Piramal Capital & Housing Finance Limited

September 04, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	5,545	5,545	[ICRA]AA+(stable); upgraded from [ICRA]AA(positive)
Sub-Ordinate (Tier-II) Bonds	500	500	[ICRA]AA+(stable); upgraded from [ICRA]AA(positive)
Long Term Bank Lines – Line of Credit/Cash Credit	2,875	2,875	[ICRA]AA+(stable); upgraded from [ICRA]AA(positive)
Long Term Bank Lines – Term loans	9,947	9,947	[ICRA]AA+(stable); upgraded from [ICRA]AA(positive)
Commercial Paper	9,000	9,000	[ICRA]A1+; reaffirmed
Total	**27,867**	**27,867**	

Rating action

ICRA has upgraded the long-term rating outstanding for the Rs. 5,545 crore Non-Convertible Debentures, Rs. 500 crore of Tier-II Sub-ordinate Bonds, Rs. 2,875 crore of Long-term Bank Lines – cash credit and Rs. 9,947 crore of Long-term Bank Lines – term loans of Piramal Capital & Housing Finance Limited (PCHFL, formerly known as Piramal Housing Finance Limited)[1] from [ICRA]AA (pronounced ICRA double A) to [ICRA]AA+ (pronounced ICRA double A plus). ICRA has reaffirmed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 9,000 crore commercial paper programme PCHFL. The outlook on the long term rating is revised from positive to stable.

Rationale

The rating upgrade takes into account the healthy ramp-up in financial services business with increasing diversification of its asset base while maintaining favourable asset quality supported by robust risk management practices. The rating upgrade also factors in the gradual scaling up of the home-loans portfolio which is expected to improve the granularity in the overall loan book which had hitherto comprised of wholesale loans. The rating continues to factor in PCHFL's strong capitalisation profile, supported by the sizeable capital infusion (and impending infusion of Rs. 1,500 crore) by the promoter group, which provides it with enhanced financial flexibility and adequate head-room for growth over the near to medium term and the increasing prominence of financial servicing business for the Piramal group. The rating continues to draw comfort from the Piramal Group's expertise in real estate, given its presence across the industry value chain, the company's strong leadership team, strong systems and processes.

These strengths are, however, partially offset by the attendant 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, its steep growth targets and the limited experience of the Group in retail lending. However, the company's strong senior management team and the Group's track record of successfully scaling up businesses and generating adequate returns provide comfort. ICRA has also taken note of the high, albeit declining, share of short term sources of funding in the company's resource profile. However, the company's demonstrated ability to mobilise debt funds, diversified resource profile and management's stated policy to maintain adequate unutilised bank lines and liquid assets to meet asset liability mismatches, if any, provides comfort. Going forward, the company's ability to execute its

[1] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

business plans to diversify its asset base and grow profitability, improve granularity, raise funds at competitive rates and maintain healthy asset quality would remain the key sensitivities.

Outlook: Stable

The stable outlook takes into account emergence of PCHFL as the flagship financial services vehicle for the Piramal Group along with company's robust capitalisation providing strong financial flexibility and adequate head-room for growth over the near to medium term. The outlook may be revised to Negative in case the company is not able to successfully execute its business plans to diversify its asset base or there is a significant deterioration in PCHFL's asset quality leading to weakening of profitability profile. Further, changes in regulatory environment which may adversely impact the company's business operations and financial performance would also be a key rating sensitivity.

Key rating drivers

Credit strengths

Financial flexibility arising out of being a part of the Piramal Group - PCHFL draws strength from the Group's technical expertise given its experience in real estate based private equity investment, advisory as well as in the development space. Further, given the long-standing experience of the group in 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 PFL and PCL with it with effect from (w.e.f.) March 31, 2018. The promoter group has infused Rs. 3,500 crore equity in the company in FY2018 and further Rs. 1,500 crore expected to be infused in medium term. These funds are part of the ~Rs. 5,000 crore qualified institutional placement (QIP) of compulsorily convertible debentures (CCDs) raised in October 2017 and the rights issue of ~Rs. 2,000 crore concluded in the month of March 2018.

Strong and experienced management team - The company 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.

Established position in real estate lending; gradual diversification of the overall loan-book - On an overall basis, the Group reported a healthy ramp-up in operations, with the consolidated loan book increasing to Rs. 41,657 crore as on March 31, 2018 and further to Rs. 46,995 crore as on June 30, 2018 from Rs. 24,400 crore as on March 31, 2017. As a strategic decision, the group has gradually been diversifying its loan book, as demonstrated by foray in new segments like housing finance, corporate finance group (CFG) and Emerging Corporate Lending (ECL) segment. Consequently, the proportion of real estate segment has decreased to 76% of total loan book as on March 31, 2018 and further to 74% as on June 30, 2018 as compared to 87% as on March 31, 2017. The company introduced lease rent discounting (LRD) in FY2017 and is increasingly looking at construction finance (~60% of the total Real Estate portfolio) as against funding at the land or pre-approval stage. The company has also stepped up its focus on its corporate lending, housed under the corporate finance group (CFG) segment and is focused on diversifying the portfolio in terms of sector and clients in this segment. The share of CFG segment has increased to 19% of the total loan book as on June 30, 2018 (18% as on March 31, 2018 and 12% as on March 31, 2017). Following its strategy of diversifying the asset based, the company forayed into lending to small and emerging corporates (ticket size up to Rs. 100 crore) under the emerging corporate lending (ECL) segment and housing finance inf 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. ICRA notes that while the new businesses would help diversify the portfolio, given the company's large real estate exposure, the concentration and credit risks will remain over the near term.

Adequate capitalisation supported by capital infusion from the parent - Historically, the capitalisation has been supported by regular capital infusion from parent with a capital infusion of Rs. 3,500 crore in H2FY2018 out of the Rs. 5,000 crore allocated for the financial services business with the balance Rs. 1,500 crore expected to be infused in medium term. The tangible net worth of PCHFL stood at a comfortable Rs. 8,207 crore (net of goodwill on amalgamation) as on June 30, 2018 and the capitalisation ratios remain adequate at 27.14% (Tier I of 23.65%) as on June 30, 2018.

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

Credit challenges

High sectoral and client concentration with a predominant share of real estate lending - The loan-book is concentrated towards the real estate sector although, although with declining trend (~74% of the overall loan book as on June 30, 2018 and 87% of the overall loan book as on March 31, 2017), which is inherently risky segment. The risk is further increased by the ongoing downturn in Indian real estate with slowdown in sales across geographies. The risks in the portfolio are accentuated by the early stages of development of some of the underlying projects. Further, the top group exposures form a sizeable proportion of the company's overall loan book. The company 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. Given the high real estate concentration and the high inherent riskiness of real estate exposures, the portfolio has high inherent vulnerability to any borrower or industry specific event which could result in a steep deterioration in asset quality indicators.

Ability to sustain asset quality and growth - The overall asset quality, at a consolidated level, is comfortable, with gross NPAs of 0.34% and net NPAs of 0.26% as on June 30, 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 prepayment / exits through refinance or take-out, the share of loan-book under moratorium remains high, in line with industry trends. ICRA however takes note of the company's policy of maintaining excess standard provision over the levels prescribed by the Reserve Bank of India (RBI) and the strengthening of internal controls and processes with the increase in scale of operations, which provide comfort. Going forward the company's ability to execute its business plans and grow profitability, raise funds at competitive rates and maintain healthy asset quality would remain the key sensitivities.

Limited track record of the Group in retail lending - While the Group has longstanding 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. However, ICRA takes comfort from the seasoned industry professionals with prior experience in retail lending, who have been taken on board by the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Rating Methodology for Housing Finance Companies

About the company:

Piramal Capital & Housing Finance Limited (PCHFL) was incorporated in February 2017 as a subsidiary of Piramal Finance Limited and received its housing finance license in August 2017. W.e.f. March 31, 2018, Piramal Finance Limited and Piramal Capital Limited have merged with PCHFL and now PCHFL has become a direct subsidiary of Piramal Enterprises Limited. Consequent to the merger, the entire financial service 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.

Key financial indicators

Piramal Capital & Housing Finance Limited

	FY 2018* IGAAP	Q1 FY2019 Ind AS
Net interest income	25.60	630.25
Profit before tax	(38.32)	538.99
Profit after tax	(31.87)	356.78
Portfolio (PCHFL standalone)	32,507	35,683
Total assets #(adj)	34,518	37,417
% Tier I	26.88%	23.65%
% CRAR	30.89%	3.49%
Gearing (Gross)	3.32	3.55
Gearing (Net of Cash)	3.12	3.50
% Net profit/Average total assets	NA	4.00%
% Return on net worth	NA	17.75%
% Gross NPAs	0.37%	0.34%
% Net NPAs	0.29%	0.26%
Net NPA/Net worth	1.28%	1.12%

Amount is Rs. crore; Source: PCHFL; ICRA research

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

#(adj) on account of goodwill

**Piramal Finance Ltd reported a total income of Rs 3,739 crores and Profit after tax of Rs 983 crores till March 30, 2018.*

The entity was incorporated in February 2017 and received HFC licence in August 2017 post which it started operations in September 2017. Hence, the key financial indicators are not provided for periods prior to FY2018.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)						Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Sep 2018	July 2018	May 2018	FY2018				FY2017	FY2016
								Mar 2018	Dec 2017	Sep 2017		-	-
1	Long Term Bank Facilities – Line of Credit/Cash Credit	Long Term	2,875	NA	[ICRA]AA+ (stable)	[ICRA]AA (positive)	-	-	-	-		-	-
2	Long Term Bank Facilities – Term Loans	Long Term	9,947	9,560.63	[ICRA]AA+ (stable)	[ICRA]AA (positive)	-	-	-	-		-	-
3	Non-Convertible Debenture Programme	Long Term	5,545	5,545	[ICRA]AA+ (stable)	[ICRA]AA (positive)	-	-	-	-		-	-
4	Subordinated Bond (Tier II) Programme	Long Term	500	500	[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+		-	-

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

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+(stable)
INE140A07146	NCDs	10-Jun-16	9.57%	08-Mar-19	300	[ICRA]AA+(stable)
INE140A07245	NCDs	21-Jul-16	9.35%	19-Jul-19 (Put: 21-Feb-18)	1,000	[ICRA]AA+(stable)
INE641O07136	NCDs	11-Aug-16	9.05%	09-Aug-19	1500	[ICRA]AA+(stable)
INE140A07286	NCDs	12-Aug-16	9.25%	10-Aug-18	350	[ICRA]AA+(stable)
INE641O07029	NCDs	24-Nov-16	8.50%	22-Nov-19	25	[ICRA]AA+(stable)
INE641O07037	NCDs	10-Mar-17	8.95%	08-Mar-24	5	[ICRA]AA+(stable)
INE641O07052	NCDs	30-Mar-17	8.85%	25-May-20	200	[ICRA]AA+(stable)
INE641O07060	NCDs	06-Apr-17	8.85%	03-Jun-20	440	[ICRA]AA+(stable)
INE641O07078	NCDs	20-Apr-17	8.50%	19-Apr-19	50	[ICRA]AA+(stable)
INE641O07086	NCDs	04-May-17	8.75%	03-May-24	25	[ICRA]AA+(stable)
INE641O07094	NCDs	08-Jun-17	8.50%	07-Jun-19	140	[ICRA]AA+(stable)
INE641O07102	NCDs	16-Jun-17	8.50%	14-June-19 (Put: semi-annually)	50	[ICRA]AA+(stable)
INE641O07110	NCDs	14-Jul-17	8.35%	14-Jul-20	95	[ICRA]AA+(stable)
INE641O07128	NCDs	04-Aug-17	8.35%	04-Aug-20	125	[ICRA]AA+(stable)
INE641O07144	NCDs	20-Sep-17	7.96% (monthly)	19-Sep-25	167	[ICRA]AA+(stable)
INE641O07144	NCDs	20-Sep-17	7.96% (monthly)	18-Sep-26	167	[ICRA]AA+(stable)
INE641O07144	NCDs	20-Sep-17	7.96% (monthly)	20-Sep-27	166	[ICRA]AA+(stable)
INE641O07151	NCDs	25-Sep-17	8.07%	25-Sep-20	500	[ICRA]AA+(stable)
INE641O07169	NCDs	29-Sep-17	8.10%	29-Sep-20	125	[ICRA]AA+(stable)
INE641O08035	Subordinated Bond (Tier II)	08-Mar-17	9.55%	08-Mar-27	500	[ICRA]AA+(stable)
NA	Long Term Bank Facilities – Line of Credit/Cash Credit	NA	NA	NA	2,875	[ICRA]AA+(stable)
NA	Long Term Bank Facilities – Term Loans	2016-18	NA	2018-2022	9,947	[ICRA]AA+(stable)
NA	Commercial Paper Programme	NA	NA	7-365 days	9,000	[ICRA]A1+

Source: PCHFL

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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

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