

June 05, 2019

## Dewan Housing Finance Corporation Limited: Rating downgraded to [ICRA]D and removed from watch with Negative Implications

### Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial Paper Programme	850	850	[ICRA]D; downgraded from [ICRA]A4@; removed from Watch with Negative Implications
<b>Total</b>	<b>850</b>	<b>850</b>	

\*Instrument details are provided in Annexure-1

@ On rating Watch with Negative Implications

### Rationale

ICRA has downgraded the rating on the 850-crore<sup>1</sup> commercial paper programme of Dewan Housing Finance Corporation Limited (DHFL)<sup>2</sup> to [ICRA]D (pronounced ICRA D) from [ICRA]A4@ (pronounced ICRA A four). The rating has been removed from Watch with Negative Implications.

The rating revision factors in further deterioration in company's liquidity profile and delays in meeting scheduled debt obligation on June 04, 2019. While the mentioned debt is not rated by ICRA, given the stretched liquidity profile and limited visibility on fresh funding, company is unlikely to be able to service its debt obligation with regard to commercial paper programme in a timely manner.

ICRA's last rating rationale can be accessed here: [Link here](#)

### Key rating drivers

#### Credit strengths – Not Applicable

#### Credit challenges

**Reduced ability to refinance and stretched liquidity position** – Though the company's borrowing profile is well diversified, the recent industrywide stress in liquidity has increased dependence on securitisation (~Rs. 17,000 crore raised between September 24, 2018 and May 10, 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 May 10, 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. The liquidity position of the company is also stretched as evidenced by delay in meeting its debt obligation.

<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

**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.

**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

The liquidity position is stretched as evidenced by delay in meeting debt obligation by the company. The company has Rs. 750 crore commercial paper (CP) programme maturing in June 2019 with first repayment on June 07, 2019. Given stretched liquidity position and limited visibility on fund raising, company is unlikely to be able to service its debt obligation with regard to commercial paper programme in a timely manner.

As on April 11, 2019, DHFL’s liquidity reserve stood at Rs. 2,775 crore (including SLR) and it expects monthly collections of Rs. 2,200 crore, going forward. Against this, the company has scheduled repayments of around Rs. 6,900 crore (Including unanticipated debt repayments already made till May 10, 2019) from May 01, 2019 to June 30, 2019.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA’s Credit Rating Methodology for Housing Finance Companies</a>
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

SI No.	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years										
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	FY2020			FY2019				FY2018			FY2017
					Jun-19	May-19	Apr-19	Feb-19	Feb-19	Dec-18	May-18	Oct-17	Dec-16		
1	Commercial paper programme	Short term	850	850	[ICRA]D	[ICRA]A4@	[ICRA]A3+@	[ICRA]A2+@	[ICRA]A2+@	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

### 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 programme	-	-	7-365 days	850	[ICRA]D

Source: Company

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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.

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For more information, visit [www.icra.in](http://www.icra.in)

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