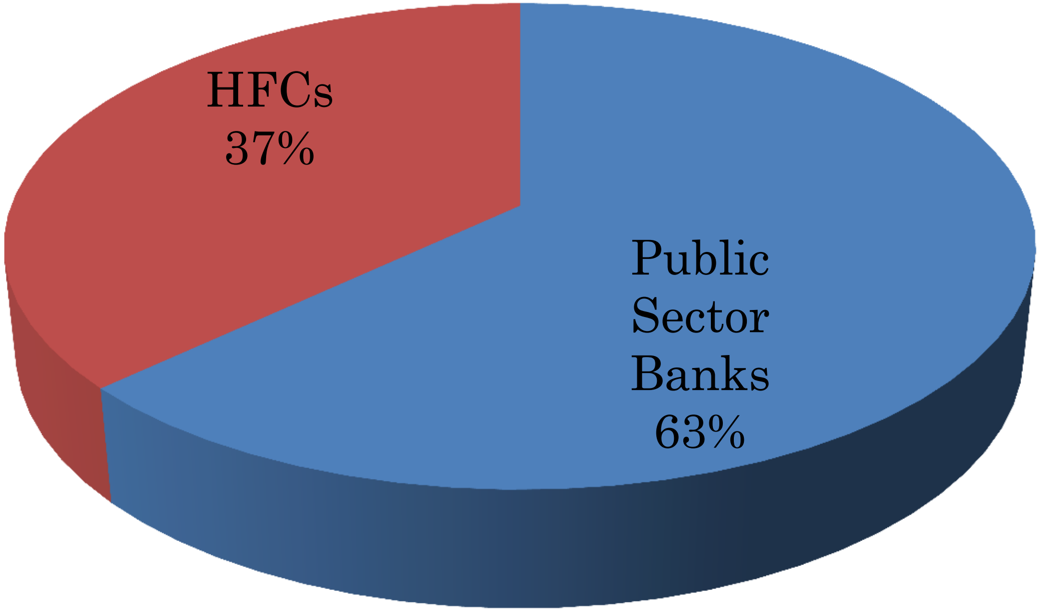
•If India’s GDP grows at 6 percent per annum, with mortgage penetration being 8 percent of the GDP, the housing finance industry will need another 50.6 billion US dollars to meet the demand

•With every 1 percent increase in mortgage penetration, the industry will need still another ~25 billion US Dollars to meet the deficit

Affordable Housing to be the key solution

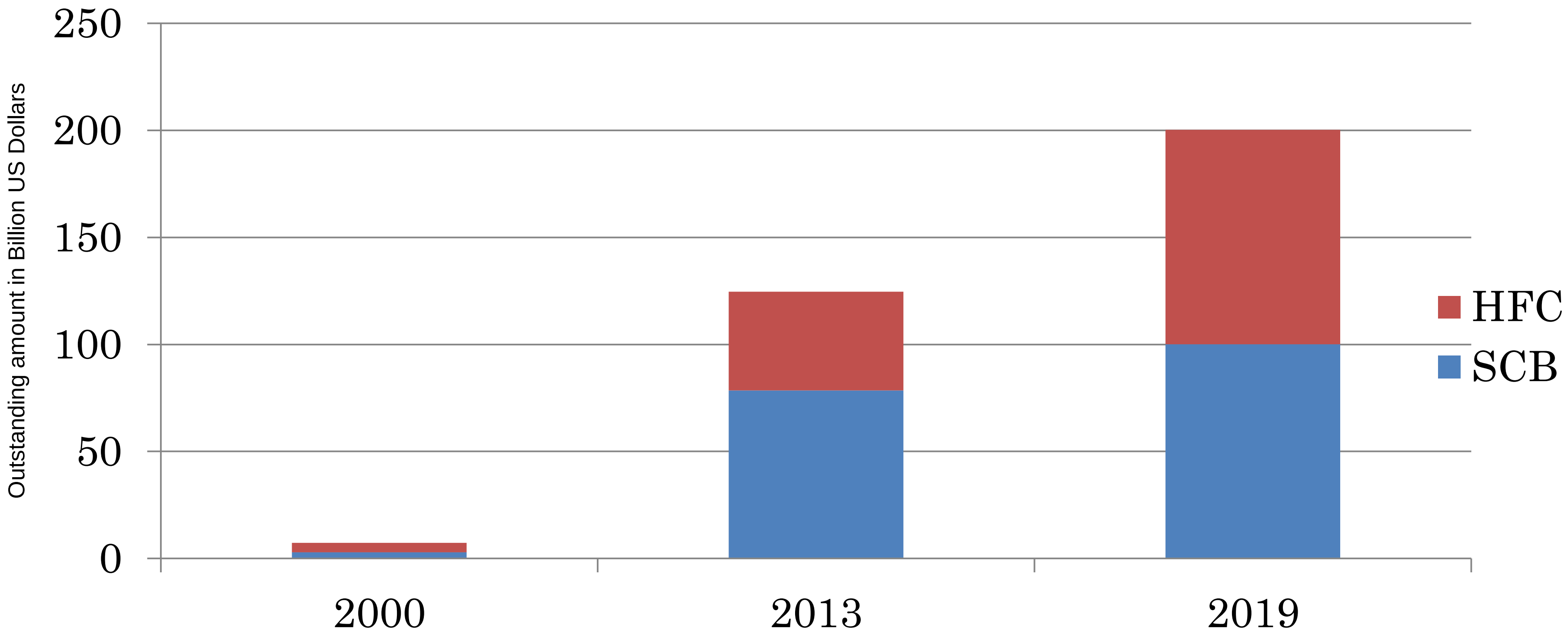
	1. Income Level	2. Size of Dwelling Unit	Affordability
Economically Weaker Section	<INR 1.5 lacs (~3,000 USD) per annum	Up to 300 sq. ft.	• EMI to Monthly Income 30% - 40% • House Price to Annual Income Ratio: 5.1
Lower Income Group	INR 1.5 to 3 lacs (~3,000 USD - 6,000 USD) per annum	300-600 sq. ft.	
Higher Income Group	INR 3 lacs to 10 lacs (~6000 USD - 20,000 USD) per annum	600-1200 sq. ft.	

Sources of Housing Finance today



- 22 Public Sector Banks in the country have a 63 percent market share in housing finance
- 38 Housing Finance Companies (HFCs) under the NHB constitute most of the remaining
- The share of HFCs is expected to increase in the coming years

Funding for mortgages are primarily provided by Banks and Housing Finance Companies



Source: National Housing Bank Report

The share of HFCs as compared to banks is only expected to increase over the next few years

Advantage Banks

Banks	HFCs
Regulated by the Reserve Bank of India	Regulated by the National Housing Bank
Banks are deposit funded • Stable Funding Model • 65-86% funds are from deposits	• HFCs are wholesale funded >65% funds are from banks or bonds held by banks • Episodic liquidity challenges
Multi-liners: several loan products	Mono-liners: sharper focus & specialization in core business
Urban, metropolitan & high-income customer focus	Broader economic segment focus: Tier II, Tier III towns, LMI Customers
Easy to scale due to deposit-funded model	Hard to scale due to wholesale funded model

Not much difference between Banks & HFCs

- Simple Mortgage of Land and construction of new houses/apartments
- Provide funds for improvement & development of existing houses
- Give loans against housing property/mortgages

Banks have larger liability portfolio, however…

- They focus more on the High Net worth Individuals (HNI)
- Housing finance constitutes only 10 percent of their total loans, hence lack the specialization of an HFC
- Their turn-around-times are very large
- Their reach in rural areas is very limited
- They do not provide end-to-end solutions

Combining the strengths

- Expand the stable liability portfolio of HFCs at minimal cost to benefit from their reach
- To create Differentiated Banks with the risk management and governance capabilities of a bank and the specialized lending abilities and flexibility of an HFC
- To allow housing banks to scale their core housing business significantly by directly accessing customer deposits just like a universal bank while keeping their strong focus on housing finance in their lending operations

The Dream of Every Indian is to own his own home…

- With differentiated banking, we will be able to significantly enhance housing finance, especially for the affordable housing segment
- Affordable housing is a key national priority for India
- Broad home ownership is critical to strengthening the democratic fabric and to support a $ 2 trillion economy

DHFL

Changing Rules Changing Lives

The road less travelled

- **India’s second largest private housing finance company**

- **India’s largest housing finance company in the LMI Segment**

To transform the lives of Indian households by enabling access to home ownership