

June 24, 2019

Wadhawan Global Capital Ltd: CARE revises rating for Non-Convertible Debenture issues from existing rating of [CARE BBB- (SO) to CARE BB];

Credit Analysis & Research Limited ("CARE") has revised its rating on the Non-Convertible Debenture issues from existing rating CARE BBB- (SO) to CARE BB of Wadhawan Global Capital Ltd

Credit Rating Agency	Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook
CARE	Non-Convertible Debentures	CARE BBB- (SO)	CARE BB

Please find attached herewith the Press Release from CARE for perusal and record.

This is for your information and records.

For IDBI Trusteeship Services Limited

Sd/-

Authorized Signatory



Wadhawan Global Capital Ltd
June 21, 2019

Ratings

Instrument	Rated Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture Issue	225	CARE BB; Stable (Double B, Outlook: Stable)	Revised from CARE BBB- (SO) [Triple B Minus (Structured Obligation)] and removed from credit watch with developing implications*
Non-Convertible Debenture Issue	1,900	CARE BB; Stable (Double B, Outlook: Stable)	Revised from CARE BBB- (SO) [Triple B Minus (Structured Obligation)] and removed from credit watch with developing implications [#]
Total	2,125 (Rupees two thousand one hundred twenty five crore only)		

* NCDs are secured by pledge of Optionally Convertible Debentures (OCDs) which in turn are backed by the unconditional and irrevocable revolving DSRA guarantee from Dewan Housing Finance Corporation Ltd. [DHFL; rated 'CARE D']

NCDs are backed by pledge of Compulsorily Convertible Debentures (CCDs) issued by DHFL Investments Ltd (DIL; a 100% subsidiary of DHFL) which in turn are backed by the unconditional put option from Dewan Housing Finance Corporation Ltd. [DHFL; rated 'CARE D']

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers of WGCL

With deterioration in the credit profile of the credit enhancement provider, Dewan Housing Finance Limited (DHFL; rated CARE D), CARE has taken a standalone view of Wadhawan Global Capital Ltd's (WGCL) ratings without considering any credit enhancement from DHFL.

The rating assigned to the debt instruments of Wadhawan Global Capital Ltd (WGCL) takes into account recent developments including recent instance of delay in servicing of obligations with respect to some of the non-convertible debentures by an associate company, Dewan Housing Finance Corporation Ltd (DHFL), which is expected to reduce WGCL's financial flexibility. The rating is constrained by WGCL's moderate capital ratio with rise in gearing levels, volatility in income profile due to reliance on dividends, concentrated investments in group companies and sharp fall in market capitalization of DHFL and poor liquidity position. The rating finds support in the ability of WGCL to unlock key investments in the financial services business segment by bringing in strategic investor as demonstrated in companies such as Aadhar Housing Finance Ltd and Avanse Financial Services Ltd. Ability of the company to monetize group investments, market value of investments, profitability and gearing ratio are the key rating sensitivities. The ratings have been removed from credit watch with developing implications.

Detailed description of the key rating drivers

Key Rating Strengths

Unlocking of the investments in the financial services business segment

WGCL is a Core Investment Company which holds 37.3% equity stake in Dewan Housing Finance Corporation Limited (DHFL). WGCL has been able to monetize some of its other investments in the financial services segment by bringing in strategic investor in the companies such as Aadhar Housing Finance Ltd and Avanse Financial Services Limited. WGCL has received regulatory approvals for Aadhar and Avanse sale. The Company also holds promoter stake in Arthveda Fund Management, DHFL General Insurance Limited and Wadhawan Global Capital (UK) Limited. WGCL also holds 50% stake in DHFL Pramerica Life Insurance through its 100% subsidiary, DHFL Investments Ltd (DIL). Going forward, ability of the company to monetize these group investments would be a key rating sensitivity.

Key Rating Weaknesses

Deteriorating financial performance

WGCL's dividend income reduce by 46% from Rs.77 crore in FY18 to Rs.42 crore in FY19 (provisional) on account of lower dividend from DHFL. As a result, profit after tax stood at Rs.11 crore in FY19 (provisional) as against Rs.41 crore in FY18. WGCL's net worth declined from Rs.2,174 crore in FY18 to Rs.1,870 crore in FY19 (provisional) as premium (accrued interest) on existing Zero Coupon Bonds (ZCB) is deducted from share premium account. As a result, WGCL's reported capital ratio declined to 32.07% as March 31, 2019 (provisional) as compared to 49.91% as March 31, 2018, though it

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

continued to be above regulatory requirement of 30% for a CIC. Reported leverage ratio also increased from 1.51 times in FY18 to 1.68 times in FY19 (provisional), though it continued to remain below regulatory limit of 2.5 times.

Deteriorating financial flexibility

Recent instance of delay in servicing of obligations with respect to some of the non-convertible debentures by an associate company, Dewan Housing Finance Corporation Ltd (DHFL), is expected to further reduce the group's financial flexibility and diminishes WGCL's ability to raise funds from the markets which may take a measured approach in extending any further funds to group.

Concentrated investments in group companies and sharp fall in market capitalization of DHFL

As of March 31, 2019, the company has its major investment in DHFL and DHFL Investment Ltd (DIL) having book value of Rs.1,608 crore and Rs.1,901 crore respectively accounting for 63% of total investments. As on June 6, 2019, DHFL had market capitalization of around Rs.2,725 crore and market value of WGCL's holdings in DHFL stood at around Rs.1,016 crore, which is lower than the book value of investment.

Poor liquidity profile

WGCL had total external borrowing of around Rs.3,000 crore (including accrued interest) as on May 31, 2019, out of which Rs.2660 crore was in form of Zero Coupon Bonds (ZCBs). As per the terms of these ZCBs, acceleration in repayments has been triggered due to downgrade in ratings of DHFL. The company has already received around Rs.1,600 crore through Aadhar stake sale and has repaid liabilities worth around Rs.993 crore through these proceeds including Rs.640 crore of accelerated payment on ZCBs. The company is expecting an inflow of around Rs.450 crore through Avanse stake sale in the month of July 2019, which is expected to be utilized for repayment of these ZCBs. WGCL has poor liquidity profile as proceeds from Aadhar and Avanse are insufficient to cover the accelerated payment on ZCBs. Hence, WGCL's liquidity profile heavily depends upon its ability to monetize other group investments in near term. As per cash flow statement on May 31, 2019, the company is expecting cash inflows worth around Rs.4,091 crore during the next one year through disinvestments against which it has scheduled repayments of around Rs.2030 crore.

Analytical approach: WGCL has now been assessed on standalone basis as the profile of the credit enhancement provider has weakened substantially.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE Policy on Default Recognition

Financial ratios - Financial Sector

Criteria for Non-Banking Financial Companies

Factoring Linkages in Ratings

Poor Liquidity profile

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About the Company

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, 2019, Mr. Kapil Wadhawan, Mr. Dheeraj Wadhawan and Ms. Aruna Wadhawan together hold 85% 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 37.32% stake in DHFL as on December 31, 2018 and company also holds promoter stake in Arthveda Fund Management, DHFL General Insurance Limited and Wadhawan Global Capital (UK) Limited. WGCL also holds 50% stake in DHFL Pramerica Life Insurance on a fully diluted basis through Compulsorily Convertible Debentures of DHFL Investments Ltd (DIL).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (P)
Total Income	102	57
PAT	41	11
Total Assets	5429	5532
ROTA (%)	0.87	0.19

A: Audited P- Provisional

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	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 BB; Stable
Non-Convertible Debentures	31-Mar-17	0%	31-Jul-20	950	CARE BB; Stable
Non-Convertible Debentures	31-Mar-17	0%	2-Aug-22	950	CARE BB; 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 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.	Debentures-Non Convertible Debentures	LT	225.00	CARE BB; Stable	1) CARE BBB-(SO) (Credit watch with developing implications) (24-May-19)	1) CARE A (SO) (Credit watch with developing implications) (31-Mar-19) 2) CARE AA-(SO) (Credit watch with developing implications) (15-Mar-19) 3) CARE AA+(SO) (Credit watch with developing implications) (06-Feb-19) 4) CARE AAA (SO); Stable (03-Apr-18)	-	1)Provisional CARE AAA (SO) (27-Jul-16)
2.	Debentures-Non Convertible Debentures	LT	-	-		1)Withdrawn (03-Apr-18)	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 BB; Stable	1) CARE BBB-(SO) (Credit watch with developing implications) (24-May-19)	1) CARE A (SO) (Credit watch with developing implications) (31-Mar-19) 2) CARE AA -(SO) (Credit watch with developing implications) (15-Mar-19) 3) CARE AA+(SO) (Credit watch with developing implications) (06-Feb-19) 4) CARE AAA (SO); Stable (03-Apr-18)	1)Provisional CARE AAA (SO); Stable (12-Apr-17)	-
4.	Commercial Paper	ST	-	-	-	1) Withdrawn (15-Mar-19) 2) CARE A1+ (Credit watch with developing implications) (06-Feb-19) 3) CARE A1+ (04-May-18) 4) CARE A1+ (03-Apr-18)	1)CARE A1+ (29-Nov-17) 2)CARE A1+ (11-Sep-17) 3)CARE A1+ (17-Jul-17)	-

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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