

Dewan Housing Finance Corporation Limited

February 03, 2019

Summary of rating action

Instrument	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	8,000	[ICRA]A1+@; Placed on Watch with Negative Implications
Total	8,000	

Material event

Dewan Housing Finance Corporation Limited (DHFL) announced its quarterly results on January 25, 2019. The company reported a significant decline in its disbursements in Q3 FY2019 (Rs. 510 crore vis-à-vis Rs. 9,950 crore in Q2 FY2019) amid tightening liquidity for the company and significant debt repayments during September 24, 2018 to December 31, 2018 (Rs. 17,876 crore). ICRA notes that the company has been regular in meeting all its debt obligations and has raised funds through sizeable securitisation and assignment of loan assets (Rs. 11,873 crore raised during September 24, 2018 to December 31, 2018). Further, there has been significant erosion in the market capitalisation of the company after its quarterly results and some negative media publications.

Impact of material event

ICRA has placed the short-term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 8,000-crore commercial paper programme of DHFL on Watch with Negative Implications.

The above developments could adversely impact the company's credit profile. The risk is further heightened by the moderate economic capitalisation levels, concentration risks arising out of 17% exposure (as a proportion of AUM as on December 31, 2018) to the construction finance segment, a large part of which remains under construction/moratorium, and the reduced ability of DHFL to refinance and support fresh business. ICRA notes the company's plans to reduce the project loan book through portfolio sales as well as its plans for selling its stake in non-core businesses. While the sale of promoters' stake in Aadhar housing finance has been announced, it would be subject to regulatory approvals. The company has also been able to conclude sale of one of its construction finance loans amounting to Rs. 1,375 crores. The timely execution of these plans would have an important bearing on its credit profile.

As on January 31, 2019, the company's liquidity reserve 6,500 crore including SLR would be sufficient to meet the scheduled repayments till March 2019. However, in case of higher-than-anticipated premature deposit withdrawals, the liquidity could get stretched. The company reported a net outflow of fixed deposits of Rs. 1,356 crore during September 24, 2018 to December 31, 2018. During this period, DHFL raised funds largely through securitisation/assignment transactions, which supported its liquidity profile.

ICRA will continue to monitor the developments closely and will take appropriate rating action once more clarity emerges.

Key rating drivers

Credit strengths

Long Track record of operations– The company has a track record of over 30 years of operations in housing finance business with presence in the low to middle income segment of the market. In the housing finance business, the focus of DHFL has been on salaried segment. During 9MFY2019, the AUM grew by an annualised 19% to Rs. 1,26,725 crore as on December 31, 2018 (Rs. 130,182 crore as on September 2018). As on December 31, 2018, home loans constituted around

57% of the AUM reduced from 61% as on March 31, 2018, followed by loan against property (LAP; 21%) and builder loans (17%) (increased from 15% as on March 31, 2018) with the balance being loans to small and medium enterprises.

Stable profitability indicators -, DHFL reported an annualised RoNW of 16.7% during 9M FY2019 driven by increased income from assignments. Further, like other HFCs, the company carries an interest rate risk on its portfolio given the relatively higher tenure of its fixed-rate liabilities vis-à-vis its assets. Additionally, with stress on liquidity, the company's ability to disburse loans has been affected. In ICRA's view, DHFL's ability to reinstate normal business levels, while maintaining its profitability, asset quality and solvency profile will remain a key rating monitorable.

Credit challenges

Rising share of non-housing loans – Though the company's asset quality remained stable with a gross NPA ratio of 1.12% and net NPA ratio of 0.8% as on December 31, 2018 (0.96% and 0.56%, respectively, as on March 31, 2018), ICRA takes note of the declining share of individual housing loans. The share of individual housing loans has decreased to 57% of the assets under management (AUM) while project loans comprised 17% of the AUM as on December 31, 2018 compared with 61% and 15%, respectively, as on March 31, 2018. Given that the project loan book is recently originated, and a large portion of this portfolio remains under moratorium, the portfolio remains relatively unseasoned. ICRA takes note of the company's efforts to reduce the share of project loans to below 10% of the AUM by March 2019. The company's ability to maintain asset quality indicators will be a key rating monitorable going forward.

Reduced ability to refinance - Though the company's borrowing profile is well diversified, recent industry-wide stress in liquidity has increased dependence securitization. Moreover, DHFL is dependent on the refinancing of maturing liabilities given the relatively longer tenure of loans inherent in the housing finance industry. The company reported a net fixed deposit outflow of Rs. 1,356 crore during September 24, 2018 to December 31, 2018. In case of higher-than-anticipated premature deposit withdrawals, the liquidity could get stretched further.

Moderate economic capitalisation indicators – The rating is constrained by DHFL's moderate capitalisation position with relatively high gearing of 9.32 times as on December 31, 2018. Nevertheless, the company's regulatory capital adequacy is supported by the relatively lower risk weights prescribed by the National Housing Bank (NHB) for smaller ticket loans, which constitute a large proportion of DHFL's portfolio. ICRA takes cognisance of the company's efforts to sell its non-core assets, sale of project loan portfolio to improve its capitalisation position. However, the sale of its non-core assets is expected to be gradual and subject to regulatory approval wherever applicable.

Liquidity Position:

DHFL has been able to manage its liquidity position largely through the assignment of its portfolio and the issuance of non-convertible debentures (NCDs). From September 24, 2018 to December 31, 2018, the company raised a total of Rs. 16,290 crore, of which Rs. 11,873 crore was through sell down of its portfolio and Rs. 2,750 crore was through NCDs. However, bank borrowings and commercial paper (CP) issuances were limited to Rs. 500 crore and Rs. 575 crore, respectively, during this period. Against these inflows, the company made repayments of Rs. 5,963 crore and Rs. 9,965 crore for term loans/external commercial borrowings (ECBs)/NHB refinance/NCDs and CPs, respectively, during this period. As on January 31, 2019, the company's liquidity reserve stood at ~Rs. 6500 crore (including SLR), which would be sufficient to meet the scheduled repayments till March 2019. However, in case of any acceleration by the lenders and/or higher-than-anticipated premature deposit withdrawals, the liquidity could get stretched. The company reported a net fixed deposit outflow of Rs. 1,356 crore during September 24, 2018 to December 31, 2018. During this period, DHFL raised funds largely through securitisation/assignment transactions, which supported its liquidity profile. While the present resources would be adequate to make debt repayments and make limited disbursements given that the collection efficiencies from advances remains intact, the company would need additional funding to resume business.

About the company

Dewan Housing Finance Corporation Limited was incorporated as Dewan Housing and Leasing Company Limited in 1984. Its name was changed to Dewan Housing Development Finance Limited in 1984 and subsequently to Dewan Housing Finance Corporation Limited in 1992. With the merger of First Blue Home Finance Limited (FBHFL) with DHFL in FY2013, DHFL extended its offerings to the higher ticket size segment of more than Rs. 10 lakh. DHFL focuses on the low-and-middle-income customer segment and reported total assets under management of Rs. 1.27 lakh crore as on December 31, 2018.

Key financial indicators (Audited)

	FY2017	FY2018
Net operating income	2,204	2,900
Profit before tax	3,372	1,757
Profit after tax	2,896	1,172
Adjusted profit after tax	927	1,172
Portfolio	72,096	91,934
Assets under management	83,560	1,11,090
% Tier 1	14.75%	11.52%
% CRAR	19.12%	15.29%
Gearing (times)	10.33	10.54
% Net profit/Average managed assets	3.23%	1.02%
% Adjusted net profit/Average managed assets	1.03%	1.02%
% Return on net worth	44.52%	13.96%
% Adjusted return on net worth	14.25%	13.96
% Gross NPAs	0.94%	0.96%
% Net NPAs	0.58%	0.56%
Net NPA/Net worth	5.25%	5.85%

*Adjustments are on account of extraordinary gains from the sale of stake in DHFL Pramerica Life Insurance
Amounts in Rs. crore; All ratios are as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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