

UPDATE ON Dewan Housing Finance Limited (DHFL)

Event

On June 04, 2019, Dewan Housing Finance Limited (DHFL) defaulted on interest payment on its NCDs raised through a public issue in June 2018. The interest payment skip was on account of inadequate liquidity with the company. As a consequence of nonpayment of interest, rating agencies on 05/06/2019 - CRISIL, ICRA downgraded their existing short term ratings to 'D' while CARE downgraded the long term credit rating on the debt to 'D' signifying "Default" category.

Background

The NBFC confidence crisis first started with the default of IL&FS in August'18, which then spread to the broader sector in the form of a wider liquidity crisis and is eventually threatening the solvency of a few financial services entities. Since the crisis first hit DHFL in September 2018, DHFL has been fully regular in meeting all of its debt repayments and until June 4th 2019 had successfully repaid debt obligations upwards of INR 40,000 crores to its various lenders. However, a gradual erosion in liquidity in the last few months led to the current instance of DHFL being unable to meet its debt obligations on 4th June, 2019.

Action taken by the Schemes of DHFL Pramerica post the downgrade in ratings to D'

As on 04/06/2019, various schemes of DHFL Pramerica had exposure to the bonds of DHFL as under:

Scheme name	Face Value of the holding in INR cr.
DHFL Pramerica Credit Risk Fund	42.6
DHFL Pramerica Dual Advantage Fund Series I	1.9
DHFL Pramerica Fixed Duration Fund-Sr AA	2
DHFL Pramerica Fixed Duration Fund-Sr AB	1.3
DHFL Pramerica Fixed Duration Fund-Sr AC	0.9
DHFL Pramerica Fixed Duration Fund-Sr AF	2.1
DHFL Pramerica Fixed Duration Fund-Sr AZ	2.5
DHFL Pramerica Fixed Duration Fund-Sr BC	10
DHFL Pramerica Fixed Duration Fund-Sr BE	4.8
DHFL Pramerica Floating Rate Fund	4.28
DHFL Pramerica Hybrid Equity Fund	5
DHFL Pramerica Low Duration Fund	63.68
DHFL Pramerica Medium Term Fund	14.5
DHFL Pramerica Short Maturity Fund	34.8
Aggregate exposure	190.36

Post the non-receipt of interest on the bonds (which had an interest payment due) and in line with the extant best practices guidelines of AMFI released on 30/4/2019, suggesting standard hair-cuts for sub investment grade securities, the various funds applied the same.

The break up the scheme holdings based on security type and the hair cut taken is as under:

Security Structure	Face Value of the holding in INR cr.	Hair-cut applied as per the hair-cut table
Senior Secured	165.36	75%
Subordinate, unsecured	25	100%
Aggregate exposure	190.36	

Note : Entire holding of unsecured, subordinated bond holding is in the Credit risk fund.

Simultaneously, all the schemes have also de-accrued all the interest accrued on the bonds and also stopped accruing fresh interest.