

Wadhawan Global Capital Ltd.

April 03, 2018

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Non-Convertible Debentures#	225 (Rupees two hundred and twenty five crore only)	CARE AAA (SO); Stable [Triple A (Structured Obligation)]; Outlook: Stable]	Final Rating Assigned
Non-Convertible* Debentures	1900 (reduced from 2100) (Rupees one thousand nine hundred crore only)	CARE AAA (SO); Stable [Triple A (Structured Obligation)]; Outlook: Stable]	Final Rating Assigned
Non-Convertible Debentures@	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

#The NCD rating is based on the credit enhancement in the form of a pledge of Optionally Convertible Debentures (OCDs) issued by DAIPL (a 100% subsidiary of Dewan Housing Finance Corporation Ltd. (DHFL)). Also an unconditional and irrevocable revolving DSRA guarantee has been issued by DHFL in favor of the aforementioned OCDs of DAIPL.

* The rating is based on pledge of Compulsorily Convertible Debentures (CCDs) issued by DIL (DHFL Investments Ltd) (a 100% subsidiary of DHFL) which in turn are backed by the unconditional put option from DHFL

@ CARE has withdrawn the rating assigned to the Non-Convertible Debentures of Rs.500 crore of Wadhawan Global Capital Ltd. with immediate effect, as company has not issued any non-convertible debentures under aforementioned non-convertible debentures issue and there is no amount outstanding under the issue as on date.

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debentures (NCDs) issue of Rs.225 crore of WGCL principally derives strength from the credit enhancement in the form of a pledge of Optionally Convertible Debentures (OCDs) issued by DAIPL (a 100% subsidiary of Dewan Housing Finance Corporation Ltd. (DHFL, rated 'CARE AAA; Stable')). Also an unconditional and irrevocable revolving DSRA guarantee has been issued by DHFL in favor of the aforementioned OCDs of DAIPL.

The rating assigned to the Non-Convertible Debentures (NCDs) of Rs.1900 crore of WGCL principally derives strength from the credit enhancement in the form of a pledge of Convertible Debentures (CCDs) issued by DIL (a 100% subsidiary of DHFL, rated 'CARE AAA; Stable') which in turn are backed by unconditional put option from DHFL.

Further, the above ratings of Rs.225 crore and Rs.1900 crore NCD issues are revised from provisional to final as company has submitted necessary executed documents to CARE Ratings.

The rating factors in consistent track record of DHFL in the housing finance sector spanning over three decades across business cycles and expertise of DHFL in lending to the niche borrower segment of lower-middle income group while maintaining asset quality. The growing credit demand in this market segment coupled with the Government's thrust in providing affordable housing are expected to enable DHFL in further strengthening its business position in this segment.

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

The ratings also factor in DHFL's experienced management, comfortable capital adequacy, diversified resource profile, and stable financial profile.

It has come to our notice, instances of certain delays on repayment of FD on account of temporary technical problem due to software migration, while the company had ample liquidity during this period for meeting its obligations. This, however, highlights an instance of weakness in its internal control systems. Capitalisation levels, gearing, asset quality and improvement in internal control systems are the key rating sensitivities.

As the above ratings, primarily derives strength from DHFL, the following sections deal with the credit risk assessment of DHFL.

Detailed description of the key rating drivers

Key rating strengths

Diversified resource profile and comfortable capitalisation levels

The company has demonstrated track record of raising capital (both equity and debt) at regular intervals to fund business growth and has a diversified resource profile. As on March 31, 2017, bank borrowings comprised 42% of the total borrowings [P.Y.: 53%], NHB refinance- 4% [P.Y.: 2%], market borrowings- 42% [P.Y.:33%], public deposits- 8% [P.Y.: 8%] and external commercial borrowings- 4% [P.Y.: 4%]. DHFL's overall gearing stood at 10.18x as on March 31, 2017 [P.Y.: 12.26x]. However, the improvement in gearing levels is on account of sale of stake in DHFL Pramerica Life Insurance to its 100% subsidiary DHFL Investments Ltd, which in turn has been debt funded by WGC. The debt funding is supported by a backstop arrangement with DHFL. The company has also given letter of comfort to group companies Aadhar Housing Finance, and Avanse Financial Services.

As on March 31, 2017, company's CAR and Tier I CAR stood at 19.12% [P.Y.: 16.74%] and 14.75% [P.Y.: 12.97%] respectively. During FY17, DHFL promoters infused Rs.375 crore via warrants. As on December 31, 2017, DHFL's CAR and Tier I CAR stood comfortable at 16.32% and 12.22% respectively.

Comfortable asset quality

Over the years, DHFL has developed the expertise in lending in the low-middle income group segment while maintaining comfortable asset quality parameters. However asset quality of its LAP and project finance portfolio remains to be seen. The company reported Gross NPA ratio of 0.94% as on March 31, 2017 [P.Y.: 0.93%] and Net NPA ratio of 0.58% [P.Y.: 0.58%]. The Net NPA to Net worth ratio stood at 5.30% as on March 31, 2017 [P.Y.: 7.24%]. As on December 31, 2017, DHFL's GNPA, NNPA and NNPA to net worth ratio stood comfortable at 0.96%, 0.52% and 5.10% respectively.

Financial performance

During FY17, DHFL reported PAT of Rs.2896 crore (including one-time gain of Rs.1969 crore) as against PAT of Rs.729 crore in FY16. DHFL's ROTA as well as adjusted ROTA (adjusted for off book assets and one time profit) during FY17 marginally declined to 1.16% [P.Y.: 1.19%] and 1.03% [P.Y.: 1.07%]. Marginal decline in margins coupled with rise in provisioning costs have impacted DHFL's ROTA during FY17. During FY17, NIM remains stable at 2.41% as compared to 2.42% in FY16. During 9MFY18, DHFL reported PAT of Rs.859 crore on the total income of Rs.7657 crore as against PAT of Rs.679 crore on the total income of Rs.6494 crore in 9MFY17. During 9MFY18, DHFL's ROTA and adjusted ROTA stood at 1.23% and 1.07% respectively.

Expertise in lending to low and middle income segment which is relatively riskier segment

DHFL has exposure to the lower and middle income group which is more prone to defaults in case of a stressed economic scenario. Although the company continues to report comfortable asset quality parameters which is due to its lower ticket size, portfolio granularity as well as its expertise in catering to this customer segment.

Key rating weaknesses**Delays in FD repayments on account of system migration highlights an instance of weakness in internal controls**

DHFL delayed on its repayment on FD during the period from April 26, 2017 onwards in few cases and the delays were to the tune of 2 to 14 days. The company in its response has stated that the Fixed Deposits Operations were migrated to a new technology platform with effect from 26th April 2017 and the system however developed some teething problem on migration mainly in closing of deposit and generation of pay outs. As per management, by 10th May 2017, it rectified the problems in the new system and made payment to the customers with interest on delayed period. The software vendor (IBM) has confirmed in writing about the technical problem during software migration. The company has also informed about the same to the regulator (NHB). The company had ample liquidity and had cash and cash equivalent of more than Rs.14,000 crore during Q1FY18 to meet its all obligations and the delay was on account of technical glitch developed during software migration. However, the delays in FD payment due to software migration highlight an instance of weakness in internal control.

Analytical approach: Based on credit risk assessment of Dewan Housing Finance Ltd (DHFL)

Applicable Criteria

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

[CARE Policy on Default Recognition](#)

[Financial ratios - Financial Sector](#)

[Factoring Linkages in Ratings](#)

About the Company (WGCL)

Wadhawan Global Capital Ltd. (WGCL) is a Core Investment Company which is jointly promoted by Mr. Kapil and Dheeraj Wadhawan (promoters of DHFL). As on March 31, 2017, Mr. Kapil Wadhawan, Mr. Dheeraj Wadhawan and Ms. Aruna Wadhawan together hold 100% stake in the company. Incorporated as Wadhawan Housing Pvt. Ltd., the name of the company was subsequently changed to WGCL w.e.f. May 31, 2014. WGCL holds 37.39% stake in DHFL as on March 31, 2017 and going forward the promoters intend to make WGCL the holding company for all financial services entities of the group. The Company holds controlling stake in Aadhar Housing Finance Limited, Avanse Financial services limited, Arthveda Fund Management and WGC Management Services.

About the Company (DHFL)

Incorporated in 1984, DHFL is the third-largest housing finance company in India with total asset size of Rs.92,206 crore as on March 31, 2017. 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.72,096 crore as on March 31, 2017. The company operates through a network of over 352 offices (incl. branches and service centres). Around 61.7% of DHFL's loan portfolio as on March 31, 2017, was from western India, 20.1% from northern, eastern and central India with remaining 18.2% being from southern India. DHFL also has international presence through representative offices located in London and Dubai which cater to the housing needs of non-resident Indians. Dewan Group also has presence in the housing finance business through its group companies, namely, Aadhar Housing Finance Private Limited. Furthermore, DHFL has presence in mutual fund business through DHFL Pramerica Asset Managers Private Limited. The company also raised Rs.1969 crore through 50% stake sale in DHFL Pramerica Life Insurance Co Limited to its 100% subsidiary DHFL Investments Ltd (DIL). DHFL has infused Rs.100 crore in the subsidiary. Further, DIL raised Rs.1901 crore CCDs from Wadhawan Global Ltd (WGC) which is the holding company for DHFL and is going to be the ultimate parent for DIL upon conversion of CCDs. WGC has borrowed the said amount through NCD. The debt funding is supported by a backstop arrangement with DHFL.

Brief Financials of DHFL (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6971	8631
PAT	729	2896
Interest coverage (times)	1.20	1.51
Total Assets	67817	92298
Net NPA (%)	0.58	0.58
ROTA (%)	1.19	3.62

A- Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	1-Jul-16	0%	1-Jul-19	225	CARE AAA (SO); Stable
Non-Convertible Debentures	31-Mar-17	0%	31-Jul-20	950	CARE AAA (SO); Stable
Non-Convertible Debentures	31-Mar-17	0%	2-Aug-22	950	CARE AAA (SO); Stable
Non-Convertible Debentures	-	-	-	-	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	225.00	CARE AAA (SO); Stable	-	1)Provisional CARE AAA (SO) (27-Jul-16)	-	-
2.	Debentures-Non Convertible Debentures	LT	-	-	1)Provisional CARE AA-; Stable (14-Nov-17)	1)CARE AA-; Stable (01-Mar-17) 2)CARE AA- (29-Nov-16)	-	-
3.	Debentures-Non Convertible Debentures	LT	1900.00	CARE AAA (SO); Stable	1)Provisional CARE AAA (SO); Stable (12-Apr-17)	-	-	-
4.	Commercial Paper	ST	500.00	CARE A1+	1)CARE A1+ (29-Nov-17) 2)CARE A1+ (11-Sep-17) 3)CARE A1+ (17-Jul-17)	-	-	-

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CIN - L67190MH1993PLC071691