

## Piramal Capital & Housing Finance Limited

April 22, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	6,545	6,545	[ICRA]AA+(Negative); rating reaffirmed, outlook revised from Stable
Subordinated (Tier-II) Bonds	500	500	[ICRA]AA+(Negative); rating reaffirmed, outlook revised from Stable
Long-term Fund-based Limits	2,875	2,875	[ICRA]AA+(Negative); rating reaffirmed, outlook revised from Stable
Long-term Term Loans	9,947	9,947	[ICRA]AA+(Negative); rating reaffirmed, outlook revised from Stable
Commercial Paper	9,000	9,000	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>28,867</b>	<b>28,867</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The change in the outlook assigned to the long-term rating of Piramal Capital & Housing Finance Limited (PCHFL) takes into account the risk build-up in its predominantly wholesale book, given the inherent risk profile of the underlying asset class, particularly the real estate segment, and the challenging operating environment. While the company has demonstrated its ability to maintain adequate asset quality, a prolonged slowdown in the real estate industry, coupled with the liquidity crunch in the overall market, could have an adverse impact on the same. Moreover, the high concentration in the loan book, in the real estate segment as well as the corporate finance group (CFG), could result in deterioration in the asset quality in case of slippages. Consequently, this could impact PCHFL's financial profile.

The risks are mitigated to some extent by the collateral cover maintained by the Group on such exposures, the promoter group's expertise in the real estate segment and the company's risk management and monitoring processes, which enhance its ability to proactively manage the portfolio as demonstrated in the past. ICRA also notes that PCHFL's ability to maintain its capitalisation profile, while following a measured growth strategy, would remain critical from a credit perspective.

The ratings continue to factor in PCHFL's established position and track record in the real estate lending segment, gradual diversification of the loan book with a ramp-up in the non-real estate segments, the promoter group's domain experience given its presence across the industry value chain, the company's leadership team and strong systems and processes. The ratings also consider the company's currently adequate capitalisation, with a net worth of Rs. 8,884 crore as of December 31, 2018, supported by capital infusion by the promoter group and a diversified resource profile.

These strengths are, however, partially offset by the related credit and concentration risks (although reducing) associated with the wholesale funding business model. Further, ICRA has taken note of the early stage of operations in the retail lending segment, the steep growth targets and limited experience of the Group in retail lending. However, PCHFL's strong senior management team and the Group's track record of successfully scaling up businesses and generating adequate returns provide comfort.

Going forward, the company's ability to scale up its retail operations and materially improve the diversification and granularity of the asset profile, while maintaining a healthy asset quality and capitalisation profile, remains crucial from a credit perspective. Moreover, the Group's ability to continue to raise capital (equity and debt) and diversify its borrowing profile and maintain a comfortable liquidity profile would be a credit sensitive factor.

## Outlook: Negative

While the ratings have been reaffirmed, the outlook on the long-term rating has been revised to Negative on account of the increased risk profile of the wholesale lending business, which could impact the asset quality going forward. The outlook may be revised to Stable if the company is able to further de-risk the portfolio and improve the granularity while maintaining a healthy asset quality and capitalisation profile. The ratings may be downgraded in case of slower-than-expected progress in its de-risking plans, deterioration in the asset quality of the credit book and profitability indicators or an increase in the leverage indicators.

## Key rating drivers

### Credit strengths

**Established position in real estate lending; gradual diversification of overall loan book** – On an overall basis, the Piramal Group (the Group; refers to Piramal Enterprises Limited (PEL) and its financial services subsidiaries) had a consolidated loan book of Rs. 55,525 crore as of December 31, 2018, up from Rs. 41,657 crore as on March 31, 2018. Of this, Rs. 42,166 crore is attributable to PCHFL while the balance is housed under PEL (standalone) and PHL Fininvest Private Limited (PHL FIN, a wholly-owned subsidiary of PEL). As a strategic decision, the Group has gradually been diversifying its loan book, as demonstrated by its foray into new segments like housing finance, CFG and the emerging corporate lending (ECL) segment. Consequently, the proportion of the real estate segment decreased to 73% of the overall loan book as of December 31, 2018 from 87% as on March 31, 2017.

Within the real estate segment, PCHFL has been increasingly looking at construction finance (~58% of the total real estate portfolio as on December 31, 2018) against funding at the land or pre-approval stage. It has also stepped up its focus on corporate lending, housed under the CFG segment, and is looking to diversify the portfolio in terms of sector and clients in this segment. The segment accounted for 18% of the overall loan book as of December 31, 2018. Following its strategy of diversifying the asset base, PCHFL forayed into lending to small and emerging corporates (ticket size of up to Rs. 100 crore) under the ECL segment and housing finance in FY2018. The existing relationships with developers, built through the lending, equity funding and real estate advisory services of the Group, are expected to support the housing finance business. The ramp-up of the housing finance business is expected to improve the granularity of the portfolio over the medium to longer term. The company's ability to successfully scale up the business while maintaining the asset quality remains crucial. ICRA notes that while the new businesses would help diversify the portfolio, given PCHFL's large real estate exposure, the concentration and credit risks will remain over the near term.

**Domain expertise and enhanced financial flexibility as a part of Piramal Group** – PCHFL draws strength from the Group's technical expertise, given its experience in real estate based private equity investment, advisory services and the development space. Further, given the long-standing experience of the Group in the real estate segment, the company also leverages the large network of developers with relationships built over a period of time. The Group's demonstrated ability to incubate and scale up new ventures also provides comfort. ICRA takes into account the emergence of PCHFL as the flagship financial services vehicle for the Piramal Group, following the amalgamation of Piramal Finance Limited (PFL) and Piramal Capital Limited (PCL) with itself with effect from March 31, 2018.

**Strong and experienced management team** – PCHFL has taken on board seasoned industry professionals with prior experience in retail lending to leverage their experience to ramp up the retail loan book, maintain strong underwriting practices and adopt technologies. ICRA also draws comfort from the strong and experienced management team of the Piramal Group, which has a track record of successfully scaling up businesses (though not retail) and generating adequate returns. The company has also engaged reputed and experienced external consultants for framing its credit policies and appraisal systems, expansion strategy and operational policies.

**Adequate capitalisation supported by capital infusion from the parent** – PCHFL’s capitalisation has been supported by regular capital infusions from the parent. The promoter group had infused Rs. 3,500-crore equity in the company in FY2018 and Rs. 1,500 crore in PHL FIN in FY2019. These funds are a part of the ~Rs. 5,000-crore qualified institutional placement (QIP) of compulsorily convertible debentures (CCDs) in October 2017 and the rights issue of ~Rs. 2,000 crore, which was concluded in March 2018. PCHFL’s tangible net worth stood at a comfortable Rs. 8,884 crore (net of goodwill on amalgamation) and the capitalisation ratios remained adequate at 26.58% (Tier I of 23.89%) as on December 31, 2018. PCHFL also has a fairly-diversified resource profile with bank loans accounting for ~50% of its borrowings and long-term capital market instruments accounting for ~20% as on December 31, 2018.

**Strong systems and processes** – The company has strong risk management systems and adequate compliance processes, which have kept pace with the increase in the scale of operations, thereby providing comfort. It follows a multi-level evaluation process and has employed reputed independent third-party agencies for financial, technical-cum-valuation, legal and commercial due diligence. PCHFL also has a dedicated asset monitoring team for monitoring and managing the post-disbursement performance of the loans and the overall portfolio quality.

## Credit challenges

**High sectoral and client concentration with predominant share of real estate lending** – The loan book is concentrated towards the inherently risky real estate sector, albeit with a declining trend (73% of the overall loan book as on December 31, 2018 from 87% as on March 31, 2017). The risk is further increased by the ongoing downturn in the Indian real estate industry with a slowdown in sales across geographies. The risks in the portfolio are highlighted by the early stages of development of some of the underlying projects. Moreover, the top group exposures form a sizeable proportion of the company’s overall loan book. PCHFL has, however, funded a bouquet of projects in some of these exposures, including projects with healthy sales tie-ups and finished stock, which provides comfort. Despite the declining real estate concentration, the inherent riskiness of real estate exposures makes the portfolio highly vulnerable to any borrower or industry-specific event, which could result in a steep deterioration in the asset quality indicators.

**Ability to sustain asset quality and growth** – The overall asset quality, at a consolidated level, is comfortable, with gross NPAs of 0.5% as on December 31, 2018, albeit on a largely unseasoned portfolio with high growth registered during FY2016-18. Given the typical maturity profile of the loans in the real estate sector, coupled with significant prepayments/exits through refinance or take-outs, the share of the loan book under moratorium remains high, in line with industry trends. While the company has demonstrated its ability to maintain adequate asset quality, a prolonged slowdown in the real estate industry coupled with a liquidity crunch in the overall market could have an adverse impact on the same. Moreover, the high concentration in the loan book could result in sharp deterioration in the asset quality in case of slippages and could consequently impact PCHFL’s financial profile. The risks are, however, mitigated to some extent by the collateral cover maintained by the Group on such exposures, the promoter group’s expertise in the real estate segment and the company’s risk management and monitoring processes, which enhance its ability to proactively manage the portfolio.

**Limited track record of the Group in retail lending** – While the Group has long-standing experience and expertise in wholesale lending and real estate, its experience in the retail customer segment is limited. PCHFL marks the Group’s

foray into the retail segment. ICRA takes comfort from the seasoned industry professionals with prior experience in retail lending, who have been taken on board by the company.

## Liquidity position

PCHFL maintained on-book liquidity of ~Rs. 1,260 crore and undrawn bank lines of ~Rs. 4,000 crore as on March 31, 2019. As per the asset-liability statement as on December 31, 2018, the cumulative cashflow position over the near term (up to 6-months bucket) remains adequate.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Housing Finance Companies</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financial profile of PCHFL, and has factored in the financial flexibility available to PCHFL by being part of the Piramal Group

## About the company

Piramal Capital & Housing Finance Limited (PCHFL; erstwhile Piramal Housing Finance Limited) was incorporated in February 2017 as a subsidiary of Piramal Finance Limited and received its housing finance licence in September 2017. W.e.f. March 31, 2018, Piramal Finance Limited and Piramal Capital Limited merged with Piramal Housing Finance Limited (subsequently name changed to PCHFL), which became a direct subsidiary of Piramal Enterprises Limited. Following the merger, the entire financial services business including real estate lending, housing finance, corporate finance lending and small and emerging corporate lending of the Piramal Group will be housed under PCHFL.

In 9M FY2019, PCHFL reported a net profit of Rs. 1,053 crore on a total income of Rs. 4,042 crore.

## Key financial indicators - PCHFL

PCHFL (Standalone)	FY2018*	9M FY2019
	Ind AS	Ind AS
Net interest income	25.44	1,927.02
Profit before tax	2.69	1,626.73
Profit after tax	44.75	1,052.55
Portfolio (PCHFL standalone)	32,507	42,166
Total assets <sup>#</sup> (adj)	34,554	44,492
% Tier I	26.88%	23.89%
% CRAR	30.89%	26.58%
Gearing (gross)	3.29	3.91
Gearing (net of cash)	3.10	3.75
% Net profit/Average total assets	NA	3.55%
% Return on net worth	NA	16.70%
% Gross NPAs	0.37%	0.50%
% Net NPAs	0.29%	NA
Net NPA/Net worth	1.28%	1.74%

Amount in Rs. crore; Source: PCHFL and ICRA research; All ratios are as per ICRA calculations

---

*\*Merger of PFL with PCHFL effective from March 31, 2018*

*# (adj) on account of goodwill*

*\* Piramal Housing Finance Ltd reported a total income of Rs. 3,739 crore and profit after tax of Rs. 983 crore till March 30, 2018*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years							
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Apr-19	FY2019			FY2018		FY2017	
					Sep-18	Jul-18	May-18	Mar-18	Dec-17	Sep-17	-
1 Non-convertible Debentures	Long Term	6,545	4,845	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-	-
2 Subordinated (Tier-II) Bonds	Long Term	500	500	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-	-
3 Long-term Fund-based Limits	Long Term	2,875	NA	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-	-
4 Long-term Term Loans	Long Term	9,947	NA	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-	-
5 Commercial Paper	Short Term	9,000	NA	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE140A07177	NCDs	08-Nov-17	7.96%	06-Nov-20	115	[ICRA]AA+ (Negative)
INE140A07146	NCDs	10-Jun-16	9.57%	08-Mar-19	300	[ICRA]AA+ (Negative)
INE140A07245	NCDs	21-Jul-16	9.35%	19-Jul-19 (Put: 21-Feb-18)	1,000	[ICRA]AA+ (Negative)
INE641O07136	NCDs	11-Aug-16	9.05%	09-Aug-19	1500	[ICRA]AA+ (Negative)
INE140A07286	NCDs	12-Aug-16	9.25%	10-Aug-18	350	[ICRA]AA+ (Negative)
INE641O07029	NCDs	24-Nov-16	8.50%	22-Nov-19	25	[ICRA]AA+ (Negative)
INE641O07037	NCDs	10-Mar-17	8.95%	08-Mar-24	5	[ICRA]AA+ (Negative)
INE641O07052	NCDs	30-Mar-17	8.85%	25-May-20	200	[ICRA]AA+ (Negative)
INE641O07060	NCDs	06-Apr-17	8.85%	03-Jun-20	440	[ICRA]AA+ (Negative)
INE641O07078	NCDs	20-Apr-17	8.50%	19-Apr-19	50	[ICRA]AA+ (Negative)
INE641O07086	NCDs	04-May-17	8.75%	03-May-24	25	[ICRA]AA+ (Negative)
INE641O07094	NCDs	08-Jun-17	8.50%	07-Jun-19	140	[ICRA]AA+ (Negative)
INE641O07102	NCDs	16-Jun-17	8.50%	14-June-19 (Put: semi-annually)	50	[ICRA]AA+ (Negative)
INE641O07110	NCDs	14-Jul-17	8.35%	14-Jul-20	95	[ICRA]AA+ (Negative)
INE641O07128	NCDs	04-Aug-17	8.35%	04-Aug-20	125	[ICRA]AA+ (Negative)
INE641O07144	NCDs	20-Sep-17	7.96% (monthly)	19-Sep-25	167	[ICRA]AA+ (Negative)
INE641O07144	NCDs	20-Sep-17	7.96% (monthly)	18-Sep-26	167	[ICRA]AA+ (Negative)
INE641O07144	NCDs	20-Sep-17	7.96% (monthly)	20-Sep-27	166	[ICRA]AA+ (Negative)
INE641O07151	NCDs	25-Sep-17	8.07%	25-Sep-20	500	[ICRA]AA+ (Negative)
INE641O07169	NCDs	29-Sep-17	8.10%	29-Sep-20	125	[ICRA]AA+ (Negative)
NA	NCDs (proposed)	-	-	-	1,000	[ICRA]AA+ (Negative)
INE641O08035	Subordinated Bond (Tier II)	08-Mar-17	9.55%	08-Mar-27	500	[ICRA]AA+ (Negative)
NA	Long-term Bank Facilities – Line of Credit/Cash Credit	NA	NA	NA	2,875	[ICRA]AA+ (Negative)
NA	Long-term Bank Facilities – Term Loans	NA	NA	2018-2022	9,947	[ICRA]AA+ (Negative)
NA	Commercial Paper Programme	NA	NA	7-365 days	9,000	[ICRA]A1+

Source: PCHFL

## Annexure-2: List of entities considered for consolidated analysis

Not applicable

## ANALYST CONTACTS

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Samriddhi Chowdhary**

+91 22 6114 3462

[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@icraindia.com)

**Shreekiran Rao**

+91 22 6114 3469

[shreekiran.rao@icraindia.com](mailto:shreekiran.rao@icraindia.com)

**Amlan Jyoti Badu**

+91 22 6114 3413

[amlan.badu@icraindia.com](mailto:amlan.badu@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)



## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents