Piramal Capital & Housing Finance Limited

March 25, 2021

Ratings

Instruments/ Facilities	Rated Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Public Issue of Non Convertible Debentures	2,000 (Rs. Two Thousand crore only)	**CARE AA (CWD) [Double A (Under Credit watch with Developing Implications)]**	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has assigned rating of **'CARE AA (Under Credit watch with Developing Implications)'** to the proposed Public Issue of Non Convertible Debentures of Piramal Capital & Housing Finance Limited (PCHFL).

The ratings are 'Under Credit Watch with Developing Implications' following the announcement made by Piramal Enterprises Limited (parent company), vide stock exchange notification dated January 22, 2021, that the Committee of Creditors of Dewan Housing Finance Limited (DHFL) has declared PCHFL as successful resolution applicant in relation to the Corporate Insolvency Resolution Process of DHFL under the Insolvency & Bankruptcy Code, 2016 and identified the resolution plan submitted by PCHFL as successful resolution plan vide the Letter of Intent (LOI) from the Administrator of DHFL.

The implementation of the resolution plan would be subject to the terms of the LOI and various regulatory approvals including that from the Reserve Bank of India (RBI) and National Company Law Tribunal (NCLT), Mumbai. While Piramal group was in the fray for acquiring DHFL since past few months, the acquisition would be significant as compared to the existing balance sheet size of PCHFL and PEL; as a result, the long- term ratings have been put on 'Credit Watch with Developing Implications'. While the transaction will increase the retail asset proportion in PCHFL's loan book, it will also lead to an increase in overall gearing. CARE will continue to engage with the management of the PEL group and will resolve the watch once there is enough clarity related to regulatory approvals, acquisition timelines and consequent impact on the business & financial profile of PCHFL and PEL.

The ratings continue to derive strength from strong and resourceful promoter group which has presence 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 (Under credit watch with Developing Implications)'. PCHFL is the flagship company in the financial services segment of the Piramal group. The ratings also takes into account the experienced Board of Directors and management team and moderate leverage of the company.

Apart from significant experience in the healthcare business, the promoter group has experience in real estate and real estate financing and the company has built-in strong risk management and asset monitoring processes which helps it to proactively manage its exposures. However, a prolonged slowdown in the real estate market is likely put pressure on the asset quality in the short to medium term.

The rating strengths are partially offset by PCHFL's moderately seasoned loan book and moderation in asset quality along with significant exposure to the real estate sector. Further, the client concentration in the loan portfolio given the large ticket size of loans to real estate developers continues to remain high.

The real estate sector which was already facing challenges in terms of access to funding and slow sales leading to increase in inventory levels was further impacted on account of nation-wide lockdown due to COVID-19 in terms of slower construction due to migrant workers shifting as well as lower demand on the back of fall in economic activity. The sector is expected to see further consolidation over the medium term.

The group has been taking steps to reduce the proportion of wholesale book either by sell down of its exposures, refinance or other measures and has plan to reduce the level and proportion of real estate exposures in the near to medium term and bring in more granularity to the loan book by reducing the borrower concentration. CARE will continue to monitor the progress on the same and would review the ratings if required. CARE also takes comfort from the Piramal group's demonstrated resource raising ability both at PEL (the parent company) levels as well as in PCHFL.

The risk aversion in the market continues towards the NBFC / HFC sector in general and wholesale lending focused nonbanking lenders which has seen challenges in resource mobilization in recent times. Therefore, continuous mobilization of resources and maintaining adequate liquidity in the current operating environment is a key rating monitorable for PCHFL.

The rating also factors in moderation in profitability during FY20 as the company has made one-time conservative provisioning for expected credit loss on account of Covid and one time MAT credit reversal and accounting write-off of DTA.

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

Rating sensitivities:
Positive factors - Factors that could lead to positive rating action/upgrade:
- Substantial reduction in exposure to real estate segment in overall loan book and reduction in single group exposure to tangible net worth on a sustained basis.
- Gross NPA below 0.5%

Negative factors - Factors that could lead to negative rating action/downgrade:
- Any delay in planned reduction in the real estate loan book of PEL – Financial services business by March 31, 2021.
- Mismatch in asset liability maturities and challenges in raising long term funding.
- Further deterioration in asset quality (Gross NPA) from current levels
- Reduction in support from Piramal Enterprises Limited.

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.50,963 crore as on March 31, 2020 (Rs.56,624 crore as on March 31, 2019 with PCHFL being the flagship company for the financial services business of the group.
CARE also takes comfort from the Piramal group's demonstrated resource raising ability both at PEL (the parent company) levels as well as in PCHFL. The group has demonstrated ability to raise resources time and again with raising around Rs.7,000 crore of fresh equity in FY18 and Rs.5,400 crore in FY20 (including of Rs.1,750 crore from CDPQ). Further PEL has also raised ~Rs.9,000 crore from part stake sale of its investment in Shriram group and sale of Healthcare & Analytics business in FY20. This provides cushion to the group's ability to absorb any external shocks in financial services business.
In October, 2020, Piramal Pharma Limited (PPL, 100% subsidiary of Piramal Enterprises Limited) has raised around Rs.3,500 crore by 20% equity stake dilution to Carlyle group. The above steps has helped PEL to reduce leverage over past 18 months and improve its liquidity profile. CARE also takes note of PEL's plan to exit from its investment in the Shriram group during FY21 which will further deleverage its balance sheet and provides comfort.
The parent company, PEL on consolidated level has raised debt resources to the tune of ~Rs.13,500 crore during FY20 and ~Rs.14,300 crore during FY21 (of which PCHFL has raised nearly ~Rs.7,000 crore) till December 31, 2021 largely from public sector banks in recent times and has been able to refinance the immediate terms maturities.

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. PCHFL also benefits from the real estate expertise of Piramal Group. 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 help's PCHFL to raise resources to fund growth at a competitive rates.

Experienced board of directors and management team
The company's board is headed by Mr. Ajay Piramal who is the promoter and Chairman of the Piramal group. The company has a strong Board of Directors comprising experienced professionals. The company's management team comprises of qualified professionals heading different business verticals with adequate and relevant experience in their respective fields.

Significant presence in the real estate finance space with gradual but limited diversification
The loan portfolio of PEL – Financial Services businesses has grown from Rs.4,766 crore as on March 31, 2015 to Rs.Rs.50,963 crore as on March 31, 2020. The group has gradually diversified its loan book in past few years, which can be witnessed by introduction of newer products including project finance, lease rental discounting, corporate finance, emerging corporates, and retail housing loan.
As on March 31, 2020, PCHFL's exposure to real estate segment constituted 74% of the total loan portfolio and PCHFL remains one of the largest non - bank real estate financiers in India with real estate loan book of Rs.24,772 crore. Real estate finance largely comprises of construction finance and corporate loans at 48% and 23% of total loan portfolio while LRD stands at 2%. Post the merger into HFC and scale up of retail home loan book, PCHFL has seen gradual diversification and the proportion of housing loan portfolio increased to 16% as on March 31, 2020 (March 31, 2019: 14%) as against 3% as on March 31, 2018. The loan portfolio also comprises of 7% of Corporate Finance Group (March 31, 2019: 14%) and 2% of Emerging Corporate Lending (March 31, 2019: 2%) as on March 31, 2020. Over the years, through its experience, the group has developed expertise in the real estate business which helps its financial services business through providing valuable insights in funding real estate projects.

As on September 30, 2020, the loan book comprised of Real estate loan book (78% of PCHFL's overall loan portfolio), CFG book comprising (6%), Emerging corporate lending (2%) and Housing Loans at (14%). Going forward, the group further intends to focus on retail loans (including housing finance loans to affordable and mid segment) in the overall loan portfolio and plans to enter consumer finance business to increase the granularity of the loan book. CARE expects the group to significantly increase the proportion of retail loan book in overall loan book in medium term.

Adequate capitalization and comfortable gearing levels

PEL has been raising equity capital and has been providing growth capital to the financial services business including PCHFL. Out of the around Rs.7,000 crore of equity capital raised by PEL in FY18, Rs.3,500 crore was infused as equity capital in PCHFL in FY18 which helped the company strengthen its capitalization levels. During FY20, PEL further raised nearly Rs.14,500 crore of capital (including Rs.5,400 crore of fresh equity) from which it infused Rs.1,400 crore into PCHFL to strengthen its capitalisation levels.

PCHFL reported tangible net-worth of Rs.10,195 crore as on March 31, 2020 (March 31, 2019: Rs.9,216 crore). The company reported capital adequacy ratio (CAR) of 34.89%, which is well above regulatory requirement, with Tier I CAR at 32.06% as on March 31, 2020 and overall gearing levels stood at 2.87 times (March 31, 2019: 3.51 times). As on December 31, 2020, PCHFL reported CAR of 35.62% (Tier I CAR: 32.83%) and overall gearing of 2.42 times.

PEL (consolidated) has been raising capital and reducing the leverage at the group level over the last two years. PEL (consolidated) reported net-worth of Rs.35,467 crore as on December 31, 2020 with Gross debt of Rs.36,992 crore leading to overall gearing of 1.04 times as compared to net-worth of Rs.27,233 crore and Gross debt of Rs.56,040 crore with overall gearing of 2.06 times as on March 31, 2019. The net debt post Pharma deal inflow stands at Rs.33,457 crore as on October 06, 2020 (provisional).

Diversified resource profile and adequate liquidity profile

The company has a diversified resource profile with PCHFL's borrowing comprising of bank borrowings (56%), Non Convertible Debentures (23%), ICDs (9%), ECB's (2%) and Securitization (7%) as on September 30, 2020 while funding through Commercial Paper reduced to 3% from 15% of its total borrowings as on March 31, 2019. PCHFL's liquidity profile as on September 30, 2020 was adequate on account of PCHFL's policy to maintain adequate unutilized bank lines as well as liquid investments which would help them to manage liquidity requirements. The company has raised Rs.6,565 crore of long term funds during H1FY21, largely from public sector banks, coupled with meagre disbursements as compared to FY20 which has led to positive asset liability profile as on September 30, 2020. The company had free cash & equivalent of Rs.4,166 crore as on September 30, 2020.

Key Rating Weaknesses

Moderately seasoned loan book

The Piramal group has largely built its wholesale loan portfolio post FY16 due to which the seasoning of the loan book is moderate and the performance of the asset quality over multiple business cycles is yet to be seen.

Also, the majority of housing portfolio of Rs.5,503 (March 31, 2019: Rs.5,204 crore) as on March 31, 2020, has been disbursed over post FY17 and the performance of the same is yet to be seen over multiple economic and business cycles.

Moderation in profitability, largely on account of one-time provisioning of Rs.1,249 crore for expected credit loss

During FY20, the company reported Profit After Tax (PAT) of Rs.30.5 crore on total income of Rs.5,623 crore as against PAT of Rs.1,443 crore on total income of Rs.5,572 crore during FY19. While the pre-provisioning operating profit decreased by 24% during FY20 to Rs.1,778 crore. During Q4FY20, the company made one-time incremental conservative provisioning for expected credit loss on account of current macro situation in light of COVID-19 resulting in significant decline in profit for FY20. Further, the company has written off accumulated MAT credit of Rs.504.61 crore on account of selection of lower tax at 25.168% and reversed deferred tax liabilities of Rs.131.74 crore through P&L thus resulting into one-time expense of Rs.372.86 crore.

During 9MFY21 (unaudited), the company reported PAT of Rs.1,065 crore on total income of Rs.3,921 crore. The profitability for Q4 of FY21 would largely depend on the actual credit loss and provisioning requirement for Covid related stress.

Moderation in asset quality

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 which has led to the company posting moderate asset quality parameters, even in current difficult macro operating environment for wholesale lending NBFCs. As on March 31, 2020, the company reported some deterioration in asset Quality with Gross NPA ratio of 2.12%, Net NPA ratio of 1.37% and Net NPA to Net worth ratio of 4.67%. As on December 30, 2020, the company reported Gross NPA ratio of 2.58% and Net NPA ratio of 1.26% with Net NPA to Net worth ratio of 3.64%.

During the initial months of lockdown, the financial services business saw borrowers opting for moratorium under regulatory relief. Around 67% of the wholesale portfolio and 25% of the retail portfolio were under moratorium as on May, 2020 (moratorium 1) and around 74% of the wholesale portfolio and 25% of the retail portfolio were under moratorium as on August, 2020 (moratorium 2).
The economic slowdown, lower sales/construction/collection by real estate developers during lockdown and moratorium availed by them under regulatory relief package for Covid-19, affected the collections of the company in absolute numbers. While the construction activity has resumed post lifting of lockdown, along with increase in sales in September / October as compared to lockdown months, the sustenance of the same needs to be seen. While the company's scheduled collections had seen a severe decline during April - August period, as significant portion of book had availed 6 month moratorium under regulatory relief package for Covid-19, the company managed to receive some pre-payment from its loan book during April - August.
The company's collection has seen an uptick in Q3FY21 with retail and wholesale efficiency improving significantly over previous months, on account of revival in sales and collections of its funded projects but it is too early to comment on revival of real estate demand as whole and hence it will be key monitorable going forward.
In past few years, company has been able to exit some of its exposures by way of pre-payments as the borrower has either refinanced the exposure or brought in equity or have been able to sell the projects. In recent times, the real estate has seen downturn resulting in decline in sales across geographies. Although on consolidated financial services business level, the company has adequate provisioning for NPAs as on date, a prolonged downturn in the real estate industry may impact the asset quality of the company and will remain key monitorable going forward.

Significant sectorial exposure primarily to real estate sector
PCHFL's loan portfolio has high exposure to the real estate as it has been the focus for the Piramal Group's financial services business. Though, the exposure has seen gradual diversification, it constituted 75% of the overall loan book as on March 31, 2020. Within real estate, the company has majority of exposure to Construction finance (including corporate loans) to large and mid-sized developers. The real estate exposure stood at 78% of total loan book as on September 30, 2020. The increase in real estate concentration is largely on account of significant reduction in non Real estate loan book over past 6 months and real estate exposures sell down deals traction took a hit on account of lockdown.
The continued stress in real estate may pose asset quality challenges going forward. In general, PCHFL's Real estate loans typically had principal moratorium of 6 months and above (depending on loan to loan basis). The group has established a strong developer network along with real estate research arm which has benefited the company to invest and exit the exposure at various stages which provides comfort.
The group has plans to reduce the proportion of wholesale lending portfolio while increasing the proportion of retail lending in the medium term. The group has plans to significantly reduce its wholesale lending portfolio by around 15-20% by end of FY21 (as compared to September 30, 2020), largely on account of reduction in real estate exposures via prepayment / selldown / refinance of exposures.
Client concentration risk in the loan portfolio
As on March 31, 2020, the loan book of PCHFL is largely wholesale in nature and has significant borrower concentration. PCHFL's top 10 group exposures in real estate sector constituted around 106% (March 31, 2019: 120%) of the tangible net worth as on March 31, 2020 and 100% of tangible net worth as on September 30, 2020. CARE has noted that PCHFL plans to bring down the top exposures down in near term.
The company is expected to ramp up its housing finance business as well as consumer finance lending products (expected to be launched in H2FY21), which is expected to increase the granularity of the portfolio. The pace of diversification and de-risking of portfolio will remain key monitorable.

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

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's policy on default recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology- Housing Finance Companies
Financial Ratios- Financial Sector
Criteria for Short Term Instruments

Liquidity Position: Comfortable
As per the asset liability maturity (ALM) statement as on September 30, 2020, PCHFL on a standalone basis has cumulative outflows of around ~Rs.10,600 crore over the next 12 months against which it had inflows of ~Rs.15,800 crore (including free

cash and equivalent of ~Rs.4,166 crore). The company has received Rs.2,666 crore capital support from parent by the way of ICD as on September 30, 2020.
As on December 31, 2020, the free cash & equivalent stood at Rs.1,712 crore.

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)$	FY19	FY20
	12m, A	*12m, A*
Total income	5,572	5,623
PAT	1,443	30
Total Assets (adjusted for Intangible assets)	41,808	40,502
Net NPA (%)	0.14	1.37
ROTA (%) (PAT/Average Tangible Total Assets)	3.82	0.07

A: Audited; All ratios are as per CARE's calculation
$ (IND AS)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Public issue of Non-Convertible Debentures	Proposed	-	-	-	2,000	CARE AA (Under Credit Watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-convertible debentures	LT	460.00	CARE AA (Under Credit Watch with Developing Implications)	1) CARE AA (Under Credit Watch with Developing Implications) (28-Jan-21) 2) CARE AA; Stable (11-Dec-20) 3) CARE AA; Stable (07-Oct-20) 4) CARE AA; Stable (28-Apr-20)	1) CARE AA; Stable (05-Jul-19)	1) CARE AA+; Stable (22-June-18)	-
2.	Subordinate Debt	LT	500.00	CARE AA (Under Credit Watch with Developing	1) CARE AA (Under Credit Watch with	1) CARE AA; Stable (05-Jul-19)	1) CARE AA+; Stable (22-June-18)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
				Implications)	Developing Implications) (28-Jan-21) 2) CARE AA; Stable (11-Dec-20) 3) CARE AA; Stable (07-Sep-20)			
3.	Non-convertible debentures	LT	7,500.00	CARE AA (Under Credit Watch with Developing Implications)	1) CARE AA (Under Credit Watch with Developing Implications) (28-Jan-21) 2) CARE AA; Stable (11-Dec-20) 3) CARE AA; Stable (07-Oct-20) 4) CARE AA; Stable (28-Apr-20)	1) CARE AA; Stable (05-Jul-19)	1) CARE AA+; Stable (06-Aug-18)	-
4.	Long term bank facilities	LT	31,100.00	CARE AA (Under Credit Watch with Developing Implications)	1) CARE AA (Under Credit Watch with Developing Implications) (28-Jan-21) 2) CARE AA; Stable (11-Dec-20) 3) CARE AA; Stable (28-Apr-20)	1) CARE AA; Stable (05-Jul-19)	1) CARE AA+; Stable (13-Feb-19) 2) CARE AA+; Stable (06-Aug-18)	-
5.	Commercial Paper issue	ST	5,000.00	CARE A1+	1) CARE A1+ (28-Jan-21) 2) CARE A1+ (11-Dec-20) 3) CARE A1+ (28-Apr-20)	1) CARE A1+ (05-Jul-19)	1) CARE A1+ (06-Aug-18)	-
6.	Short-term Inter Corporate Deposits	ST	500.00	CARE A1+	1) CARE A1+ (28-Jan-21) 2) CARE A1+ (11-Dec-20) 3) CARE A1+ (07-Oct-20)	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (24-Apr-19)	-	-
7.	Subordinate Debt (Tier II)	LT	1,000.00	CARE AA (Under Credit Watch with Developing Implications)	1) CARE AA (Under Credit Watch with Developing Implications)	1)CARE AA; Stable (05-Jul-19 2)CARE AA+; Stable	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
					(28-Jan-21) 2) CARE AA; Stable (11-Dec-20) 3) CARE AA; Stable (07-Sep-20)	(29-May-19)		
8.	Non-convertible debentures	LT	3,000.00	CARE AA (Under Credit Watch with Developing Implications)	1) CARE AA (Under Credit Watch with Developing Implications) (28-Jan-21) 2) CARE AA; Stable (11-Dec-20) 3) CARE AA; Stable (07-Sep-20)	-	-	-
9	Market Linked Debentures	LT	600.00	CARE PP-MLD AA (Under Credit Watch with Developing Implications)	1) CARE PP-MLD AA (Under Credit Watch with Developing Implications) (12-Feb-21)	-	-	-
10	Public Issue of Non Convertible Debentures	LT	2,000	CARE AA (Under Credit Watch with Developing Implications)	-	-	-	-

Annexure-3: Complexity Level of various Instruments rated of this company

Sr. No.	Name of Instrument	Complexity Level
1.	Non Convertible Debentures	Simple
2.	Subordinate Debt	Complex
3.	Long Term Bank Facilities	Simple
4.	Commercial Paper Issue	Simple
5.	Short-term Inter Corporate Deposits	Simple
6.	Market Linked Debentures	Highly Complex

***Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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