

Dewan Housing Finance Corporation Limited

April 30, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper Programme	850	850	[ICRA]A3+@; downgraded from [ICRA]A2+@
Total	850	850	

*Instrument details are provided in Annexure-1
@ On rating Watch with Negative Implications

Rationale

ICRA has revised the rating on the 850-crore¹ commercial paper programme of Dewan Housing Finance Corporation Limited (DHFL)² to [ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]A2+ (pronounced ICRA A two plus). The rating continues to be on Watch with Negative Implications.

The rating revision factors in further deterioration in the company's liquidity profile owing to delays in the sale of the project loan book as well as the lack of fresh on-book funding during the last three months. While DHFL raised around Rs. 16,000 crore through securitisation and Rs. 3,825 crore in the form of market borrowings and bank lines between September 24, 2018 and March 31, 2019, the funds were largely utilised towards debt repayments. As a result, the company made limited disbursements in H2 FY2019. With limited fresh business generation and sizeable securitisation and assignment of the loan assets, the pool eligible for sell-down has also been declining, thereby reducing the company's ability to refinance through securitisation. While the present resources (liquidity reserves of ~Rs. 3,982 crore including SLR as on April 11, 2019) along with the monthly collections (Rs. 2,200 crore expected monthly) and planned securitisation/assignment of the retail loan book would be adequate to meet the scheduled repayments till May 2019, the liquidity position could get stretched further in case of any acceleration of debt by the lenders and/or higher-than-anticipated premature deposit withdrawals. The company's ability to raise funds in a timely manner through securitisation/assignment remains critical for it to meet its debt obligations in Q1 FY2020.

ICRA notes DHFL's plans to onboard a strategic investor while reorganising its business and management. The stake sale of non-core assets is underway and is awaiting regulatory approval. ICRA will continue to monitor these developments and the timely execution of these will be a key rating sensitivity along with the ability to raise fresh funds and resume normal business.

The rating continues to factor in DHFL's moderate economic capitalisation levels, the concentration risks with 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 its reduced ability to support fresh business.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit strengths

Long track record of operations and established retail franchise – The company has a track record of over 30 years of operations in the housing finance business with a presence in the low to middle income segment of the market. In the housing finance business, DHFL's focus has been on the salaried segment. The AUM grew by an annualised 19% in 9M FY2019 to Rs. 1,26,725 crore as on December 31, 2018 (Rs. 1,30,182 crore as on September 30, 2018).

Stable profitability indicators – DHFL reported an annualised return on average net worth (RoE) of 16.7% in 9M FY2019, driven by higher income from assignments. However, given the stress on liquidity, the company's ability to disburse loans has been affected, which, in turn, will have a bearing on its profitability. In ICRA's view, DHFL's ability to return to 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 notes the declining share of individual housing loans. The share of individual housing loans has decreased to 57% of the 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. Also, the share of housing loans on the balance sheet declined to 48% as on December 31, 2018 from 55% as on March 31, 2018 owing to the significant securitisation of the home loan portfolio in Q3 FY2019. The project loan portfolio remains relatively unseasoned as the project loan book is recently originated and a large portion remains under moratorium. DHFL's ability to maintain the asset quality indicators will be a key rating monitorable, going forward.

Reduced ability to refinance – Though the company's borrowing profile is well diversified, the recent industrywide stress in liquidity has increased dependence on securitisation (~Rs. 16,000 crore raised between September 24, 2018 and March 16, 2019). Moreover, DHFL is dependent on the refinancing of maturing liabilities, given the relatively longer tenure of the loans inherent in the housing finance industry. While reliance on short-term borrowings through commercial papers has declined with the amount outstanding reducing to Rs. 850 crore as on March 29, 2019 from Rs. 8,715 crore as on September 30, 2018, the company would continue to depend on portfolio sales to meet its debt obligations till fresh funding resumes. DHFL reported a net fixed deposit outflow of Rs. 1,356 crore during September 24, 2018 to December 31, 2018. Given the significant share of fixed deposits in its borrowings, the continued premature redemption of fixed deposits may further weaken the liquidity position.

Moderate economic capitalisation indicators – The rating is constrained by DHFL's moderate capitalisation position with a 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 for smaller ticket loans, which constitute a large proportion of DHFL's portfolio. ICRA takes note of the company's efforts to sell its non-core assets and project loan portfolio as well as its plans to onboard a strategic investor to improve its capitalisation position. However, the inflows from the sale of its non-core assets are expected to be gradual and subject to regulatory approval, wherever applicable.

Liquidity position

While DHFL has been regular in meeting its debt obligations, its liquidity position remains stretched owing to the absence of fresh funding for business growth. Moreover, the company did not undertake any securitisation/assignment in YTD Q1 FY2020. As on April 11, 2019, DHFL's liquidity reserve stood at Rs. 3,982 crore (including SLR) and it expects monthly collections of Rs. 2,200 crore, going forward. Against this, the company has scheduled repayments of Rs. 8,878 crore from April 11, 2019 to June 30, 2019. However, additional repayments against the acceleration of debt and/or premature redemption of fixed deposits may impact the liquidity profile adversely.

ICRA notes that DHFL is in advanced stages of raising significant funds through the securitisation/assignment of retail loans and the sale of project loans, which would help the company meet its scheduled repayments till May 2019. The stake sale of non-core assets is underway and awaiting regulatory approvals. The company's ability to raise funds in a timely manner through securitisation/assignment remains critical for it to meet its near-term debt obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	Standalone

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 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 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 IGAAP	FY2018 IGAAP	H1 FY2019 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

Rating history for last three years

Sl No.	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Apr-19	FY2020		FY2019		FY2018		
						Apr-19	Feb-19	Feb-19	Dec-18	May-18	Oct-17	Dec-16
1	Commercial paper programme	Short term	850	850	[ICRA]A3 +@	[ICRA]A2 +@	[ICRA]A2 +@	[ICRA]A1 +@	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+

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

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 programme	-	-	7-365 days	850	[ICRA]A3+@

Source: Company

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