

**Piramal Capital & Housing Finance Limited
(erstwhile Piramal Housing Finance Limited)**

June 22, 2018

Ratings

Instruments/ Facilities	Rated Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible debentures [^]	1,000	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Assigned
Subordinated Debt [^]	500	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Assigned
Total	1,500 (Rs. One Thousand Five Hundred crore only)		

Details of instruments/facilities in Annexure-1

[^]The above instruments have been transferred from Piramal Finance Limited to Piramal Capital & Housing Finance Limited as per the scheme of amalgamation for transfer of business from Piramal Finance Limited to Piramal Capital & Housing Finance Limited (erstwhile Piramal Housing Finance Limited)

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Piramal Capital & Housing Finance Limited (PCHFL) factor in the position of the company as the flagship company in the financial services business of the Piramal group post amalgamation of Piramal Finance Limited (PFL) and Piramal Capital Limited (PCL) with PCHFL.

The ratings also factor in the strength derived from strong and resourceful promoter group which has rich experience in diversified segments like real estate, healthcare, financial services and glass manufacturing along with shared brand name and common treasury with its parent, Piramal Enterprises Limited (PEL) [rated – CARE AA; Stable].

The ratings further take into account increase in the scale of operations over the last three years making it one of the largest lenders in the real estate space in the country, strong and experienced Board of Directors and management team, strong risk management and asset monitoring practices which has helped the company maintain healthy asset quality. Further, the company has seen gradual diversification in the loan book from real estate to corporate lending and retail home loans. With further growth expected in its emerging corporate loan book and retail home loans, the granularity of its overall loan book is expected to improve going forward. The ratings further take into account significant amount of capital (around Rs.7,000 crore through QIP and rights issue) raised by the parent company, of which majority is intended to be infused in the financial services business. Availability of such capital significantly improves the financial flexibility of PCHFL and provides adequate capital for business growth along with keeping the leverage at moderate levels.

The above-mentioned rating strengths are partially offset by PCHFL's moderately seasoned loan book, significant sectoral exposure primarily to the real estate sector and client concentration in the loan portfolio given the large ticket size of loans to developers.

Continuing parent support, asset quality, client and sector concentration, capitalization levels, liquidity and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong and resourceful promoter group: PCHFL (post amalgamation) is a wholly owned subsidiary of PEL that is a part of the Ajay Piramal group of companies. The group is a diversified Indian business house with interests in healthcare, glass manufacturing, real estate and financial services. The company has successful track record of around more than two decades in the healthcare business. Over the past few years, the group has built its financial services business with consolidated loan portfolio of Rs.42,168 crore as on March 31, 2018. Also, the resource raising capability of the group can be witnessed by the recent capital raising program of around Rs.7,000 crore through qualified institutional placements (QIP) [Rs.4,996 crore] and rights issue [Rs.1,974 crore] in H2FY18. As stated by the management, majority of this capital is committed towards the financial services business of the group, which is housed under PCHFL.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Shared brand name and common treasury between PEL and PCHFL: PCHFL benefits from group synergies in the form of shared 'Piramal' brand name, capital, managerial and operational support from the parent. The financial services companies of the group have a shared treasury desk, which is responsible for raising resources for the financial services segment. The common treasury would help PCHFL to raise resources to fund growth at a competitive cost.

Significant presence in the real estate finance space with increase in scale of operations and gradual diversification in loan book: The loan portfolio of the group has witnessed a CAGR of 94% from FY14-FY18 with total loan book outstanding at Rs.42,168 crore as on March 31, 2018. As a strategic decision, the group has been gradually diversifying its loan book. The company introduced lease rent discounting (LRD) in FY17 and is increasingly looking at construction finance (~60% of the total Real Estate portfolio) as against mezzanine financing for early stage projects. The company has also stepped up its focus on its Corporate Finance Group (CFG). The company has also forayed into lending to small and emerging corporates under the Emerging Corporate Lending (ECL) and also is focused on scaling up its retail housing finance portfolio.

Experienced board of directors and management team: The Company's board is headed by Mr. Ajay Piramal. He is the chairman of the Piramal Group, which has interests in healthcare, financial services, real estate, information services and glass packaging. The financial services business is headed by Mr. Khushru Jijina (Managing Director of PCHFL) who has experience of over two decades in the financial services industry. The company's board and management are supported by various other qualified professionals heading various verticals with adequate and relevant experience in their respective fields.

Adequate capitalization levels of the merged entity and comfortable gearing levels: Out of the total capital raised of around Rs.7,000 crore, the parent PEL has committed to infuse Rs.5,000 crore into the financial services business in near term, of which Rs.3,500 crore has already been infused in PCHFL in H2FY18 which has strengthened the capitalization with tangible net-worth of Rs.7,525 crore as on March 31, 2018. The company reported capital adequacy ratio (CAR) 30.89% with Tier I CAR at 26.88% as on March 31, 2018 and overall gearing levels stood at 3.45 times. The remaining Rs.1,500 crore of equity is expected to be infused in the near future, as and when required which will help the company maintain adequate capitalization level while growing the loan portfolio.

Comfortable asset quality with strong risk management practices: PCHFL on a consolidated basis has a comfortable asset quality with Gross and Net NPA of 0.37% and 0.29% respectively and Net NPA to Tangible net-worth of 1.22% as on March 31, 2018. The group has put in place strong risk management practices, rigid underwriting norms and set up an asset monitoring division for continuous monitoring of the loan portfolio. The company has a policy of maintaining excess provision on standard assets (currently ~1.8% as against the regulatory requirement of 0.4%) which provides further comfort.

Key Rating Weaknesses

Moderately seasoned loan book: The Piramal group has largely built its loan portfolio since FY16 due to which the seasoning of the loan book is moderate and the performance of the asset quality over multiple cycles is yet to be seen. However, the group has shown strong capability of successful exits / prepayments in their real estate and corporate finance group portfolio over the last 4 years.

Significant sectoral exposure primarily to real estate sector: PCHFL's loan portfolio has high exposure to the real estate. Though, the exposure has seen gradual diversification, exposure towards the real estate segment which constituted 78% of the overall loan book as on March 31, 2018 vis-à-vis 87% as on March 31, 2017. Any downturn in the industry may result in decline in the sales across geographies ultimately affecting the asset quality of the company. However, the group has established a strong developer network along with real estate research arm which has benefited the group to invest and exit the exposure at various stages which provides comfort.

Client concentration risk in the loan portfolio: The loan book of PCHFL is largely wholesale in nature and has significant borrower concentration. PCHFL's top 10 group exposures, on a consolidated basis constituted around 29% of the total loan book and 120% of the tangible net-worth as on March 31, 2018. However, the concentration has seen reduction as

compared to top 10 group exposures constituting 29% of the total loan book and 170% of tangible net-worth as on March 31, 2017 (under PFL). The company's exposures are adequately secured by projects having healthy sales and finished stock, which provides comfort. Also, post amalgamation the company is expected to ramp up its housing finance business which is expected to reduce the client concentration going forward. Further, the growth in the ECL segment is also expected to increase the portfolio granularity going ahead.

Analytical approach: CARE has analysed PCHFL's standalone credit profile along with its managerial, operational and financial linkages with its parent, PEL.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology- Housing Finance Companies](#)

[Financial Ratios- Financial Sector](#)

About the Company

PCHFL [erstwhile Piramal Housing Finance Limited (PHFL)] is a housing finance company, incorporated in February 2017 as wholly owned subsidiary of Piramal Finance Limited. With effect from March 31, 2018, Piramal Finance Limited and Piramal Capital Limited have amalgamated with Piramal Housing Finance Limited and subsequently, the name of the entity has changed to Piramal Capital & Housing Finance Limited. PCHFL has become a wholly owned subsidiary of Piramal Enterprise Limited (PEL) and is the flagship entity of the group's financial services business.

Piramal Capital & Housing Finance Limited

Brief Financials (Rs. crore)	FY17 (A) [*]	FY18 (A) [§]
Total income	1,492	46
PAT	193	(32)
Total Assets (adjusted for Intangible assets)	20,264	34,239
Net NPA (%)	0.35	0.29
ROTA (%) (PAT/Average Total Assets)	1.84	NM

A: Audited NM: Not meaningful

^{*}Piramal Finance Limited (Standalone)

[§]Piramal Capital & Housing Finance Limited (erstwhile Piramal Housing Finance Limited)

Note: Financials of FY18 are not comparable on account of amalgamation of PFL with PCHFL

Note: PFL reported PAT of Rs. 953 crore on a total income of Rs.3,739 crore for FY18 (UA).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-convertible debentures	29-Sep-17	8.10%	29-Sep-20	125.00	CARE AA+; Stable
Non-convertible debentures	08-Nov-17	7.96%	06-Nov-20	115.00	CARE AA+; Stable
Non-convertible debentures (Proposed)	-	-	-	760.00	CARE AA+; Stable
Subordinated Debt	08-Mar-17	9.55%	08-Mar-27	500.00	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities [%]	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-convertible debentures	LT	1,000.00	CARE AA+; Stable	-	-	-	-
2.	Subordinated Debt	LT	500.00	CARE AA+; Stable	-	-	-	-

[%] The instruments have been transferred from Piramal Finance Limited to Piramal Capital & Housing Finance Limited as per the scheme of amalgamation for transfer of business from Piramal Finance Limited to Piramal Capital & Housing Finance Limited.

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