IDBI Trusteeship Services Ltd
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IDBI trustee

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

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

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

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/-

IDBI Trusteeship Services Ltd. ITSL MUMBAI

Authorized Signatory

Wadhawan Global Capital Ltd

March 31, 2019

Ratings

Instrument	Rated Amount (Rs. crore)	Rating[3]	Rating Action
NCD Issue*	225	**CARE A (SO) [Single A (Structured Obligation)] (Credit watch with developing implications)**	**Revised from CARE AA- (SO) [Double A Minus (Structured Obligation)] and continues to be on credit watch with developing implications**
NCD Issue#	1900	**CARE A (SO) [Single A (Structured Obligation)] (Credit watch with developing implications)**	**Revised from CARE AA- (SO) [Double A Minus (Structured Obligation)] and continues to be on credit watch with developing implications**
Total	**2,125 (Rupees two thousand one hundred twenty five crore only)**		

**The NCD is 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 A; Credit watch with developing implications']*

#The NCD is 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.

Details of instruments/facilities in Annexure-1

As the above ratings, primarily derive strength from DHFL, the following sections present the credit risk assessment of DHFL.

Detailed Rationale & Key Rating Drivers of DHFL (credit enhancement provider)

The revision in the long-term ratings of Dewan Housing Finance Corporation Ltd. (DHFL) takes into account further moderation in financial flexibility due to significantly lower liquidity buildup than envisaged in CARE's last review on March 6, 2019.

Post CARE's last review on March 6, 2019 till March 25, 2019, the company has been able to raise Rs.800 crore through pool sell down which reflects limited progress with respect to generation of additional liquidity as compared to the earlier stated plans to raise substantial funds through securitization and other deals including builder pool sell down. CARE Ratings will monitor the progress of various initiatives such as further sell down of builder book and pool securitization to build up additional liquidity in near term.

CARE Ratings takes note of the concrete efforts made by promoters of DHFL to deleverage and generate additional liquidity through sale of non-core assets by announcements of stake sale in Aadhar Housing Finance Ltd. to Blackstone Group and stake sale in Avanse Financial Services Ltd to an affiliate of the Warburg Pincus Group. Both the transactions are subject to applicable regulatory and other approvals.

DHFL has indicated that it would reorganize its businesses by induction of a strategic investor for the retail home loans and other similar assets. CARE Ratings will also continue to monitor the developments with respect to likely announcement of strategic investor in DHFL, which CARE Ratings expects before end of April 2019. The announcement of the deal is critical to instill confidence to the market and also help DHFL from the point of creating liquidity to meet

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

mismatches arriving in near future and provide support to its business. Further, the progress with regards to equity infusion by strategic investor(s) with possible business reorganization and timelines for announcement of such a sale would remain a key rating monitorable.

As per liquidity statement on March 16, 2019, the company is envisaging cumulative cash inflows of around Rs.6,600 crore from April'19 to June'19 as against scheduled cumulative cash outflows of around Rs.10,110 crore during the same period thereby reflecting a negative cumulative mismatch of around Rs.3,510 crore. DHFL had cash & liquid investments (including SLR) worth around Rs.4,900 crore. CARE Ratings expects the liquidity position of the company to remain positive till end of June 2019, supported by infusions from sale of investments and asset pools.

There are ongoing discussions on sell down of wholesale loans through various structured transactions. As per the discussion with the management, sell down of wholesale loans through various structured transactions, continuing retail pool securitization, equity infusion and EMI inflows would yield adequate liquidity for the company to meet obligations for the near term.

However, most of these initiatives are subject to approvals from regulator, lenders and other stakeholders which bring in its own challenges. Hence, the timelines for these initiatives could get extended and would remain a key rating monitorable.

The previous long-term rating downgrade has also triggered certain accelerated payments on some of the NCDs. The company's liquidity profile could face more pressures if the investors/lenders decide to enforce the acceleration clauses. DHFL's liquidity would also be susceptible to any higher than anticipated withdrawal of deposits, and any higher-than envisaged drop in collections from loan assets. DHFL, however, possess pool of retail assets which can be securitized in order to create additional liquidity.

CARE Ratings has also taken cognizance of the findings in the audit report by M/s. TP Oswal & Associates on some of the allegations with respect to the media news which appeared during the last week of January 2019. The auditors have not found any evidence with respect to the allegation against DHFL, however, the report states procedural lapses in relation to loans extended by DHFL to the developers.

Post September 2018, the NBFCs and HFCs faced severe liquidity crisis with reduced confidence from the investors and lenders. The situation was particularly acute for standalone HFCs/wholesale focused NBFCs. Access to funds was affected as both banks as well as debt capital markets shied away from lending to the sector. The banks, however, provided funds in the form of securitization and pool buyouts mainly from the retail segments. Given the situation, the affected NBFCs/HFCs slowed down disbursements substantially to conserve liquidity. Liquidity thus conserved and created through pool sell-downs is being used to service the existing debt and cover for the immediate two to three months' period of limited availability of fresh funding. Going forward, it is important that the funding situation for the NBFCs/HFCs improves for them to step up their disbursements and resume normal lending operations.

The ratings continue to remain under credit watch with developing implications in light of recent events and CARE will continue to monitor the situation.

Detailed description of the key rating drivers DHFL (credit enhancement provider)

Key rating strengths

Consistent track record of business performance and expertise in lending in the niche market segment of Lower and Middle Income group

DHFL has a consistent track record of over three decades in the housing finance business. Over the years, the company has developed expertise in lending to borrowers in the lower and middle income group segment while maintaining stable asset quality.

The penetration of housing finance market in India continues to be low and India's urban housing shortage is primarily driven by the LIG and EWS categories. The growing credit demand in this market segment coupled with the Government's thrust in providing affordable housing throughout the country through various schemes/ programmes has enabled DHFL in strengthening its business position in this segment.

Experienced management

The company's management team is led by Mr Kapil Wadhawan who is the Chairman and Managing Director (CMD). He is assisted by an experienced management team. In the past month, there has been significant movement in key personnel. One more Independent Director resigned from the Board of DHFL. Further, other key management personnel stepping down include Company Secretary (and compliance officer) and Chief Financial Officer. DHFL has announced induction of three non-executive Directors (including two independent directors).

Diversified resource profile and average capitalization 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, 2018, bank borrowings comprised 42% of the total borrowings [P.Y.: 42%], NHB refinance- 3% [P.Y.: 4%], market borrowings- 40% [P.Y.: 42%], public deposits- 11% [P.Y.: 8%] and external commercial borrowings- 3% [P.Y.: 4%]. DHFL's overall gearing remain stable at 10.54x as on March 31, 2018 [P.Y.: 10.29x]. As on March 31, 2018, company's CAR and Tier I CAR stood at 15.29% [P.Y.: 19.12%] and 11.52% [P.Y.: 14.75%] respectively. As on December 31, 2018, reported Total CAR and Tier I CAR ratio stood at 17.74% and 13.10% respectively.

Comfortable asset quality
Over the years, DHFL has developed the expertise in lending to the low-middle income group segment while maintaining comfortable asset quality parameters. In the current challenging environment, going forward maintaining asset quality remains to be seen. The company reported Gross NPA ratio of 0.96% as on March 31, 2018 [P.Y.: 0.94%] and Net NPA ratio of 0.56% [P.Y.: 0.58%]. The Net NPA to Net worth ratio stood at 5.85% as on March 31, 2018 [P.Y.: 5.30%]. As on December 31, 2018, reported GNPA % (loss asset in stage 3) stood at 1.12% as compared to 0.96% as on September 30, 2018.

Key rating weaknesses
Exposure to low and middle income segment with increasing proportion of wholesale loans
DHFL has exposure to the lower and middle income group which is more prone to defaults in case of a stressed economic scenario. Further, the proportion of wholesale loans (builder loans) increased to 23% of the outstanding loan book as on December 2018 from 18% as on March 2018 and 14% as on March 2017, which is a relatively riskier segment.
Moderation in financial flexibility
Post September 2018, the liquidity scenario tightened for NBFC and HFC sector, and DHFL witnessed sharp rise in yields of bonds traded in the secondary markets and also sharp reduction in the share price. Since February 1, 2019, the company's limited progress on earlier envisaged strategic measures such as further sell down of builder book and inflows from securitization deals to build up additional liquidity has resulted in further moderation in the financial flexibility of DHFL. As a result, DHFL's long term growth prospects may be affected if the situation persists for considerable period.

Liquidity profile of DHFL
As per liquidity statement on March 16, 2019, the company is envisaging cumulative cash inflows of around Rs.6,600 crore from April'19 to June'19 as against scheduled cumulative cash outflows of around Rs.10,110 crore during the same period thereby reflecting a negative cumulative mismatch of around Rs.3,510 crore. DHFL had cash & liquid investments (including SLR) worth around Rs.4,900 crore. CARE Ratings expects the liquidity position of the company to remain positive till end of June 2019, supported by infusions from sale of investments and asset pools. There are ongoing discussions on sell down of wholesale loans through various structured transactions. As per the discussion with the management, sell down of wholesale loans through various structured transactions, continuing retail pool securitization, equity infusion and EMI inflows would yield adequate liquidity for the company to meet obligations for the near term. However, most of these initiatives are subject to approvals from regulator, lenders and other stakeholders which bring in its own challenges. Hence, the timelines for these initiatives could get extended and would remain a key rating monitorable.

Analytical approach: Based on risk assessment of the credit enhancement provider, 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
Rating Methodology- Housing Finance Companies
Criteria for Non-Banking Financial Companies

Liquidity profile of WGCL

WGCL has outstanding NCDs of Rs.2,125 crore (excluding accrued interest) as on March 15, 2019. These NCDs are backed by unconditional put option (for NCDs of Rs.1900 crore) and irrevocable revolving DSRA guarantee (for NCDs of Rs.225 crore) from DHFL. One of the clauses in these NCDs structure states that if there is a revision in rating of these NCDs or rating of DHFL falling below CARE AA+, it will lead to accelerated payment of these NCDs. However, as per the discussion with the management, proceeds from Aadhar Housing Finance Ltd's and Avanse Financial Services Ltd sale are expected by May'19, which will be utilized to repay these NCDs. The company has already entered into a share purchase agreement to divest it's holding in Aadhar to BCP Topco VII Pte Ltd which is controlled by private equity group, Blackstone. The deal is expected to be priced at around Rs.2,500-2,700 crore. During March'19, company has also announced sale of its entire stake in Avanse Financial Services Ltd to an affiliate of the Warburg Pincus Group. Both the transactions are subject to applicable regulatory and other approvals.

About the Company

DHFL

Incorporated in 1984, DHFL is the third-largest housing finance company in India with total asset size of Rs.1,07,436 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.91,930 crore as on March 31, 2018. The company operates through a network of over 349 offices (incl. branches and service centres). DHFL also has international presence through representative offices located in London and Dubai which cater to the housing needs of non-resident Indians.

Brief Financials of DHFL (Rs. crore)	FY17 (A)	FY18 (A)
Total income	10,827	10,465
PAT	2,896	1,172
Interest coverage (times)	1.51	1.23
Total Assets	92,298	107,436
Net NPA (%)	0.58	0.56
ROTA (%)	3.62	1.17

A- Audited

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, 2018, 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 March 31, 2018 and going forward the promoters intend to make WGCL the holding company for all financial services entities of the group. The company currently holds controlling stake in Avanse Financial services limited, Arthveda Fund Management and WGC Management Services.

Brief Financials of WGCL (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	67	102
PAT	9	41
Total Assets	4139	5429
ROTA (%)	0.31	0.87

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

About CARE Ratings:
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.

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 A (SO) (Credit watch with developing implications)**
Non-Convertible Debentures	31-Mar-17	0%	31-Jul-20	950	**CARE A (SO) (Credit watch with developing implications)**
Non-Convertible Debentures	31-Mar-17	0%	2-Aug-22	950	**CARE A (SO) (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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016

CARE Ratings
Professional Risk Opinion

1.	Debentures-Non Convertible Debentures	LT	225.00	CARE A (SO) (Credit watch with developing implications)	1) CARE AA - (SO) (Credit watch with developing implications) (15-Mar-19) 2) CARE AA+ (SO) (Credit watch with developing implications) (06-Feb-19) 3)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 A (SO) (Credit watch with developing implications)	1) CARE AA - (SO) (Credit watch with developing implications) (15-Mar-19) 2) CARE AA+ (SO) (Credit watch with developing implications) (06-Feb-19) 3)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)	-	-