

October 14, 2021

Piramal Capital & Housing Finance Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible Debenture (NCD) Programme	2,530	2,530	[ICRA]AA&; Rating on Watch with Developing Implications
NCD Programme	19,550	19,550	[ICRA]AA&; Rating on Watch with Developing Implications
Retail NCD Programme	2,000	2,000	[ICRA]AA&; Rating on Watch with Developing Implications
Long-term Market-linked Debenture (Principal Protected) {MLD (PP)} Programme	500	500	PP-MLD[ICRA]AA&; Rating on Watch with Developing Implications
Subordinated Bonds (Tier II)	1,500	1,500	[ICRA]AA&; Rating on Watch with Developing Implications
Long-term Bank Lines (Fund-based/CC)	900	900	[ICRA]AA&; Rating on Watch with Developing Implications
Long-term Bank Lines (Term Loans)	4,650	4,650	[ICRA]AA&; Rating on Watch with Developing Implications
Total	31,630	31,630	

*Instrument details are provided in Annexure-1

PP-MLD refers to the principal protected market linked debenture programme. According to the terms of the rated market linked debentures, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary as they are linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The assigned ratings express ICRA's current opinion on the credit risk associated with the issuer concerned. The ratings do not address the risks associated with variability in returns resulting from adverse movements in the variable(s) concerned

Rationale

Material event

On October 07, 2021, Piramal Enterprises Limited (PEL), the parent company of Piramal Capital & Housing Finance Limited (PCHFL) and PHL Fininvest Private Limited (PFPL), intimated the stock exchanges that its board of directors has approved the scheme for demerger of the pharmaceutical business and simplification of the Group's corporate structure into two separate sector-focused listed entities in financial services and pharmaceuticals. As per the proposed scheme, the pharmaceutical business would be demerged from PEL and consolidated under Piramal Pharma Limited (PPL). Moreover, PFPL (wholly-owned subsidiary of PEL), a non-banking financial services company and a subsidiary of PEL, will be amalgamated with PEL while PCHFL (wholly-owned subsidiary of PEL), a housing finance company, which has been merged into Dewan Housing Finance Limited (DHFL) with effect from September 30, 2021, will remain a wholly-owned subsidiary of PEL.

The scheme of arrangement is subject to the approval of the shareholders and creditors of the companies, the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), National Stock Exchange of India Ltd. (NSE), Bombay Stock Exchange Ltd (BSE) Limited, National Company Law Tribunal (NCLT) and other regulatory authorities, as applicable.

Impact of material event

The proposed demerger and corporate restructuring, once completed, would result in the complete segregation of the pharmaceutical and financial services businesses, which have hitherto been consolidated under one entity, namely PEL. The pharmaceutical business would be consolidated under PPL, which is proposed to be subsequently listed on the stock

exchanges. PEL, in turn, would be transformed into a non-banking financial company (NBFC)¹ and listed on the stock exchanges. PEL would hold the entire 100% stake in the housing finance company (PCHFL merged with DHFL).

ICRA notes that the above restructuring of the conglomerate is expected to simplify the corporate structure by creating two specialised entities while simultaneously strengthening the governance structure as each company will have a dedicated management team. It will also facilitate each business to grow independently and optimise capital allocation for each business. The ratings remain under Watch with Developing Implications in light of PCHFL's acquisition and merger with DHFL with further clarity to be obtained on the details of the restructuring and its impact on the credit profile of the company.

ICRA will continue to monitor the developments with respect to the completion of the scheme of arrangement in order to assess the operating and financial position of the restructured entity.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities and key financial indicators: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies Consolidation and Rating Approach
Parent/Group Support	Financial support from PEL
Consolidation/Standalone	To arrive at the ratings, ICRA has analysed the consolidated performance of financial services business of PEL (PEL FS) and has factored in the financial support available from PEL; ICRA also factors in the financial flexibility available to PCHFL by being a part of Piramal Group

About the company

Piramal Capital & Housing Finance Limited (PCHFL) was incorporated in February 2017 as a subsidiary of Piramal Finance Limited and received its housing finance licence from National Housing Bank (NHB) in September 2017. As per a scheme of amalgamation, Piramal Finance Limited and Piramal Capital Limited were merged with PCHFL w.e.f. March 31, 2018, with PCHFL becoming a direct subsidiary of Piramal Enterprises Limited (PEL). Consequent to the merger, the Piramal Group's financial services business, including real estate lending, housing finance, corporate lending and emerging corporate lending, was housed under PCHFL and PHL Fininvest Private Limited (PHL Fininvest), a fellow subsidiary.

In FY2021, PCHFL reported a profit after tax (PAT) of Rs. 1,034 crore on a total income of Rs. 5,088 crore compared to a PAT of Rs. 30 crore on a total income of Rs. 5,623 crore in FY2020. PCHFL's PAT for FY2020 was impacted by an additional conservative provisioning of Rs. 1,249 crore (total provisioning of Rs. 1,929 crore) and a one-time write-off of deferred tax assets (DTA) and a minimum alternate tax (MAT) credit reversal of Rs. 373 crore. Excluding the impact of the additional provisioning and the DTA and MAT credit reversal, the normalised PAT would have been Rs. 1,338 crore in FY2020. PCHFL accounted for ~72% of PEL FS' total income in FY2021.

PEL FS

PEL FS refers to the financial services business of PEL. This includes the real estate lending, corporate and emerging corporate lending and retail lending businesses carried out under PCHFL, PHL Fininvest and PEL (standalone). PEL FS had total assets under management (AUM) of Rs. 47,181 crore as on June 30, 2021, including the loan book (Rs. 42,754 crore), investments in alternative investment funds (AIFs) and other investments. The AUM was Rs. 48,891 crore as on March 31, 2021 including the

¹ Subject to receipt of necessary approval

loan book (Rs. 44,668 crore), AIF investments (Rs. 3,121 crore) and other investments. In addition, PEL FS carried an investment property (land development rights) worth Rs. 1,298 crore as on March 31, 2021 and June 30, 2021.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years									
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jun 30, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019		
					Oct 14, 2021	Aug 13, 2021	Mar 29, 2021	Feb 3, 2021 Oct 12, 2020	Jul 27, 2020	Jun 25, 2019	May 31, 2019 Apr 22, 2019	Sep 14, 2018 Sep 4, 2018	Jul 6, 2018	May 31, 2018
1	NCD Programme	Long Term	2,530	1,625	[ICRA]AA&	[ICRA]AA&	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
2	NCD Programme	Long Term	-	-	-	[ICRA]AA (Negative); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
3	NCD Programme	Long Term	19,550	-	[ICRA]AA&	[ICRA]AA&	-	-	-	-	-	-	-	-
4	Retail NCD Programme	Long Term	2,000	804.05	[ICRA]AA&	[ICRA]AA&	[ICRA]AA (Negative)	-	-	-	-	-	-	-
5	MLD (PP) Programme	Long Term	500	-	PP-MLD [ICRA]AA&	PP-MLD [ICRA]AA&	PP-MLD [ICRA]AA (Negative)	-	-	-	-	-	-	-
6	Subordinated Bonds (Tier II)	Long Term	1,500	500	[ICRA]AA&	[ICRA]AA&	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
7	Bank Lines (Cash Credit)	Long Term	900	NA	[ICRA]AA&	[ICRA]AA&	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
8	Bank Lines (Cash Credit)	Long Term	-	-	-	[ICRA]AA (Negative); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
9	Bank Lines (Term Loan)	Long Term	4,650	2,730	[ICRA]AA&	[ICRA]AA&	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
10	Bank Lines (Term Loan)	Long Term	-	-	-	[ICRA]AA (Negative); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-
11	CP Programme	Short Term	-	-	-	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

& Rating on Watch with Developing Implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD Programme	Simple
Retail NCD Programme	Very Simple
MLD (PP) Programme	Complex
Subordinated Bonds (Tier II)	Very Simple
Long-term Bank Lines (Fund Based/CC)	Simple
Long-term Bank Lines (Term Loan)	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE641O07037	NCD	Mar 10, 2017	8.95%	Mar 08, 2024	5	[ICRA]AA&
INE641O07086	NCD	May 04, 2017	8.75%	May 03, 2024	25	[ICRA]AA&
INE641O07144	NCD	Sep 20, 2017	7.96% (monthly)	Sep 19, 2025	167	[ICRA]AA&
INE641O07144	NCD	Sep 20, 2017	7.96% (monthly)	Sep 18, 2026	167	[ICRA]AA&
INE641O07144	NCD	Sep 20, 2017	7.96% (monthly)	Sep 20, 2027	166	[ICRA]AA&
INE516Y07170	NCD	Jul 31, 2020	7.85%	Jan 31, 2022	500	[ICRA]AA&
INE516Y07188	NCD	Jul 31, 2020	8.50%	Jul 31, 2023	500	[ICRA]AA&
INE516Y07246	NCD	Nov 3, 2020	9.32%	Nov 1, 2030	50	[ICRA]AA&
INE516Y07295	NCD	Mar 30, 2021	9.00%	Mar 28, 2031	25	[ICRA]AA&
INE516Y07329	NCD	Jun 29, 2021	8.85%	Jun 27, 2031	20	[ICRA]AA&
NA	NCD (proposed)	-	-	-	20,455	[ICRA]AA&
INE516Y07337	Retail NCD	Jul 23, 2021	8.10%	Sep 23, 2023	5.25	[ICRA]AA&
INE516Y07345	Retail NCD	Jul 23, 2021	0.00%	Sep 23, 2023	1.23	[ICRA]AA&
INE516Y07352	Retail NCD	Jul 23, 2021	8.25%	Jul 23, 2024	1.38	[ICRA]AA&
INE516Y07360	Retail NCD	Jul 23, 2021	8.50%	Jul 23, 2026	10.75	[ICRA]AA&
INE516Y07378	Retail NCD	Jul 23, 2021	8.75%	Jul 23, 2031	0.12	[ICRA]AA&
INE516Y07386	Retail NCD	Jul 23, 2021	8.35%	Sep 23, 2023	346.64	[ICRA]AA&
INE516Y07394	Retail NCD	Jul 23, 2021	0.00%	Sep 23, 2023	49.55	[ICRA]AA&
INE516Y07402	Retail NCD	Jul 23, 2021	8.50%	Jul 23, 2024	154.26	[ICRA]AA&
INE516Y07410	Retail NCD	Jul 23, 2021	8.75%	Jul 23, 2026	80.87	[ICRA]AA&
INE516Y07428	Retail NCD	Jul 23, 2021	9.00%	Jul 23, 2031	154.01	[ICRA]AA&
NA	Retail NCD (proposed)	-	-	-	1,195.95	[ICRA]AA&
INE641O08035	Subordinated Bonds (Tier II)	Mar 08, 2017	9.55%	Mar 08, 2027	500	[ICRA]AA&
NA	Subordinated Bonds (Tier II) (proposed)	-	-	-	1,000	[ICRA]AA&
NA	Long-term Bank Lines – Line of Credit/Cash Credit	NA	NA	NA	900	[ICRA]AA&
NA	Long-term Bank Lines – Term Loans	2014-2020	8.75% - 11.50%	2021-2024	4,650	[ICRA]AA&
NA	MLD (PP) Programme (Proposed)	-	-	-	500	PP-MLD[ICRA]AA&

Source: PCHFL

& Rating on Watch with Developing Implications

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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