

## DHFL Vysya Housing Finance Limited

December 04, 2017

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper Programme	200.00	800.00	[ICRA]A1+; assigned/outstanding
Fund based-Term Loans	30.96	0.00	[ICRA]A+ (Stable); withdrawn
<b>Total</b>	<b>230.96</b>	<b>800.00</b>	

\*Instrument details in annexure-1

### Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ to the enhanced commercial paper programme amounting to Rs. 800 crore<sup>1</sup> (enhanced from Rs. 200 crore) of DHFL Vysya Housing Finance Limited (DV Housing)<sup>2</sup>. ICRA has withdrawn the long-term rating of [ICRA]A+(Stable) (pronounced ICRA A plus with a Stable outlook) outstanding on the Rs. 30.96 crore bank lines of DV Housing. The withdrawal is at the request of the company as there is no amount outstanding against these instruments.

### Rationale

ICRA notes that Aadhar Housing Finance Limited (AHFL) is likely to merge with DV Housing and the combined entity would operate under the name of DHFL Vysya Housing Finance Limited (Group DVHFL); the merger has been approved as per the amalgamation order passed by the National Company Law Tribunal (NCLT) on 27th October 2017. Group DVHFL (i.e. the merged entity) had combined AUM of Rs 5,530 crore as on September 30, 2017 and is present across 15 states. The rating factors in Group DVHFL's track record of operating in the lower middle income segment, its experienced management team good loan origination and appraisal processes, good profitability and comfortable liquidity position. The rating continues to factor in the operational, funding and the management support that group DVHFL is likely to receive from Dewan Housing Finance Corporation (DHFL, rated [ICRA]A1+). Given that DHFL, Wadhawan Global Capital Pvt. Ltd. and members of the Wadhawan family together held 80% stake in AHFL and 95% in DV Housing as on June 30, 2017 and are likely to hold a significant stake in Group DVHFL. The funding mix will be diversified for the merged entity as it would have access to public deposits in addition to borrowings from banks, NHB and debt market instruments. The rating is however constrained by group DVHFL's moderate capitalisation profile (gearing of 11.4 times (combined) and lack of diversity in earnings.

The company's credit profile however is constrained by its moderate track record in relation to the asset class, its focus on a relatively vulnerable target segment of self employed and low & middle income borrowers. Though the company's target borrower segment is of low and middle income group, ICRA notes that the company was able to maintain its portfolio quality in recent demonetization. While the Government's thrust on 'Housing for All by 2022' and the expected increase in supply of houses in the affordable housing segment are likely to provide ample growth opportunities, the company's ability to maintain asset quality as the portfolio seasons, maintain credit underwriting quality and improve its capitalisation indicators will remain the key rating sensitivities.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Management, capital and funding support from the promoters:** Wadhawan Global Capital Private Limited, DHFL and members of the Wadhawan family together hold 94.8% stake in DV Housing and 80% stake in Aadhar Housing Finance. The Board of Directors (BoD) for both companies are common with DHFL giving support in terms of strategy.

**Moderate scale of operations:** the merged entity had an AUM of Rs. 5,530 crore and presence in 15 states across India as on September 30, 2017. While the portfolio is geographically diversified in northern, western and southern parts of India, the progress on portfolio expansion by the merged entity remains to be seen.

**Steady profitability indicators supported by comfortable lending spreads and low credit costs:** During H1FY2018, the merged entity reported moderate profitability indicators with return on average assets and return on average net worth of 1.74% and 24.22% respectively during H1FY2018 supported by moderate operating expenses (2.69%) and credit costs (0.32%).

**Good internal control systems and processes:** Both DV Housing and Aadhar Housing have synchronised their branches and systems to allow better operational synergies and the merged entity is expected to have adequate internal systems to support portfolio growth.

### Credit weaknesses

**Moderate capitalisation levels:** the combined entity had a moderate capitalisation profile with high gearing of 11.4 times as on September 30, 2017. The capital adequacy was comfortable at around 18% as on September 30, 2017 with regard to the regulatory levels of 12%. Ability of the merged entity to improve its capitalization indicators will be important from a rating perspective

**Moderate pace of growth with relatively riskier borrower profile:** The merged entity's AUM grew 42% (annualised) during H1FY2018 with low ticket size loans and focus on affordable housing loans. Given the pace of growth and the relatively riskier borrower profile of the low and assessed income segments, the asset quality indicators could exhibit more volatility and remains to be seen for the merged entity.

**Access to long term funds at competitive rates:** the merged entity would have a diversified funding mix with a mix of bank borrowings, borrowings from NHB, public deposits and debt market instruments. Further, its ability to maintain a healthy borrowing mix providing both short-term and long-term liquidity and to contain its cost of borrowings will be critical to its credit profile.

**Weak asset quality indicators in the non-housing loan segment:** While the asset quality of the combined entity was stable at gross NPA and net NPA of 1.24% and 0.91% respectively as on September 30, 2017, the asset quality of the non-housing loan segment was weak. While the non-housing loans formed a lower portion of the portfolio as on September 30, 2017, the asset quality of the same needs to be monitored. As the portfolio seasons, the ability to maintain asset quality of the overall portfolio will be critical from a credit perspective.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[ICRA rating methodology for housing finance companies](#)

**About the company**

DHFL Vysya Housing Finance Ltd. (DV Housing) was incorporated in November 1990 and was earlier known as Vysya Bank Housing Finance Ltd. ING Vysya Bank was the majority stakeholder in the company with 85% stake, before its stake was acquired by Dewan Housing Finance Corp. Ltd. (DHFL) in 2003. As on September 30, 2017, promoters (Wadhawan Global Capital Private Limited and DHFL) together hold 94.79% of the equity stake in DV Housing.

DV Housing mainly targets customers in the lower-middle-income segment with an average ticket size of around Rs. 9 lakh. The company also has a good track record in lending to “the niche segment” of traders of the Vysya community, a portfolio that it acquired from the erstwhile Vysya Bank Housing Finance Ltd. DV Housing has its corporate office in Bangalore and has a total of 47 branches in the states of Karnataka, Andhra Pradesh, Telangana, Tamil Nadu, Maharashtra and Uttar Pradesh.

During H1FY2018, the combined entity reported a PAT of Rs. 48.71 crore on a portfolio of Rs. 5,534 crore. Previously, in FY2017, it reported a PAT of Rs. 63.98 crore on a portfolio of Rs. 4,595 crore.

**Key Financial Indicators (merged entity)**

	<b>FY 2017</b>	<b>H1FY2018</b>
Total Income	569	373
PAT	64	49
Net-worth	378	427
Total Managed Portfolio	4,595	5,534
Total Managed Assets	5,073	6,111
ROMA %	1.5%	1.7%
ROE %	19.43%	24.22%
Gearing (times)	11.3	11.4
Gross NPA %	1.21%	1.24%
Net NPA %	0.86%	0.91%
CAR %	19%	18%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2018 Aug 2017	Date & Rating in FY2017 Sept 2016	Date & Rating in FY2016 Oct 2015
1 Commercial Paper	Short Term	800.00	NA	[ICRA]A1+	[ICRA]A1+ Assigned*	[ICRA]A1+ Reaffirmed	[ICRA]A1+ Assigned
2 Term Loans	Long Term	30.96	Nil	[ICRA]A+ (Stable) Withdrawn	[ICRA]A+ (Stable) Outstanding	[ICRA]A+ (Stable) Reaffirmed	[ICRA]A+ (Stable) Assigned

\*Assigned to Rs. 200 crore

^Assigned to Rs. 800 crore

## 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	50.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	150.00	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	600.00	[ICRA]A1+
<b>Total</b>					<b>800.00</b>	

Source: DHFL Vysya Housing Finance Ltd.

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