

May 13, 2019

Dewan Housing Finance Corporation Limited (“DHFL”)

CRISIL has downgraded the short term rating on the commercial paper of DHFL to A4+ (from A3+) on Saturday, May 11, 2019. The rating continues to be on watch with negative implications.

As per the rating rationale, the downgrade is driven by more-than-expected reduction in the company’s liquidity because of further delays in fund raising from sell down of project finance loans and lower inflows from securitization of non-housing loans.

DHFL’s liquidity position has weakened between March 16, 2019 and April 30, 2019 with cash balances (including SLR requirements) declining from Rs. 4,890 crore to Rs. 2,775 crore. The liquidity situation was impacted by premature withdrawal of deposits and limited securitization through the above mentioned period. However, the collections continue to remain strong with collection efficiency of ~99%.

The cash held with DHFL is higher than the outstanding commercial papers which have been downgraded to below investment grade. That said monthly collections of the company to the tune of Rs. 2,200 crores over and above existing cash may marginally stretch the company to meet the obligations over next two months. Herein the company may have to raise additional resources to bridge the ensuing gap.

DHFL management has stated their commitment to raise equity capital which should help in improving the liquidity profile of the company. The stake sale in Aadhar Housing Finance Limited and Avanse Financial Services Limited should help in reducing stress for the group. That said, the timing and scale of raising capital will remain critical. Notably, DHFL has repaid obligations (including Fixed Deposits) of ~Rs. 30,000 crore since September 2018 (As per the latest company disclosure dated May 10, 2019).

Our exposures, as mentioned below, will be marked down as per the valuations provided by the valuation agencies after considering 25% haircut on the maturity value.

Exposure by Schemes of DSP Mutual Fund in Commercial Papers issued by DHFL

| Scheme Name | Face Value (Rs. Crore) | % of AUM* | Valuation Impact |
|---------------------------------------|------------------------|-----------|------------------|
| DSP Credit Risk Fund | 38.00 | 0.92% | -0.23% |
| DSP Dual Advantage Fund Series 44-39m | 0.60 | 1.01% | -0.25% |
| DSP Dual Advantage Fund Series 45-38m | 0.30 | 0.38% | -0.10% |
| DSP Dual Advantage Fund Series 46-36m | 2.50 | 4.46% | -1.10% |
| DSP FMP - Series 196 - 37m | 6.40 | 2.28% | -0.56% |
| DSP Low Duration Fund | 52.30 | 1.81% | -0.45% |
| DSP Strategic Bond Fund | 50.00 | 5.28% | -1.31% |
| Total | 150.00 | | |

*as on May 12, 2019; Commercial Papers exposures have scheduled repayment on 25-Jun-19

About the company

Dewan Housing Finance Corporation Limited is a housing finance company, which focuses on the low- and middle-income customer segment. It reported assets under management of Rs. 1.27 lakh crore as on December 31, 2018. The company reported Gross NPA of 1.12% as on December 31, 2018. In 9M FY2019, the company reported a profit after tax of Rs. 1,226 crore as compared to Rs. 1,109 crore in 9M FY2018.

Product Labeling

| | |
|--|--|
| <p>DSP Dual Advantage Fund – Series 44 - 39M This close ended income Scheme is suitable for investor who are seeking* <ul style="list-style-type: none"> • Income over long term investment horizon • Investments primarily in debt securities with maturities upto 39 months, with balance exposure in equity and equity-related securities </p> | <p style="text-align: center;">RISKOMETER</p>  <p style="text-align: center;">Investors understand that their principal will be at moderate risk</p> |
| <p>DSP Dual Advantage Fund – Series 45- 38M This close ended income Scheme is suitable for investor who are seeking* <ul style="list-style-type: none"> • Income over long term investment horizon • Investments primarily in debt securities with maturities upto 38 months, with balance exposure in equity and equity-related securities </p> | |
| <p>DSP Dual Advantage Fund – Series 46- 36M This close ended income Scheme is suitable for investor who are seeking* <ul style="list-style-type: none"> • Income over long term investment horizon • Investments primarily in debt securities with maturities upto 36 months, with balance exposure in equity and equity-related securities </p> | |
| <p>DSP FMP – Series 196 - 37M This close ended income Scheme is suitable for investor who are seeking* <ul style="list-style-type: none"> • Income over an investment horizon of approximately 37 months term • Investments in money market and debt securities with maturities on or before the maturity of the Scheme </p> | |
| <p>DSP CREDIT RISK FUND An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds). This Scheme is suitable for investor who are seeking* <ul style="list-style-type: none"> • Income over a medium-term to long term investment horizon • Investment predominantly in corporate bonds which are AA and below rated instruments </p> | |
| <p>DSP STRATEGIC BOND FUND An open ended dynamic debt scheme investing across duration This Open Ended Income Scheme is suitable for investors who are seeking* <ul style="list-style-type: none"> • Income over a medium to long term investment horizon • Investment in actively managed portfolio of money market and debt securities </p> | |
| <p>DSP LOW DURATION FUND An open ended low duration debt scheme investing in debt and money market securities such that the Macaulay duration of the portfolio is between 6 months and 12 months (please refer page no. 20 under the section “Where will the Scheme invest” for details on Macaulay’s Duration) This Scheme is suitable for investors who are seeking* <ul style="list-style-type: none"> • Income over a short-term investment horizon. • Investments in money market and debt securities </p> |  <p style="text-align: center;">Investors understand that their principal will be at moderately low risk</p> |

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

Disclaimers: In this material DSP Investment Managers Pvt. Ltd. (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. The data/statistics are given to explain general market trends in the securities market, it should not be construed as any research report/research recommendation. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as “will”, “expect”, “should”, “believe” and similar expressions or variations of such expressions that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.