August 13, 2021

# PHL Fininvest Private Limited: [ICRA]A1+ assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| Commercial Paper (CP) Programme | 500.00 | [ICRA]A1+; assigned |
| **Total** | **500.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

To arrive at the rating, ICRA has analysed the consolidated business and financial performance of the financial services business of Piramal Enterprises Limited (PEL)[1], the parent company of PHL Fininvest Private Limited (PFPL).

The assigned rating takes into account PEL FS' healthy capitalisation profile with a net worth of Rs. 18,378 crore as on June 30, 2021 (Rs. 18,073 crore as on March 31, 2021), supported by regular capital infusions by PEL. PEL has infused ~Rs. 10,000-crore equity in PEL FS over the past four years (FY2018-FY2021). The rating also considers PEL FS' endeavours to diversify and elongate its liabilities profile. PEL FS raised long-term funds (other than equity) of ~Rs. 13,500 crore in FY2020 and ~Rs. 20,000 crore in FY2021 and reduced the share of commercial paper (CP) significantly in its overall borrowings (~7% of total debt as on June 30, 2021 compared to ~35% as on September 30, 2018). It continues to explore fresh funding avenues such as market-linked debentures and public issuance of NCDs to diversify its borrowing profile. The rating also factors in PCHFL's established position and track record in the real estate lending segment, the promoter group's domain experience given its presence across the real estate industry value chain, and the experienced leadership team.

While assigning the rating, ICRA has taken note of the high sectoral concentration (to real estate) of the portfolio, the slower-than-expected reduction in client concentration, and the heightened portfolio vulnerability because of the Covid-19 pandemic. PEL FS reported some weakening in its asset quality in recent quarters with the reported gross non-performing assets (GNPAs) increasing to 4.7% of the loan book as on June 30, 2021 from 2.5% as on June 30, 2020 (0.9% as on June 30, 2019). Additionally, it has provided relief to the borrowers impacted by the pandemic through the extension of the date of commencement of commercial operations (DCCO) and one-time restructuring. The collection efficiency improved to the pre-pandemic levels (96-97%) in H2 FY2021 and was steady at ~95% in Q1 FY2022 supported by a pickup in June 2021.

ICRA has taken note of PEL FS' monitoring and risk management systems as well as its efforts towards asset sales for reducing the portfolio concentration and shoring up the liquidity. The ability to maintain healthy collections and asset quality would remain critical. The rating also factors in the elevated cost of borrowing as the risk-averse sentiment of domestic investors persists towards non-banks with developer loan exposure. The company's ability to raise capital from diverse sources and at competitive terms, on a sustained basis, would remain a monitorable.

The rating also considers the imminent acquisition of Dewan Housing Finance Limited (DHFL) by PCHFL after it emerged as the successful resolution applicant for DHFL. The transaction has received all the statutory and regulatory approvals, including the approval from the National Company Law Tribunal (NCLT), Mumbai Bench. PCHFL is in the process of implementing the resolution plan; however, certain petitions challenging the resolution plan are pending in the courts. This could result in some delay in resolution implementation.

Given the large scale of the acquisition compared to that of the financial services business of Piramal Enterprises Limited (PEL FS; total loan book of Rs. 44,668 crore as on March 31, 2021), its successful completion and the seamless integration of the operations remain critical. ICRA notes that this transaction would result in a material improvement in the diversification and

[1] *PEL's financial services business includes Piramal Capital and Housing Finance Limited (PCHFL), PFPL and PEL's residual loan book*

granularity of PCHFL's asset profile. However, the performance and quality of DHFL's loan portfolio over the medium term remains uncertain and would have a bearing on the asset quality and credit costs of the combined entity (PCHFL + DHFL) as well as PEL FS. Further, the quality and recoverability of DHFL's wholesale loan book is uncertain. However, the discounted valuation considered for the acquisition of the wholesale book provides comfort. ICRA will continue to closely monitor the developments and take suitable rating action based on the closure of the transaction, integration of operations and the asset quality outlook for the consolidated loan book.

With PCHFL discontinuing disbursements in its retail housing finance business (affluent segment) to align with PEL FS' strategy of creating a multi-product retail lending portfolio (includes affordable and mass-affluent housing finance), the retail loan book posted a ~4% decline in FY2021. Retail loans accounted for ~12% of PEL FS' loan book as on March 31, 2021 and June 30, 2021. The share of individual home loans is below the Reserve Bank of India (RBI) prescribed minimum level (40% of the loan book by March 31, 2022) for housing finance companies (HFCs). PEL FS' plans of improving the granularization of the loan book now hinge on the DHFL acquisition. The rating also considers the company's limited experience and sizeable expansion plans in retail lending. PEL FS plans to utilise DHFL's branch network (~290 branches across the country) to drive growth under its new retail lending strategy.

## Key rating drivers and their description

### Credit strengths

**Domain expertise and financial flexibility as a part of Piramal Group; established position in real estate lending** – PFPL draws strength from the Group's technical expertise, given its experience in real-estate-based private equity investment, advisory services and the development space. Further, given the long-standing experience of the Group in the real estate segment, the company leverages the large network of developers with relationships built over a period of time. The Group's demonstrated ability to incubate and scale up new ventures also provides comfort. As on June 30, 2021, PEL FS had a consolidated loan book of Rs. 42,754 crore[2], a decline of ~17% compared to Rs. 51,265 crore as on June 30, 2020. Of this, the real estate exposure was ~80%, making the Group one of the leading lenders to the real estate segment. PFPL's loan book stood at ~Rs. 10,500 crore as of March 31, 2021 compared to ~Rs. 11,500 crore as of March 31, 2020.

**Adequate capitalisation supported by capital infusion from the parent** – The capitalisation of PEL's financial services subsidiaries (including PFPL) has been supported by regular capital infusions from the parent. In FY2020-FY2021, PEL raised Rs. 18,173 crore of equity funds through a mix of avenues like preferential issue (Rs. 1,750 crore in December 2019), rights issue (Rs. 3,650 crore in January 2020), divestment of investments (Rs. 2,300 crore raised through sale of stake in Shriram Transport in June 2019), divestment of non-core businesses (Rs. 6,750 crore raised through sale of the DRG business in February 2020) and partial stake sale in its pharmaceutical business (Rs. 3,523 crore in October 2020). Of the total funds raised, Rs. 3,700 crore was infused into PEL FS (Rs. 1,400 crore was infused into PCHFL and Rs. 2,060 crore was infused into PFPL) as equity in FY2020.

PEL FS' tangible net worth (net of goodwill on amalgamation) was comfortable at Rs. 18,378 crore and the capitalisation ratio (CRAR[3]) was adequate at 39% as on June 30, 2021. This, coupled with the moderation in the loan book and hence in borrowings, resulted in an improvement in PEL FS' net gearing to 1.8 times as on March 31, 2021 (1.6 times as on June 30, 2021) from 2.3 times as on March 31, 2020.

PFPL's standalone net worth increased to Rs. 5,206 crore as of March 31, 2021 from Rs. 4,715 crore as of March 31, 2020, while the gearing improved to 1.5 times from 2.3 times during the same period. As on March 31, 2021, PFPL reported a CRAR of 39.14% (Tier I capital of 38.79%) compared to 28.94% (Tier I capital of 28.42%) as on March 31, 2020. PEL maintained an

*[2] Total assets under management (AUM) stood at Rs. 47,181 crore as on June 30, 2021 including the loan book, investments in alternative investment funds (AIFs) and other investments; AUM was Rs. 48,891 crore as on March 31, 2021 including the loan book, AIF investments of Rs. 3,121 crore and other investments. In addition, PEL FS carried investment property worth Rs. 1,298 crore as on June 30, 2021*

*[3] CRAR: Capital to risk weighted assets ratio*

unallocated capital pool of Rs. 11,029 crore as on March 31, 2021, which could be allocated to the financial services business, including PCHFL, if required.

PEL FS also has a moderately diversified resource profile with banks accounting for 62% of its borrowings, followed by foreign institutional investors/foreign portfolio investors (FII/FPI; 17%) and the balance from other sources including insurance companies, provident funds, and mutual funds, among others as on June 30, 2021. During Q3 FY2019 to Q1 FY2022, PEL FS' debt maturity profile was elongated with the share of short-term sources of funding (including revolving bank lines) declining to ~8% of borrowings as on June 30, 2021 from ~42% as on September 30, 2018. CP borrowings accounted for ~7% of PEL's total debt as on June 30, 2021 compared to ~35% as on September 30, 2018. PEL FS continues to explore fresh funding avenues such as market-linked debentures and public issuance of NCDs (PCHFL raised Rs. 804 crore in July 2021) to diversify its borrowing profile.

**Experienced management team** – ICRA also draws comfort from the Group's experienced management team, which has a track record of successfully scaling up businesses. PEL FS also has a strong focus on risk management, control systems and compliance processes, which provides comfort. Moreover, it has a dedicated asset monitoring team for monitoring and managing the post-disbursement performance of the loans and the overall portfolio quality. While the Group's experience in retail lending remains limited, it has taken on board seasoned industry professionals to build its franchise in the retail segment, including the recently announced entry in the technology-driven consumer lending business. It has also engaged reputed and experienced external consultants for framing its credit policies and credit appraisal systems, expansion strategy and operational policies.

## Credit challenges

**High sectoral and client concentration risks; slower-than-expected loan book diversification** – The loan book is concentrated towards the inherently risky real estate sector (~80% of the overall loan book as on June 30, 2021). The early stages of development of some of the underlying projects and the loans given to developers' holding company level (mezzanine debt) heighten the portfolio risk. Moreover, the top group exposures form a sizeable proportion of the overall loan book. PEL FS has, however, funded a bouquet of projects in some of these exposures, including projects with healthy sales tie-ups and finished stock, which provides comfort. Though a part of the wholesale loan book is under scheduled moratorium, PEL FS has been receiving sizeable prepayments from its loan portfolio over the years due to asset sell-down/refinancing and prepayment, providing some comfort regarding the asset quality. Over the past two years, PEL FS has reduced the top 10 exposures by ~Rs. 5,000 crore, and the management intends to reduce it further by Rs. 2,000-3,000 crore in FY2022.

While PEL FS has been diversifying its loan book over the past three years through its foray into new segments like housing finance and emerging corporate lending (ECL), the progress has been slower than expected. Housing loan disbursements reduced significantly from Q3 FY2020 as PEL FS decided to recalibrate its retail growth strategy amid the challenging operating environment and the subdued segmental profitability. This resulted in a lower-than-expected diversification and granularity of the book as of June 2021. The Group announced its entry in the technology-driven consumer lending business, which commenced operations in Q3 FY2021. ICRA notes that while the new business would help diversify the portfolio, the concentration and credit risks will remain high over the near term given the large real estate exposure.

ICRA notes that the successful completion of the DHFL transaction would result in a material improvement in the diversification and granularity of PEL FS and PCHFL's asset profile. The share of individual home loans (~12% of the loan book as on June 30, 2021) for PCHFL is below the RBI-prescribed minimum level (40% of the loan book by March 31, 2022) for HFCs. PEL FS' plans of improving the granularization of the loan book now hinge on the DHFL acquisition. ICRA notes the company's limited experience and sizeable expansion plans in retail lending.

**Moderation in asset quality; current challenging operating environment for real estate, the key borrowing segment, may impact asset quality and profitability in the near term** – The concerns over the asset quality have heightened, given the challenging operating environment for real estate developers due to the prolonged slowdown in sales and the funding constraints over the past few years. The spread of the pandemic and the resulting lockdown further impacted the sale of residential units in H1 FY2021. While a pickup in sales was witnessed in H2 FY2021, the second wave of the pandemic again impacted the sales in Q1 FY2022. The pandemic also impacted the commercial and retail real estate segments. A sustained pickup in sales is critical for the cash flows of the developers over the medium term. However, ICRA notes that PEL FS carries adequate provisions on its books (Rs. 2,748 crore or 6.4% of the loan book as on June 30, 2021) to cushion the impact of the increased portfolio vulnerability.

While the collections, including prepayments, were impacted in H1 FY2021 due to the pandemic and the lockdown, the repayments (including prepayments) improved in H2 FY2021. Although the collection efficiency was impacted again in Q1 FY2022 due to the second wave of the pandemic, the impact was less severe than in H1 FY2021. ICRA notes that PEL FS has hitherto maintained a healthy asset quality, though the same deteriorated in FY2020 and FY2021, with the GNPAs increasing to 4.7% of the loan book as on June 30, 2021 from 2.5% as on June 30, 2020 (0.9% as on March 31, 2019). Additionally, PEL FS has provided relief to the borrowers impacted by the pandemic through the extension of the DCCO and one-time restructuring, aggregating to ~15% of the loan book as on March 31, 2021. The presence of a collateral cover on such exposures, the Group's expertise in the real estate segment and its emphasis on risk management and monitoring processes also provide comfort.

**Fund-raising challenges for wholesale-oriented non-bank financiers impacting business; ability to maintain asset and liability profile remains critical** – PEL raised long-term debt (more than 1-year maturity) of ~Rs. 13,500 crore in FY2020 and ~Rs. 20,000 crore in FY2021. While the quantum of funds raised is sizeable, the cost of funds has increased since the September 2018 crisis. Although PEL FS has been able to pass on the cost increase to its customers to mitigate any risk on its margins, its market position (ability to capture attractive deals from reputed developers) has been impacted by the increase in the cost of funds. The Group's ability to consistently raise long-term funds from diverse sources and at adequate rates would remain critical.

## Liquidity position: Adequate

As on March 31, 2021, PFPL had unencumbered on-book liquidity of ~Rs. 412 crore compared to debt repayment obligations (including interest and revolving lines) of ~Rs. 87 crore in H1 FY2022. PFPL's liquidity profile is, thus, adequate.

As on April 30, 2021, PEL had on-book liquidity of Rs. 8,440 crore compared to debt repayment obligations (including interest and revolving lines) of Rs. 8,221 crore in the next six months (May 2021 to October 2021). The opening liquidity fully covers the next six months' debt repayment. PEL's liquidity is, thus, adequate.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – ICRA could downgrade the rating if the operating environment remains weak and the challenges in fund-raising increase, leading to a deterioration in PEL FS' liquidity profile. The rating will also be sensitive to the impending acquisition of DHFL and the asset quality outlook for the consolidated loan book post the acquisition.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | ICRA's Credit Rating Methodology for Non-Banking Finance Companies<br>Consolidation and Rating Approach |
| **Parent/Group Support** | Financial support from PEL |
| **Consolidation/Standalone** | To arrive at the rating, ICRA has analysed the consolidated performance of PEL FS and has factored in the financial support available from PEL; ICRA also factors in the financial flexibility available to PFPL by being a part of Piramal Group |

## About the company

PHL Fininvest Private Limited (PFPL) is a wholly-owned subsidiary of Piramal Enterprises Limited (PEL; flagship company of the Piramal Group). It is registered with the Reserve Bank of India as a non-banking financial company (NBFC) and is engaged in various financial services businesses. It provides financing to real estate and non-real estate sectors such as healthcare, infrastructure, hospitality, automotive, financial services, transport, renewable energy, entertainment, etc.

Incorporated in June 1994 as NPIL Fininvest Private Limited, the company was rechristened PHL Fininvest Private Limited w.e.f. December 26, 2008. Although it received the NBFC licence in June 2000, but, it did not have any significant lending operations till FY2018. With a loan book of Rs. 12,741 crore as on March 31, 2021, PFPL is a part of the financial services business of PEL (PEL FS; loan book of Rs. 44,668 crore as on March 31, 2021), which also includes PCHFL (loan book of Rs. 32,994 crore) and the loan book carried under PEL (standalone).

In FY2021, PFPL reported a profit after tax (PAT) of Rs. 491 crore on a total income of Rs. 2,008 crore compared to a PAT of Rs. 89 crore on a total income of Rs. 1,933 crore in FY2020.

### Key financial indicators

| PFPL | FY2019 | FY2020 | FY2021 |
|---|---|---|---|
| Net interest income (Rs. crore) | 302 | 664 | 782 |
| Total income (Rs. crore) | 584 | 1,933 | 2,008 |
| Profit after tax (Rs. crore) | 78 | 89 | 491 |
| Net worth (Rs. crore) | 2,725 | 4,715 | 5,206 |
| Loan book (Rs. crore) | 12,017 | 14,935 | 12,741 |
| Total assets (Rs. crore) | 12,263 | 16,031 | 13,701 |
| Return on assets (%) | 1.3% | 0.6% | 3.3% |
| Return on net worth (%) | 5.6% | 2.4% | 9.9% |
| Gross NPA (%) | - | 0.5% | 4.4% |
| Net NPA (%) | - | 0.4% | 2.3% |
| Net NPA/Net worth (%) | - | 0.4% | 1.9% |
| Gross gearing (times) | 3.4 | 2.3 | 1.5 |
| Tier I capital (%) | 20.8% | 28.4% | 38.8% |
| CRAR (%) | 22.0% | 28.9% | 39.1% |

***Source**: PFPL and ICRA Research; **Note**: All ratios are as per ICRA calculations*

### 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 |
| | | | | | Aug 13, 2021 | - | - | - |
| 1 | CP Programme | Short Term | 500 | - | **[ICRA]A1+** | - | - | - |

### Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| CP Programme | Very 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](http://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 |
|---|---|---|---|---|---|---|
| NA | CP Programme (Proposed) | - | - | - | 500 | [ICRA]A1+ |

***Source***: *PFPL*

## Annexure-2: List of entities considered for consolidated analysis

Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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