DHFL Crisis

Why in news?

The shares of Dewan Housing Finance Corporation Ltd (DHFL) plunged 29.15% to Rs 48.50 on the BSE recently.

How did the crisis evolve?

- DHFL is a non-banking finance company with a focus on housing finance.
- Mutual funds had lent to DHFL in the form of debt securities.
- The company (DHFL) delayed interest rate payments in June, 2019.
- It has reportedly missed interest payments of Rs 960 crore.
- Valuation norms require a write-down in the value of assets in case of such payment delays.
- The default in payments by DHFL has hit the net asset values (NAVs) of debt funds.
- Consequently, the NAVs of several debt schemes fell by 6-53%, reflecting the marked-down value of their holdings in DHFL paper.
- DHFL has faced a series of downgrades by rating agencies on its debt in the following 2 months.
- ICRA, CRISIL, CARE and Brickwork Ratings (Brickwork) have downgraded credit ratings on commercial papers of DHFL to 'D' (Default) owing to liquidity concerns.

What is the recent happening?

- With the recent fall, the DHFL stock had plummeted around 96% from the 52-week level of Rs 690, leading to significant losses for the investors.
- DHFL owes close to Rs 1 lakh crore to banks and investors.
- It recently said the company’s ability to raise funds had been substantially impaired and the business had been brought to a standstill.
- It also raised significant doubt on the ability of the company to continue as a growing firm.

What do the statements reveal?

- The company has reported a loss of Rs. 2,223 crore for the January-March 2019 quarter.
- With this, DHFL has highlighted three critical financial issues flagged by the

independent auditor engaged to verify its accounts.

- One, it says that there have been deficiencies in loan documentation with respect to Rs. 20,750 crore of loans.
- The company's management is now working to remedy this.
- It is unclear if these documentation issues will affect the saleability of its residual mortgage loan portfolio.
- Two, due to the liquidity stress faced by developers, DHFL claims it has been unable to realise cheques relating to around Rs. 16,000 crore worth of wholesale loans.
- Three, the results mention an NHB (National Housing Bank) inspection finding its capital adequacy ratio to be at 10.24% in end-FY18.
- This is well below the statutory minimum of 12%.
- Clarity on these issues will be available only after DHFL's statutory auditors assess the conditions.
- Meanwhile, these issues do raise doubts about the true value of DHFL's loan book, the monetisation of which its lenders are banking on, etc.

What does this call for?

- The statements by the company raise doubts about the sustainability of its operations and the quality of the residual assets it hopes to monetise.
- If the liquidity crisis at DHFL evolves into a solvency issue, the ramifications for financial markets and investor confidence may be far more widespread than due to the IL&FS case.
- [Unlike IL&FS, DHFL is a listed company that has directly raised retail funds through public deposits and NCDs (Non-Convertible Debentures)]
- Shareholders and lenders to DHFL now need to take note of the developments.
- It is also time for regulators such as the RBI and the NHB, who have so far taken no public stance on the firm.
- All these highlight the urgent need for a detailed resolution framework for distressed financial firms, which are excluded from the IBC route.
- Such a framework was proposed in the FRDI Bill, but it was shelved along with the controversial bail-in clause.
- There is a need for financial regulators for housing finance companies to take their supervisory roles more seriously.
- It is also essential to build in-house capacity to subject the filings of their constituents to more stringent scrutiny.

Source: Money Control, Business Line



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