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AS DHFL'S FATE GETS SEALED, PIRAMAL MUST BEWARE OF BUYER'S REMORSE

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A year after it became the first financial company to undergo insolvency proceedings, Dewan Housing Finance Corp. Ltd (DHFL) is finally inching towards closure with Piramal Enterprises getting voted as the successful bidder by the committee of creditors.

To be sure, the resolution is not cast in stone given that bidders who lost have the option to take legal recourse. Even retail fixed deposit holders may potentially seek the court's help if they are unsatisfied with the implementation plan.

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That said, for all purposes, Ajay Piramal's company will end up swallowing DHFL. Media reports said Piramal had offered 37,300 crore for DHFL, which includes an upfront cash payment of 12,700 crore, 3,000 crore as interest income to be paid from DHFL's operations and issuance of around 20,000 crore long-term bonds to banks.

Analysts said DHFL's acquisition would be a positive for Piramal Enterprises despite the short-term requirement of a large capital infusion. The company has been trying to diversify its loan book and DHFL's addition would take the share of retail loans to as high as 35%. Given that both real estate sales and initial trend in home loans is encouraging, Piramal may get more bang for its buck from DHFL. Besides, DHFL also brings with it a strong workforce and a network of 250 branches. It also brings with it an existing technology platform. All these may make it easier for Piramal Enterprises to turn around DHFL into a profitable business. As such DHFL's quarterly net loss had narrowed in the December quarter.

But there are some red flags, which is enough to give Ajay Piramal a mild case of buyer's remorse. To start with, the loan book of Piramal Enterprises is about 52,000 crore as of September. This compares with DHFL's 95,000 crore, of which 46% is wholesale. Clearly, Piramal is swallowing a book larger than its own size. Managing the merged book won't be easy. The wholesale book is likely to give trouble considering the high level of delinquencies and the ongoing stress among real estate developers.

Two, it will be challenging to meet the demands of creditors. Here, banks are likely to expect to be compensated for the hit from fraudulent transactions at DHFL. Piramal Enterprises will have to tread carefully on these fronts. Recall that a forensic report by Grant Thornton in early 2020 found many financial misgivings.Analysts, however, point out that the offer of Piramal Enterprises for DHFL is almost 60% lower than the size of the troubled lender's balance sheet. This gap may take care of any new misgivings from the book.

Shares of Piramal Enterprises have gained 21% ever since the company upped its bid for DHFL in mid-December, which shows expectations are running fairly high and that there is little room for error as far as the merger integration process goes.

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