

Piramal Capital & Housing Finance Limited (Revised)
 October 07, 2020

Ratings

Instruments/ Facilities	Rated Amount (Rs. crore)	Rating ¹	Rating Action
Non Convertible Debentures	3,000 (Rs. Three Thousand crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Non Convertible Debentures	8,200 (Rs. Eight Thousand Two Hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Inter Corporate Deposits	500 (Rs. Five Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Piramal Capital and Housing Finance Limited (PCHFL) continue to derive strength 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').

PCHFL is the flagship company in the financial services segment of the Piramal group post amalgamation of Piramal Finance Limited (PFL) and Piramal Capital Limited (PCL) with PCHFL. CARE also takes comfort from Piramal group's demonstrated resource raising ability as PEL (the parent company) has raised nearly Rs.14,500 crore of equity capital during FY20 (refers to period from April 01 to March 31) including fresh equity capital of Rs.5,400 crore, around Rs.6,750 crore through sale of its healthcare and analytics business and Rs.2,300 crore by way of sale of investment in Shriram group entity. This provides cushion to the group's ability to absorb any external shocks in financial services business. CARE takes note of PEL's announcement of raising ~Rs.3,500 crore equity capital in its Pharma Business which will further deleverage PEL's balance sheet in near term. 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 group also has raised debt resources to the tune of ~Rs.13,500 crore during FY20 and ~Rs.11,400 crore during FY21 till September 25, 2020 in order to refinance the immediate terms maturities in view of overall slowdown witnessed in the real estate segment.

The ratings also takes into account the position of the company as one of the large lenders in the real estate space in the country, strong and experienced Board of Directors and management team, adequate liquidity and resource profile.

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 might put some pressure on the asset quality and liquidity in the short to medium term.

The rating strengths are partially offset by PCHFL's moderately seasoned loan book and moderation in asset quality, although strong risk management and asset monitoring practices has helped to maintain healthy asset quality as of now. The rating also factors in moderation in profitability, significant sectorial exposure primarily to the real estate sector and client concentration in the loan portfolio given the large ticket size of loans to developers. However, the company is taking proactive steps to reduce the exposure of Top 10 clients and CARE will continue to monitor the same.

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.

While the regulatory relief in terms of moratorium extended and allowance of restructuring would enable to maintain asset quality parameters in the near term, the actual collections post end of moratorium would be key to ascertain potential impact on the asset quality of the company. CARE will continue to monitor the emerging situation post the end of moratorium, post which there will be clarity on actual stress in asset book and restructuring of assets as per RBI guidelines and take necessary rating action if required.

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

The risk aversion in the market continues towards the NBFC / HFC sector in general and wholesale lending focused non-banking lenders in particular 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.

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:

- Mismatch in asset liability maturity and challenges in raising long term funding
- Further deterioration in asset quality (Gross NPA) from current levels
- Reduction in support from Piramal enterprises Limited.

The spread of the COVID-19 pandemic has led to a nation-wide lockdown which is likely to impact the overall growth and collections of NBFCs/HFCs sector. As a result, in CARE's view the credit risk profile of NBFCs/HFCs is expected to deteriorate over the medium term. Liquidity profile, resource raising ability, funding support from parent/group and exposure to vulnerable asset classes and operating profiles in terms of geographies and borrower types would be critical monitorable factors in the NBFCs/HFCs sector.

CARE Ratings will continue to assess on the impact on the key business and financial parameters of NBFCs/HFCs sector and shall take appropriate rating actions if needed.

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.

The resource raising capability of PEL can be gauged from the fact that they successfully raised around Rs.7,000 crore of fresh equity in FY18 and Rs.5,400 crore in FY20. 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.

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.

Significant presence in the real estate finance space with increase in scale of operations and gradual diversification in loan book

The loan portfolio of PEL – Financial Services Businesses has grown from Rs.4,766 crore as on March 31, 2015 to 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 75% of the total loan portfolio and PCHFL remains one of the largest non - bank real estate financiers in India. 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.. Going forward, the group further

intends to increase the housing finance portfolio in the overall loan portfolio and plans to enter into consumer finance business to increase the granularity of the loan book.

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 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 management team comprises qualified professionals heading different business verticals with adequate and relevant experience in their respective fields.

Adequate capitalization levels and comfortable gearing levels

The promoter entity (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 equity capital from which it infused Rs.1,400 crore into PCHFL to bolster its capital. 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).

Diversified resource profile and adequate liquidity profile

The company has a diversified resource profile with majority of the PCHFL's borrowing comprising bank borrowings (61%), Non Convertible Debentures (20%), ICDs (9%), ECB's (2%) and Securitization (8%) as on June 30, 2020 while funding through Commercial Paper (CP) was Rs.25 reduced to below 1% from 15% of its total borrowings as on March 31, 2019.

PCHFL's liquidity profile as on June 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.4,825 crore of long term funds during Q1FY21, largely from banks has led to positive asset liability profile as on June 30, 2020. The cash & equivalent was Rs.2,964 crore as on June 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 last couple of year and the performance of the same is yet to be seen over multiple economic and business cycles.

Moderation in profitability 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, the company saw increase in provisioning during the last quarter for higher 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 also reversed deferred tax liabilities of Rs.131.74 crore through P&L thus resulting into one-time expense of Rs.372.86 crore.

During Q1FY21 (unaudited), the company reported PAT of Rs.365 crore on total income of Rs.1,346 crore. The profitability for remaining quarters of FY21 would largely depend on the actual credit loss and provisioning requirement post completion of moratorium granted under RBI COVID 19 regulatory package.

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 NBFC's. As on March 31, 2020, the company reported some deterioration in asset Quality with Gross NPA of 2.12%, Net NPA of 1.37% and Net NPA to Net worth ratio of 4.67%.

The 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 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 level financial services business, the company has adequate provisioning for NPAs as on date, a prolonged downturn in the real estate industry may have 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 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.

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. 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 which is expected to reduce the client concentration going forward. Further, the growth in the other segments apart from Real Estate and Corporate Finance Group segment is also expected to increase the portfolio granularity going ahead. 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 to Credit Ratings](#)

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

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

[Rating Methodology- Housing Finance Companies](#)

[Financial Ratios- Financial Sector](#)

Liquidity Position: Adequate

As per the asset liability maturity (ALM) statement as on June 30, 2020, PCHFL on a standalone basis has cumulative outflows of around Rs.9,761 crore over the next 12 months against which it had inflows of Rs. 10,291 crore. The company has received Rs.2,593 crore capital support from parent by the way of ICD as on June 30, 2020. The company has free cash and cash equivalent of Rs.2,964 crore as on June 30, 2020.

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	40,531
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
Non Convertible Debentures	INE641O07086	04-May-17	8.75%	03-May-24	25	CARE AA; Stable
Non Convertible Debentures	INE641O07169	29-Sep-17	8.10%	29-Sep-20	125	CARE AA; Stable
Non Convertible Debentures	INE641O07177	08-Nov-17	7.96%	06-Nov-20	115	CARE AA; Stable
Non Convertible Debentures	INE641O07185	05-Oct-18	9.25%	03-Oct-25	35	CARE AA; Stable
Non Convertible Debentures	INE641O07193	02-Nov-18	9.75%	02-Nov-23	25	CARE AA; Stable
Non Convertible Debentures	INE516Y07014	19-Dec-18	9.27%	19-Dec-28	500	CARE AA; Stable
Non Convertible Debentures	INE516Y07105	15-Jan-19	9.50%	15-Apr-22	650	CARE AA; Stable
Non Convertible Debentures	INE516Y07089	21-Jan-19	9.50%	21-Apr-22	50	CARE AA; Stable
Non Convertible Debentures	INE516Y07063	11-Mar-19	9.51%	09-Mar-29	1500	CARE AA; Stable
Non Convertible Debentures	INE516Y07113	14-Jun-19	10.00%	08-Nov-24	180	CARE AA; Stable
Non Convertible Debentures	INE516Y07121	16-Sep-19	9.50%	16-Sep-22	300	CARE AA; Stable
Non Convertible Debentures	INE516Y07147	13-May-20	8.75%	12-May-23	500	CARE AA; Stable
Non Convertible Debentures	INE516Y07154	30-Jun-20	8.75%	31-May-23	325	CARE AA; Stable
Non Convertible Debentures	INE516Y07162	16-Jul-20	7.85%	14-Jan-22	100	CARE AA; Stable
Non Convertible Debentures	INE516Y07170	31-Jul-20	7.85%	31-Jan-22	500	CARE AA; Stable
Non Convertible Debentures	INE516Y07188	31-Jul-20	8.50%	31-Jul-23	500	CARE AA; Stable
Non Convertible Debentures	INE516Y07196	5-Aug-20	7.85%	04-Feb-22	40	CARE AA; Stable
Non Convertible Debentures	INE516Y07204	17-Aug-20	7.85%	17-Feb-22	150	CARE AA; Stable
Non Convertible Debentures	INE516Y07212	21-Aug-20	7.85%	21-Feb-22	50	CARE AA; Stable
Non Convertible Debentures	INE516Y07220	4-Sep-20	8.10%	4-Mar-22	150	CARE AA; Stable
Non Convertible Debentures	INE516Y07238	22-Sep-20	8.10%	22-Mar-22	150	CARE AA; Stable
Non Convertible Debentures	Proposed	-	-	-	2,230	CARE AA; Stable
Non Convertible Debentures	Proposed	-	-	-	3,000	CARE AA; Stable
Short term Inter Corporate Deposits	Proposed	-	-	-	500	CARE A1+

Source: PCHFL

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	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-convertible debentures	LT	700.00	CARE AA; Stable	1) CARE AA; Stable (28-Apr-20)	1) CARE AA; Stable (05-Jul-19)	1) CARE AA+; Stable (22-June-18)	-	-
2.	Subordinated Debt	LT	500.00	CARE AA; Stable	1) CARE AA; Stable (07-Sep-20)	1) CARE AA; Stable (05-Jul-19)	1) CARE AA+; Stable (22-June-18)	-	-
3.	Non-convertible debentures	LT	7,500.00	CARE AA; Stable	1) 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; Stable	1) 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-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+ (05-Jul-19) 2) CARE A1+ (24-Apr-19)	-	-	-

7.	Subordinated Debt (Tier II)	LT	1,000.00	CARE AA; Stable	1) CARE AA; Stable (07-Sep-20)	1) CARE AA; Stable (05-Jul-19) 2) CARE AA+; Stable (29-May-19)	-	-	-
8.	Non-convertible debentures	LT	3,000.00	CARE AA; Stable	-	-	-	-	-

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

Sr. No.	Name of Instrument	Complexity Level
1.	Non Convertible Debentures	Simple
2.	Short term Inter Corporate Deposit	Simple

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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