

May 14, 2019

Dewan Housing Finance Corporation Limited (DHFL): Ratings downgraded for Purchaser Payouts / PTCs issued under six mortgage loan pools originated by DHFL

Summary of rating actions

Trust name	Instrument*	Initial issued amount (Rs. crore ¹)	Amount outstanding after previous rating exercise (Rs. crore)	Amount after Apr-19 payout (Rs. crore)	Rating action
DHFL Mortgage Loan Pool D.A. Jan-12	Purchaser Payouts	117.08	14.23	14.23	[ICRA]BBB(SO)&; Downgraded from [ICRA] AA-(SO)&
DHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	431.84	100.56	100.56	[ICRA]BBB(SO)&; Downgraded from [ICRA] AA-(SO)&
DHFL Mortgage Loan Pool D.A. Feb-12 II	Purchaser Payouts	239.00	48.58	48.58	[ICRA]BBB(SO)&; Downgraded from [ICRA]AA-(SO)&
Nirmaan RMBS Trust Series I 2013	PTC Series A1	297.88	55.15	55.15	[ICRA]BBB(SO)&; Downgraded from [ICRA]AA-(SO)&
	PTC Series A2	33.10	33.10	33.10	[ICRA]BBB(SO)&; Downgraded from [ICRA]AA-(SO)&
Nirmaan RMBS Trust Series I 2017	PTC Series A1	313.64	216.81	216.81	[ICRA]BBB(SO)&; Downgraded from [ICRA]AA-(SO)&
	Second Loss Facility (SLF)	16.47	16.47	16.47	[ICRA]BBB(SO)&; Outstanding
Nirmaan RMBS Trust Series II 2017	PTC Series A1	240.39	162.00	162.00	[ICRA]BBB(SO)&; Downgraded from [ICRA]AA-(SO)&

Rationale

ICRA has downgraded the ratings for the Purchaser Payouts/pass through certificates (PTCs) issued under six mortgage loan securitisation transactions originated by Dewan Housing Finance Corporation Limited (DHFL), as mentioned in the table above. The ratings for these transactions continue to be on watch with developing implications. The pools comprise of receivables from housing loan contracts. The receivables have been assigned to the respective trusts at par.

ICRA notes that performance of the above-mentioned pools has been strong till March 2019 collection month, evidenced by healthy collection efficiency and low delinquency levels.

The rating downgrades of the PTCs follows the recent rating action taken by ICRA on the Servicer in these transactions, namely DHFL. ICRA has revised the rating on the commercial paper programme of DHFL from [ICRA]A3+ 'Watch with Negative Implications' to [ICRA]A4 'Watch with Negative Implications' (Click [here](#) to view the rationale).

¹ 100 lakh = 1 crore = 10 million

While the pool receivables are ‘bankruptcy remote’ from the Originator post assignment to the Trust, DHFL continues to be the servicer in these transactions with no back-up servicing arrangement being in place. A sustained deterioration in the credit profile of the servicer could have an impact on its operations and thus its servicing ability. This in turn could adversely impact the collection performance of the underlying pools, which has remained strong till March 2019 collection month (April 2019 payout month).

On May 10, 2019, the Trustee for the trust ‘Nirmaan RMBS Trust Series I 2017’ informed ICRA about the delay in meeting the scheduled payouts to the PTC investors due to unavailability of funds in the Collection & Payout Account (C&P Account) maintained with the trust despite availability of adequate credit enhancement (cash collateral) in the transaction. As per the Servicer (DHFL), the requisite funds earmarked for meeting the PTC payouts were lying in a company account but could not be transferred to the C&P Account by close of business hours owing to certain technical reasons. ICRA has not been able to independently verify the same. The Trustee also did not utilise the credit enhancement available in the transaction to meet the scheduled PTC payouts (as per the terms of the transaction), as it was expecting the funding to happen in the C&P Account on the due date basis the intimation received from the Servicer. The scheduled payment (along with delayed period interest) was met in full to the PTC investors on the next working day i.e. May 13, 2019 after the company transferred the requisite funds in the C&P Account. The same has been confirmed by the Trustee.

ICRA notes that there were sufficient funds available with the Trustee (in the form of cash collateral) for meeting the scheduled PTC payouts on the due date. However, it was not utilised by the Trustee. Nonetheless, the delay seems to be due to technical/ administrative issue. This incident again highlights the importance of various counterparties in any securitisation transaction including the role of the Servicer and the Trustee.

Pool Performance Summary

A summary of the performance of the pools till April 2019 (payout month) has been presented below.

Parameter	DHFL Mortgage Loan Pool D.A. Jan-12	DHFL Mortgage Loan Pool D.A. Feb-12	DHFL Mortgage Loan Pool D.A. Feb-12 II	Nirmaan RMBS Trust- Series I 2013	Nirmaan RMBS Trust Series I 2017	Nirmaan RMBS Trust Series II 2017
Months Post Securitisation	87	87	86	73	25	25
Pool Amortisation	87.8%	76.7%	79.7%	73.3%	30.9%	32.6%
Cumulative Collection Efficiency ²	100.0%	99.9%	100.0%	99.9%	99.8%	99.6%
Loss-cum-90+ dpd ³ (% of initial pool principal)	0.03%	0.13%	0.02%	0.05%	0.26%	0.37%
Loss-cum-180+ dpd ⁴ (% of initial pool principal)	0.01%	0.10%	0.02%	0.05%	0.18%	0.31%
90+ dpd ⁵ (% of balance pool principal)	0.11%	0.32%	0.07%	0.17%	0.33%	0.45%
Cumulative Cash Collateral Utilisation (% of initial cash collateral)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash Collateral (% of balance pool principal)	115.2%	19.8%	20.7%	16.4%	14.8%	7.4%
Breakeven Collection Efficiency ⁶ for						
- PTC A1	14.0%	79.1%	81.3%	55.0%	75.2%	81.9%
- PTC A2				79.2%		

² (Cumulative collections till date)/(cumulative billing till date + opening overdues at the start of the transaction)

³ (Unbilled and overdue principal portion of contracts delinquent by more than 90 days + crystallised loss, if any)/ (initial pool principal)

⁴ (Unbilled and overdue principal portion of contracts delinquent by more than 180 days + crystallised loss, if any)/ (initial pool principal)

⁵ Unbilled principal portion of contracts delinquent by more than 90 days / (balance pool principal)

⁶ (Balance cashflows payable to investor – cash collateral available)/balance pool cashflows

Key rating drivers

Credit strengths

- Robust collection performance seen in all the pools till April 2019 (payout month)
- No cash collateral utilisation in any of the pools till date owing to strong collection efficiency and availability of EIS in these transactions

Credit challenges

- Weakened credit profile of the servicer

Description of key rating drivers highlighted above

The performance of the pools has been strong with cumulative collection efficiency of more than 99% after meeting the April 2019 payouts. Any shortfall in collections has been absorbed by the Excess Interest Spread (EIS) in the structure and there has been no instance of cash collateral utilisation in any of the transactions till date.

Despite the strong collection performance of the pools, the ratings for PTCs/ Purchaser Payouts have been downgraded and continue to be on 'Watch with Developing implications' due to the deterioration in the credit profile of the Servicer, a proxy for its operational strength.

Servicer is the most important counterparty in any securitisation transaction. A significant deterioration in the credit profile of the Servicer could adversely impact its operations. In the absence of an alternate servicer, such an impact on the servicer's operational capability could translate into weakened collection performance of the pools. Given the importance of the Servicer's role in any securitisation transaction, the servicer's credit rating—as a proxy indicator of its operational strength—is an important input for ICRA's rating for securitisation transactions. Thus, notwithstanding the bankruptcy-remote nature of such transactions, ICRA ratings for PTCs are not entirely delinked from the Servicer's stand-alone rating.

ICRA would continue to closely monitor all the rated transactions. Appropriate rating action, if required, will be taken upon any further delays in repayments due to the PTC investors, servicer's credit profile and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

N.A.

Liquidity position

Liquidity is available in all the securitisation transactions due to the presence of cash collateral (fixed deposit lien marked in favour of the trustee with a bank acceptable to ICRA).

Analytical approach

The rating actions are based on the performance of the pools till March 2019 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

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 a total AUM of Rs. 1.27 lakh crore as on December 31, 2018. In 9M FY2019, as per Ind AS, the company reported a profit after tax of Rs. 1,226 crore on a total income base of Rs. 9,936 crore compared to Rs. 1,109 crore and Rs. 8,029 crore, respectively, in 9M FY2018.

Key financial indicators (Audited)

	FY2017	FY2018	H1 FY2019
	IGAAP	IGAAP	IND AS
Net operating income	2,204	2,900	1,995
Profit before tax	3,372	1,757	1,337
Profit after tax	2,896	1,172	939
Adjusted profit after tax	927	1,172	939
Portfolio	72,096	91,932	1,10,093
Assets under management	83,560	1,11,086	1,30,182
% Tier 1	14.75%	11.52%	11.71%
% CRAR	19.12%	15.29%	16.19%
Gearing (times)	10.33	10.70	10.46
% Net profit/Average managed assets	3.23%	1.02%	1.39%^
% Adjusted net profit/Average managed assets	1.03%	1.02%	1.39%^
% Return on net worth	44.52%	13.96%	19.58%^
% Adjusted return on net worth	14.25%	13.96%	19.59%^
% Gross NPAs	0.94%	0.96%	0.96%
% Net NPAs	0.58%	0.56%	0.69%
Net NPA/Net worth	5.25%	5.85%	7.27%

Adjustments are on account of extraordinary gains from the sale of stake in DHFL Pramerica Life Insurance

^Annualised; Amounts in Rs. crore; As per IGAAP; All ratios are as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Rating history for last three years

S. No.	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years						
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
			May 2019	May 2019	April 2019	Feb 2019	Apr 2018	May 2017	May 2016		

1	DHFL Mortgage Loan Pool D.A. Jan-12*	Purchaser Payouts	117.08	14.23	[ICRA]BB B (SO)&	[ICRA]AA -(SO)&	[ICRA]AA A (SO)&	[ICRA]AA A (SO)&	[ICRA] AAA (SO)	[ICRA] AAA (SO)	[ICRA] AAA (SO)
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* The initial rating for the pool was done in February 2012

&: The symbol implies that the ratings are under Watch with Developing Implications

S. No.	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years						
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
			May 2019	May 2019	April 2019	Feb 2019	Apr 2018	May 2017	May 2016		

2	DHFL Mortgage Loan Pool D.A. Feb-12*	Purchaser Payouts	431.84	100.56	[ICRA]BBB (SO)&	[ICRA]AA- (SO)&	[ICRA]AAA (SO)&	[ICRA]AAA (SO)&	[ICRA] AAA (SO)	[ICRA] AAA (SO)	[ICRA] AAA (SO)
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* The initial rating for the pool was done in February 2012

&: The symbol implies that the ratings are under Watch with Developing Implications

S.No	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years						
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
			May 2019	May 2019	April 2019	Feb 2019	Apr 2018	May 2017	May 2016		

3	DHFL Mortgage Loan Pool D.A. Feb-12 II*	Purchaser Payouts	239.00	48.58	[ICRA]BB B (SO)&	[ICRA]AA -(SO)&	[ICRA]AA A (SO)&	[ICRA]AA A (SO)&	[ICRA] AAA (SO)	[ICRA] AAA (SO)	[ICRA] AAA (SO)
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* The initial rating for the pool was done in March 2012

&: The symbol implies that the ratings are under Watch with Developing Implications

S.No	Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years							
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
						May 2019	May 2019	April 2019	Feb 2019	Apr 2018	May 2017	May 2016
4	Nirmaan RMBS Trust Series I 2013*	PTC Series A1	297.88	55.15	[ICRA]BBB (SO)&	[ICRA]AA-(SO)&	[ICRA]AAA (SO)&	[ICRA]AAA (SO)&	[ICRA]AAA (SO)	[ICRA]AAA (SO)	[ICRA]AAA (SO)	
		PTC Series A2	33.10	33.10	[ICRA]BBB (SO)&	[ICRA]AA-(SO)&	[ICRA]AA-(SO)&	[ICRA]AA-(SO)&	[ICRA]AA-(SO)	[ICRA]A (SO)	[ICRA]A (SO)	

* The initial rating for the pool was done in April 2013

&: The symbol implies that the ratings are under Watch with Developing Implications

S.No	Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years							
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
						May 2019	May 2019	April 2019	Feb 2019	Apr 2018	July 2017#	March 2017
5	Nirmaan RMBS Trust Series I 2017*	PTC Series A1	313.64	216.81	[ICRA]BBB (SO)&	[ICRA]AA-(SO)&	[ICRA]AA A (SO)&	[ICRA]AAA	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA(SO)	
		Second Loss Facility	16.47	16.47	[ICRA]BBB (SO)&	[ICRA]BBB (SO)&	[ICRA]BBB (SO)&	[ICRA]BBB	[ICRA]BBB (SO)	[ICRA]BBB (SO)	Provisional [ICRA]BBB (SO)	

* The initial rating for the pool was done in March 2017

Rating converted from provisional to final

&: The symbol implies that the ratings are under Watch with Developing Implications

S.No	Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years							
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2020	Date & Rating in FY2020		Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
						May 2019	May 2019	April 2019	Feb 2019	Apr 2018	July 2017#	March 2017
6	Nirmaan RMBS Trust Series II 2017*	PTC Series A1	240.39	162.00	[ICRA]BBB (SO)&	[ICRA]AA-(SO)&	[ICRA]AAA (SO)&	[ICRA]AAA (SO)&	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA(SO)	

* The initial rating for the pool was done in March 2017

Rating converted from provisional to final

&: The symbol implies that the ratings are under Watch with Developing Implications

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Current Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore)	Current Rating
DHFL Mortgage Loan Pool D.A. Jan-12	Purchaser Payouts	Jan-12	9.50% [#]	June-33	14.23	[ICRA]BBB(SO)&
DHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	Jan-12	9.70% [#]	Feb-42	100.56	[ICRA]BBB(SO)&
DHFL Mortgage Loan Pool D.A. Feb-12 II	Purchaser Payouts	Jan-12	9.87% ^{##}	Feb-42	48.58	[ICRA]BBB(SO)&
Nirmaan RMBS Trust Series I 2013	PTC Series A1	Mar-13	8.70% [#]	Aug-28	55.15	[ICRA]BBB(SO)&
	PTC Series A2		8.66% ^{##}	Mar-42	33.10	[ICRA]BBB(SO)&
Nirmaan RMBS Trust Series I 2017	PTC Series A1	Mar-17	7.25%	Feb-42	216.81	[ICRA]BBB(SO)&
	Second Loss Facility		-		16.47	[ICRA]BBB(SO)&
Nirmaan RMBS Trust Series II 2017	PTC Series A1	Mar-17	8.30% [#]	Mar-42	162.00	[ICRA]BBB(SO)&

[#] Variable; subject to change owing to change in investor's benchmark rate

^{##} Variable; subject to change owing to change in pool yield

&: The symbol implies that the ratings are under Watch with Developing Implications

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