DHFL’s lenders ready to accept limited haircuts: Sources

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Lenders to Dewan Housing Finance Ltd (**DHFL**) are ready to accept limited haircuts in a restructuring plan being worked out for the troubled firm, sources said.

The country's fourth largest housing finance company — which warned on Saturday that its financial situation was grim and business had ground to a halt — met lenders and other debt holders last week to discuss the outline of a rescue package.

Also read: DHFL: Haunted by a leaky roof and a shaky foundation

Sources at banks, mutual funds and the company told *Reuters* that efforts were being made to reach consensus and sign-off on the plan, which is set to be formally submitted to DHFL's lenders this week.

But analysts say the firm may struggle to find buyers for the businesses it wants to sell or attract other investors to raise up to Rs 7,000 crore ($1.02 billion) in extra equity that sources say DHFL wants.

‘Too many moving parts’

DHFL's plight underscores growing financial sector stress as state banks grapple with nearly $150 billion of bad debt and shadow banking firms battle a liquidity crunch after last year's collapse of Infrastructure Leasing & Financial Services Ltd.

“Even if we must end up taking say around a 20 per cent haircut on the commercial loan part of the book, which is big, it is still manageable,” said a banker who attended talks on the DHFL plan.

Another banker involved said that in the worst case scenario, the haircut that banks would need to take could reach 50 per cent, adding that securing a deal would take time. “There are too many moving parts to the puzzle and it is going to take a while before everyone agrees on the final resolution process,” he said.

The bankers and other sources asked not to be named as they have not been authorised to discuss the matter with the media.

DHFL said on Monday it was working with stakeholders and creditors to ensure a resolution plan without any haircut.

Also read: Lenders will not have to take haircut, says DHFL

Despite defaulting on certain payments last week, DHFL said it was confident of securing new credit lines from lenders and restarting its own lending operations as early as August.

It had total debt of almost Rs1,00,000 Crores ($14.6 billion) at the end of March, including about Rs 40,000 crore owed to banks. State Bank of India and subsidiaries have an exposure of Rs 19,000 crore to the company.

DHFL was in talks to sell its retail and wholesale loan portfolio and was in the final stages of completing a deal with a strategic partner to bring a cash infusion of about Rs 6,000 crore to Rs 7,000 crore, a senior official involved said.

The founder's family, which currently owns almost 40 per cent in DHFL, is looking to halve its holdings, the source added. “They cannot let DHFL fail because its business is widespread,” said the head of investments at a fund with DHFL stock and who attended the talks.

Keeping hope alive

Independent investment adviser SP Tulsian said DHFL would face difficulties finding investors to infuse as much as Rs 7,000 crore, given the firm's market capitalisation was just Rs 1,500 Crores.

“Promoters and lenders are simply saying ‘yes we are trying to find a resolution’. All this is just to try to keep giving some hope,” he said.

Any rescue package will require regulatory approvals and needs the backing from debtholders, which include mutual funds and bondholders, as well as banks.

According to Indian regulations, three-quarters of lenders by value of outstanding credit to a troubled company and 60 per cent by number must agree a rescue plan for it to be binding.

DHFL could face further challenges after it disclosed that its regulator had concerns about the company's historical capital adequacy ratio and because its auditors have yet to sign off on its results for the year ending March 31.

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