

DHFL Direct Assignment March 2012 – III
[Originator: Dewan Housing Finance Corporation Limited (DHFL)]

December 16, 2019

Ratings

Instrument	Initial Pool outstanding (Rs. crore)	Current Pool outstanding (Rs. crore) ^{&}	Rating	Rating Action
Assignee Payouts	110.04	20.13	Equivalent to CARE D	Revised from Equivalent to CARE BBB (SO) (Under Credit Watch with Negative Implications)

Details of instruments/facilities in Annexure-1

& After Nov'19 Payouts

**The tenure may change due to prepayments / foreclosures in the pool.*

Rating Action

CARE has downgraded the credit opinion equivalent to 'CARE D' [pronounced as 'CARE D'] to the Assignee Payouts in Direct Assignment of Housing Loan receivables originated by Dewan Housing Finance Corporation Limited (DHFL).

Detailed description of the key rating drivers

The rating downgrade takes into account the inability of DHFL (servicer) to fund the scheduled principal and interest payment to the Collection and Payment Account (C&P account) on the payout date i.e. 10th December 2019, towards the transaction "DHFL Direct Assignment March 2012 – III", in spite of the collections from the underlying loans being sufficient to honor the payout to the assignee, based on the servicer reports received by CARE. CARE has received the confirmation about non-payment from trustee on 12th December 2019. Additionally, the investor for the above mentioned transaction has adjusted the entire Cash Collateral in the form of Fixed Deposit to the outstanding POS for the transaction, which is not as per the waterfall mechanism / structure that was initially rated.

CARE has also considered the recent event regarding the Appointment of Administrator and Commencement of Corporate Insolvency Resolution Process under the Insolvency and Bankruptcy Code, 2016 for DHFL. As per Rule 5 (b) of the notification issued by the Central Government under the Insolvency and Bankruptcy Code, 2016, an interim moratorium shall commence on and from the date of initiation of Corporate Insolvency Resolution Process, till its admission or rejection. However, under Rule 10 (1) of the aforementioned notification, "the provisions of clause (b) of Rule 5 and section 14 shall not apply to any third-party assets or properties in custody or possession of the financial service provider, including any funds, securities and other assets required to be held in trust for the benefit of third parties".

As per the waterfall mechanism, the priority of payment is regulatory expenses, promised interest and principal & prepayments to assignee and replenishment of cash collateral. Any surplus after this was to be remitted to the residual beneficiary. According to the structure Cash Collateral may be utilized only if there are shortfalls in making payout to the assignee.

The performance of the above mentioned transaction is strong after Nov'19. The pool summary is tabulated below;

Pool Summary (as of November 2019)	
Months Post Securitization	92
Pool Amortization	81.7%
90+ Delinquency (% of Initial POS)	0.2%
180+ Delinquency (% of Initial POS)	0.1%
Overdue Amt (% of Initial POS)	0.1%
CCE	99.8%
CC as % of Balance POS	76.5%
Cumulative Prepayments	55.0%

Key Rating Strengths:

- Cumulative collection efficiency of the pool is at around 99.8%.
- As on Nov'19, the 90+DPD (as % of Initial POS) and 180+DPD (as % of Initial POS) is 0.2% and 0.1% respectively. OD as % of Initial POS is 0.1%.

Key Rating Weaknesses:

- Inability of DHFL (the originator) to fund the Collection and Payment Account (C&P Account) to make scheduled principal and interest payment on or before the scheduled payout date.
- Servicer Risk - Continuous deterioration in credit profile of the servicer (DHFL).

Analytical approach & Applicable Criteria

[CARE's methodology for Asset / Mortgage Backed Securitization](#)

[CARE Policy on Default Recognition](#)

Liquidity Position:

The transaction structure provides for support in the form of Cash Collateral. The executed documents empower the Assignee to utilize the available Collateral, in case of any shortfall in collections, to ensure monthly scheduled payouts to the Investor / Assignee. Specifically, Credit Enhancement available for the transactions is 76.5% of Balance POS at the end of Nov'19. In the performance so far, sufficient collections and adherence to the structure meant that the Collateral was never utilized. However, due to the uncertainty associated with the insolvency proceedings, there is lack of clarity regarding the regularity of remittances in to the structure and availability of credit collateral for utilization in case of shortfalls.

Rating Sensitivities:

Positive Factors

1. Regularisation of the default
2. Funding in C&P Account in timely manner

Negative Factors

NA

Key Rating Assumptions

NA

About the Company

Incorporated in 1984, DHFL is the third-largest housing finance company in India with total AUM of Rs. 1,10,086 crore as on March 31, 2018. The company has a successful track record of over 30 years of lending in the low and middle income group in Tier II and Tier III cities, primarily to salaried individuals. DHFL had a loan portfolio of Rs. 91,932 crore as on March 31, 2018. The company operates through a network of over 347 offices (incl. branches and service centres). During FY18, DHFL earned consolidated PAT of Rs. 927 crore (Rs. 729 crore in FY16) on total income of Rs. 8,631 crore (Rs. 6,971 crore in FY16). As on March 31 2018, Net NPA ratio was 0.56% (0.58% as on March 31, 2017). The Capital Adequacy Ratio (CAR) was comfortable at 15.29% as on March 31, 2018, as compared to 19.34% as on March 31, 2017. The Reserve Bank of India (RBI) has filed insolvency proceeding against Dewan Housing Finance Limited (DHFL) with NCLT on 29th November 2019. Mr. R Subramaniakumar, ex-MD and CEO of Indian Overseas Bank, has been appointed as the administrator of DHFL.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8,654	10,025
PAT	2,896	1,172
Interest coverage (times)	1.51	1.23
Total Assets	92,206	1,07,436
Net NPA (%)	0.58	0.56
ROTA (%)	1.16	1.17

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Transaction Name	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating/Credit opinion assigned along with Rating Outlook
DHFL Direct Assignment March 2012 – III	Assignee Payout	Mar'12	Investor Base Rate	-	20.13	CARE D

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Assignee Payouts	LT	20.13	CARE D	1)CARE BBB (SO) (Under Credit watch with Negative Implications) (19-Sep-19) 2)CARE BBB (SO) (Under Credit watch with Negative Implications) (17-May-19) 3)CARE AAA (SO) (Under Credit watch with Negative Implications) (06-May-19)	1)CARE AAA (SO) (Under Credit watch with Developing Implications) (06-Feb-19) 2)CARE AAA (SO) (28-Jun-18)	1)CARE AAA (SO) (05-Jun-17)	1)CARE AAA (SO) (20-Jun-16)

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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