

Rating Rationale

November 30, 2022 | Mumbai

Piramal Capital & Housing Finance Limited

Rating Reaffirmed

Rating Action

Rs.5000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating to the commercial paper programme of Piramal Capital & Housing Finance Limited (PCHFL; erstwhile Dewan Housing Finance Corporation Limited (DHFL)). PCHFL is a housing finance company whose parent entity is Piramal Enterprises Limited (PEL), an NBFC. The consolidated financial services business of PEL and PCHFL is referred to as PEL group.

The rating factors in the strong consolidated capitalisation profile of PEL group and dominant presence within the wholesale lending space, especially the real estate market. CRISIL Ratings has also noted the fact that the company is increasing its share of retail loans in the consolidated AUM. Post the acquisition of erstwhile DHFL, PEL group substantially expanded into the housing loans segment. Over the last year, the group has also ventured into other asset segments like secured and unsecured MSME, personal loans, used vehicle loans, microfinance, amongst others. CRISIL Ratings has also noted that the company has on a consolidated basis replaced its shorter tenure debt with longer debt thus improving the asset liability maturity profile through the year. Further, the liquidity of the group has also improved.

Analytical Approach

For arriving at the ratings of the company CRISIL Ratings has taken a consolidated approach by combining the business and financial risk profile of Piramal Enterprises Limited (PEL) an NBFC and its 100% HFC subsidiary PCHFL. Together they are referred to as PEL group.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Strong capitalisation profile with additional levers of financial flexibility**

PEL group, has strong capitalisation backed by networth of 27,472 crore as on September 30, 2022 and a gearing of 1.76 times. The group has raised about Rs 18,500 crore in fiscal 2020 and fiscal 2021 from sale of stake in various business, through rights issue and preferential allotment of CCDs. The funds raised have been used for deleveraging the balance sheet. Further the entire pharma business has been carved out and a separate entity Piramal Pharma Limited (PPL) has been formed. The capital adequacy ratio of Overall PEL FS business as on September 30, 2022 stood at 23% (post-merger of PHL Fininvest Private Limited).

Further, CRISIL Ratings notes that PEL enjoys additional financial flexibility through various means. These include their stake in Shriram group, potential upside from collections in the retail POCI (Purchased or Originated Credit Impaired) book of erstwhile DHFL and deferred tax related benefits, amongst others. Consequently, the overall networth is likely to have sufficient buffers to absorb potential provisioning, if any, similar to the impairment taken in the second quarter of fiscal 2023. While PEL intends to grow the retail book rapidly over the next 1-2 years, the gearing is expected to remain below 4 times over the near term.

- Established market position in real estate financing backed by promoter group experience**

PEL on a consolidated basis has a healthy market position in the real estate financing space, having significantly scaled up over the past few years. It also benefits from the presence of the group across related segments. The overall loan book for PEL group was Rs 63,780 crore of which Rs 38,908 crore comprised wholesale book (87% being real estate funding).

The group has longstanding experience in real estate covering project development, third-party private equity fund management and broking, distribution and market research. The third-party funds managed by the Piramal group through Piramal Fund Management Private Limited (PFMPL; erstwhile Indiareit Fund) were started more than a decade ago. Brickex, a division of PFMPL, is one of the largest distributors in the real estate market with around 10,500 empanelled partners/ brokers.

Inline with the revised 5year strategy, PEL group intends to increase its share of retail loans and keep wholesale book at 30-40% of overall loan book. In the first phase, PEL is focused on effective management of the existing book. Since

March 2019, the wholesale book has reduced by over 25% along with significant reduction in single borrower concentration. PEL group is expected to continue to reduce the size of wholesale book over the near term. Subsequently, it will look at fresh originations with focus on cash-flow backed assets and higher quality developers.

Weaknesses:

- **Impact on asset quality from sectoral concentration and acquired loan book to be assessed**

The lending business of the Piramal group in the past had a primary focus on real estate credit, resulting in high industry concentration and sizeable single-borrower exposures. The exposure to top 20 accounts in the wholesale group exposures accounted about 29% of the wholesale loan book. While the reported GNPA for the overall loan book as on September 30, 2022 was 3.7%, the GS3 of the wholesale book of PEL financial services business was higher at around 4.7% while for that of the retail book of PEL financial service business (excluding the POCI book of DHFL) was around 1.5% as on September 30, 2022. In Q2 of fiscal 2023 the company has proactively identified potentially stressed assets of Rs 5888 crore and moved the same to stage 2. The same amount to ~15% of the wholesale loan book. Incremental slippages from stage 2 assets to stage 3 in the near term will remain a key monitorable.

Further, the management has taken steps in order to reduce concentration risk in the portfolio with focus on growing the individual housing loans portfolio along with other retail loans. However, historically asset quality metrics were supported by the ability to get timely repayments/pre-payments/exits via refinancing.

In terms of the POCI book of DHFL, CRISIL Ratings understands that it has been taken at fair value basis after considering the existing NPA in the book and there has been sufficient buffer created in the valuation to absorb existing NPA accounts. Any material impact from either the existing acquired book or any significant deterioration in the collection efficiency will be a key monitorable and rating sensitivity factor.

- **Impact on profitability linked to wholesale book performance and foray into newer asset classes to be a monitorable**

In first half of fiscal 2023, PEL on a consolidated basis (excluding gain or loss from exceptional items and income from associates and JV's) reported a loss before tax of Rs 2316.9 crore as against profit of Rs 1627.5 crore for full fiscal 2022. The loss is primarily due to provisions and changes in fair value done to the tune of Rs 3443 crore. The increased provisions are due to movement of wholesale assets of ~Rs 5888 crore from stage 1 to stage 2, the same was done as a proactive measure taken by the company.

However, CRISIL Ratings notes that the gross stage 3 (GS3) provisioning cover for PEL on a consolidated basis was at 67% as on September 30, 2022 which increased from 40% in March 2020 on account of conservative additional provisioning buffers. The overall loan provisions (GS1, GS2 and GS3) as on September 30, 2022 was Rs 5,491 crore which was ~8.6% of AUM. Specifically on wholesale book, the GS2 provisioning cover is 33% while GS3 over is 74%.

Any incremental unexpected slippages may put more pressure on the earnings profile and remains a key monitorable.

PEL group also intends to increase its share of retail loans to 60-70% of loan book as part of its 5 year strategy. As on September 30, 2022, Rs 24,871 crore was the retail loan book, predominantly comprising of housing loans from the erstwhile DHFL book. The group has forayed into various other asset classes including secured and unsecured MSME, personal loans, used car loans, digital supply chain finance and microfinance, amongst others. This has entailed a sharp increase in operating expenditure. Cost of Income has increased to ~55% in Q2 of fiscal 2023 from ~36% for fiscal 2022.

With the change in the portfolio mix and expected increase in the proportion of retail assets in the medium term, the impact on the interest margins is yet to be assessed. Further owing to the underlying risk within the wholesale book higher provisioning requirement could adversely impact the earnings profile of the company. With the increasing share of retail book within the overall loan book, the operating expenses may inch up atleast in the medium term. Any material change in the earnings profile of the company due to change in portfolio mix or due to impact of the asset quality of the wholesale portfolio is a key monitorable.

- **Improved liability profile; however, incremental fund raising at optimal rates is a monitorable**

On a consolidated basis, the resource profile for PEL is well diversified across instruments with bank and FIs loans (including ECBs) constituting around 24%, NCDs are around 68%, CP's are about 6% and balance 2% through other sources.

The management has been taking steps to improve the resource mix and asset liability maturity profile through increasing long-term funding sources. As part of acquisition deal for DHFL, PCHFL had issued non-convertible debentures of Rs 19,550 crore at 6.75% with a repayment period of 10 years to the lenders. However, excluding the funds raised for DHFL acquisition, PEL has raised about Rs 3,660 crore in the current fiscal. The cost of funds was high for PEL historically, which has been coming down, however, the ability of the company to raise long tenure funds at competitive costs remains a key monitorable as they further diversify into retail business.

Liquidity: Strong

Analysis of PEL's asset liability maturity profile as on September 30, 2022 shows no negative cumulative mismatches in the upto 1 year bucket. On a consolidated basis PEL's liquidity is adequate and the company improved the long term borrowings mix. As on September 30, 2022, PEL on a consolidated basis had a free liquidity of Rs 7,897 crore including cash and equivalents and unutilised sanctioned working capital bank lines. Against the same, PEL had debt repayments of Rs 4,666 crore in the next three months till end December 2022, thereby having a liquidity cover of 1.69 times for three months. The future steps taken by management to further improve its borrowing mix and asset liability maturity profile will be key and critical monitorable.

Rating Sensitivity factors**Downward factors:**

- Significant deterioration in asset quality metrics
- Material impact in the profitability metrics
- Inability to raise long term funds at competitive costs to diversify the borrowing profile
- Gearing metrics (based on gross external debt) increasing beyond 6 times with the current portfolio mix

About the Company

PCHFL was incorporated in February 2017. The entity was formed as a 100% subsidiary of Piramal Finance Ltd (PFL). PFL, itself, was a wholly-owned subsidiary of Piramal Enterprises Ltd. Till 2016, the financing portfolio was booked in PEL with limited operations in PFL. In fiscal 2017, following a business restructuring, Rs 13,706 crore of assets and Rs 12,575 crores of liabilities were transferred to PFL from PEL.

In August 2017, PCHFL received a certificate for commencement of housing finance business from National Housing Bank (NHB). Subsequently, the Board of Piramal Enterprises Ltd (PEL), the parent of PFL, approved a scheme of amalgamation of PFL and Piramal Capital Ltd (PCL) into PCHFL. PCL was a subsidiary of PEL and had limited operations. The merger process was completed in July 2018 with effect from March 31, 2018. Post the merger PCHFL became a wholly owned subsidiary of PEL.

Further, as per the resolution plan approved by the NCLT, the existing liabilities of DHFL were discharged by erstwhile PCHFL and a consideration of Rs. 34,250 crore (comprising upfront cash of Rs. 14,700 crore and issuance of debt instruments of Rs. 19,550 crore) was paid to DHFL's creditors. The erstwhile PCHFL was reverse merged with DHFL with effect from September 30, 2021, and the amalgamated entity (DHFL) was renamed as Piramal Capital & Housing Finance Limited.

In 2022, the group has undergone restructuring with the pharma business within PEL being carved out into a new entity PPL. Further PHL Fininvest Limited got merged into PEL, thus PEL is now an NBFC with PCHFL as its 100% subsidiary.

Key Financial Indicators - Piramal Capital & Housing Finance Limited – Standalone

As on/for the year ended	Unit	Sept-22*	Mar-22
Total Assets	Rs Cr	73,406	79,702
Total income	Rs Cr	2,301	6,105
Profit after tax	Rs Cr	-1242	536
Gross NPA / GS 3	%	3.25	3.25
Gearing (Gross)	Times	2.01	2.27
Return on assets	%	-3.25	0.67

*annualised

Key Financial Indicators - Consolidated

As on/for the year ended	Unit	Sept-22*	Mar-22
Total Assets	Rs Cr	80,389	99,873
Total income	Rs Cr	4077	7911
Profit after tax	Rs Cr	6619	1999
Gross NPA / GS 3	%	3.7	3.4
Gearing (Gross)	Times	2.4	2.7
Return on assets	%	15	1.3

*annualised

Any other information: Not applicable**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure – Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Level	Rating outstanding With Outlook
NA	Commercial Paper	NA	NA	7-365 days	5000	Simple	CRISIL A1+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Piramal Enterprises Limited	Full	Parent
Piramal Capital & Housing Finance Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	5000.0	CRISIL A1+		--	01-12-21	CRISIL A1+	19-06-20	CRISIL D	05-06-19	CRISIL D	CRISIL A1+
			--		--	14-10-21	Withdrawn		--	11-05-19	CRISIL A4+/Watch Negative	--
			--		--	29-06-21	CRISIL D		--	17-04-19	CRISIL A3+/Watch Negative	--
			--		--		--		--	23-03-19	CRISIL A2+/Watch Negative	--
			--		--		--		--	27-02-19	CRISIL A1/Watch Negative	--
			--		--		--		--	02-02-19	CRISIL A1+/Watch Negative	--
Short Term Deposit	ST		--		--		--		--	23-03-19	Withdrawn	CRISIL A1+
			--		--		--		--	27-02-19	CRISIL A1/Watch Negative	--
			--		--		--		--	02-02-19	CRISIL A1+/Watch Negative	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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