

o/c



**RPAD /SPEED POST**

Ref No: OLS/MUM/LIT/2019-20/071

24<sup>th</sup> June, 2019

**To,**

Dewan Housing Finance Corporation Ltd.  
TCG Financial Center,  
10<sup>th</sup> Floor, BKC Road, Bandra Kurla Complex,  
Bandra (E), **Mumbai-400098** (Maharashtra)

Sir,

**Subject: Non-Compliance of terms and conditions under the Debenture Trust Deeds dated 12<sup>th</sup> August, 2016, 6<sup>th</sup> September, 2016 and 30<sup>th</sup> May, 2018 by Dewan Housing Finance Corporation Limited ("DHFL" or "Company") in respect of Public Issue of Secured Redeemable Non-Convertible Debentures of Rs. 4000 Crores, Rs. 10,000 Crores and Rs. 15,000 Crores respectively.**

We are concerned for our Client, **Catalyst Trusteeship Limited ("CTL" or "Debenture Trustee")**, having its registered office at "GDA House", First Floor, Plot No. 85, S. No. 94 & 95, Bhusari Colony, Kothrud, Pune-411038. We refer to the various documents as provided by our Client including the Offer Documents, Transaction Documents and the correspondence exchanged between you and our Client and under instructions from our Client, we have to address to you as under:

1. As you are aware that you have floated the following Shelf Prospectus and also the Tranche-1 Prospectus:-



1

Mumbai : 1201, B Wing, Dalamal Tower, Free Press Journal Marg, Nariman Point, Mumbai - 400 021  
Delhi : 207, Nilgiri Apartment, 9 Barakhamba Road, Cannaught Place, New Delhi - 110 001  
Chennai : A-8 Lower Ground Floor, Friends Colony (E), New Delhi - 110 065  
Vijayawada : Flat No. 108, 1st Floor, Kavery Complex, Door No. 96, Nungambakkam High Road, Chennai - 600 034  
Vijayawada : Door No. 23-2-23, Lakshmi Nagar, Vijayawada - 521 100

T: +91 22 61692222 | E: mumbai@orbitlaw.co.in  
T: +91 11 43628313 | E: delhi@orbitlaw.co.in  
T: +91 11 46514072 | E: delhi@orbitlaw.co.in  
T: +91 44 28223040 | E: chennai@orbitlaw.co.in  
T + 91 86 62531214 | E: vijaywada@orbitlaw.co.in

**W: www.orbitlaw.co.in**

- a) Dated 26<sup>th</sup> July, 2016 for issuance of Secured Redeemable Non-Convertible Debentures (**NCDs**), each having face value of Rs.1000/- upto the shelf limit of Rs.4,000 Crores;
- b) Dated 25<sup>th</sup> August,2016 for issuance of Secured Redeemable Non-Convertible Debentures (**NCDs**), each having face value of Rs.1000/- upto the shelf limit of Rs.10, 000 Crores;
- c) Dated 14<sup>th</sup> May, 2018 for issuance of Secured Redeemable Non-Convertible Debentures (**NCDs**), each having face value of Rs.1000/- upto the shelf limit of Rs.15,000 Crores;

each in one or more tranches, for the purpose of onward lending, financing and for repayment of interest and principal of existing borrowing of the Company and for general corporate purposes.

- 2. In order to comply with the terms and conditions of Applicable Laws relating to the issuance of Offer Documents, you have appointed CTL as the Debenture Trustee vide Debenture Trustee Agreements dated 10<sup>th</sup> July, 2016, 17<sup>th</sup> August, 2016 and 3<sup>rd</sup> May, 2018 for the purpose of holding the security interest created / to be created by the Company for securing the NCDs of Rs.4,000 Crores, Rs. 10,000 Crores and Rs. 15,000 Crores respectively, in favour of the Debenture Trustee to protect the rights of the NCD Holders and for the benefit of NCD Holders.
- 3. Pursuant to the said Debenture Trustee Agreements dated 10<sup>th</sup> July, 2016; 17<sup>th</sup> August, 2016 and 3<sup>rd</sup> May, 2018 and also in pursuance to the terms and conditions of the Offer Documents and Applicable Laws, the Company has executed the Debenture Trust Deeds dated 12<sup>th</sup> August, 2016 as amended by Debenture Trust Deed dated 16<sup>th</sup> August, 2016, 6<sup>th</sup> September, 2016 and 30<sup>th</sup> May, 2018 (collectively "**Debenture Trust Deeds**" and individually as "**the respective Debenture Trust Deed**"), thereby settled the trust for the benefit of the debenture holders and created a first ranking pari-passu charge in favour of the Debenture Trustee, over all the receivables, present and future, for securing the NCDs of Rs.4,000 Crores, Rs.



10,000 Crores and Rs. 12,000 Crores respectively in accordance with the terms and conditions of the respective Debenture Trust Deed.

4. Pursuant to the Debenture Trust Deeds, DHFL was inter-alia, required to comply with the various terms and conditions as set out in the Debenture Trust Deeds including representations and warranties. Clause 7 of the Debenture Trust Deeds specifically describe various events, the non-compliances of which amount to the Events of Default. The said clause also provides for the remedies on occurrence of the events of defaults.
5. On the basis of information, statutory auditor reports, certificates of credit rating agencies and other documents including correspondence exchanged among DHFL and Debenture Trustee / NCD Holders, our Clients noticed that the following events amount to the 'Events of Default' in terms of the Debenture Trust Deed in general and clause No. 7 in particular.

(a) **Indebtedness becomes due prior to stated maturity:**

As per clause 7.3(f) of the Debenture Trust Deed, in case any material indebtedness of the Company becomes due, prior to its stated maturity by reasons of default of the terms thereof, amounts to event of default.

In this connection, in respect of the debentures issued by DHFL bearing thirteen ISINs under different Tranches under five different Series by way of private placement, the debenture holders get right of accelerated payment upon downgrading of credit rating. This was already communicated to DHFL vide our client's letter dated 9<sup>th</sup> April, 2019. Accordingly, upon the downgrading of rating, few debenture holders exercised the option and called upon DHFL to pay the amount of debentures prior to stated maturity. However, DHFL has not paid the amounts of debentures all the debenture



holders who exercised the option and requesting for grant of time for payment.

**(b) Non-Submission of Required Security Cover Certificate**

As per clause No. 7.3(g) of Debenture Trust Deed submission of any information, statement, certificate by the Company which is misleading in any material respect, is one of the events of default.

As per the clause No. 25.2 (xxiv) (c) of Debenture Trust Deed and also as per the Regulation No. 15(1)(t) of the SEBI (Debenture Trustee) Regulations, 1993, DHFL is required to furnish to the Debenture Trustee a certificate on quarterly basis, from Director and independent Chartered Accountant / Statutory Auditor certifying the value of the Security. Further, DHFL is also has to furnish to Debenture Trustee the certificate from Statutory Auditor on annual basis.

In this connection, considering the downgrading of credit rating from 'AAA' to 'D' and also the admitted position of cash-crunch faced by DHFL, CTL had requested vide its email dated 7<sup>th</sup> May, 2019 to submit the Asset Cover Certificate with more details, in the format provided. DHFL has submitted to Debenture Trustee vide email dated 19<sup>th</sup> June, 2019, the Asset Cover Certificate dated 17<sup>th</sup> June, 2019 signed by Chairman and Managing Director and also a certificate dated 12<sup>th</sup> June, 2019 of an independent CA, as on 31<sup>st</sup> March, 2019. However, since (i) the certificates submitted are not in the format requested for; (ii) the certificates submitted includes the details of assets which do not form the security for NCDs; and (iii) the Certificate of Statutory Auditors as on 31<sup>st</sup> March, 2019 has not been submitted till date; it cannot be confirmed that DHFL has maintained adequate security for the NCDs.



**(c) Failure to Create Debenture Redemption Reserve (DRR)**

As per clause 7.3 (e) of the Debenture Trust Deed, if default is committed in the performance or observance of any covenants, conditions or provisions of the Deed, it amounts to an event of default.

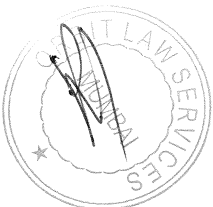
As per the provisions of Companies (Share Capital & Debentures) Rules, 2014, DHFL was required to invest or deposit 15% of the NCDs maturing in year 2019-20, in any one or more methods given in the said Rule, on or before 30<sup>th</sup> April, 2019. It was pointed out to DHFL vide letter dated 10<sup>th</sup> April, 2019 to invest a sum of Rs.700.29 Crore before 30<sup>th</sup> April, 2019 as DRR. However, in absence of specific confirmation in this behalf it has been concluded that DHFL has not created the DRR.

Further, as per the clause No. 25.2 (xxiv) (f) of Debenture Trust Deed, a certificate of a Chartered Accountant certifying that the Company has transferred a suitable sum to the DRR at the end of each financial year has to be submitted. It is observed that even if the DRR is created for the year ended on 31<sup>st</sup> March, 2017, the DRR for the year ended on 31<sup>st</sup> March, 2018 has not been created and also the confirmation that the DRR will be created for the year ended on 31<sup>st</sup> March, 2019 has not been submitted.

**(d) Non-disclosure of Material Information**

Pursuant to Clause 25.2 (v) & (ix) of Debenture Trust Deed, you are required to disclose all material information / events relating to your business on an ongoing basis.

It is observed from the rating certificate dated 31<sup>st</sup> March, 2019 issued by CARE for the debentures issued by Wadhawan Global Capital Ltd. (WGCL),



that the debentures issued by WGCL in the year 2016-17, amounting to Rs.2,125 crore are backed by unconditional and irrevocable DSRA guarantee by DHFL. The credit rating of WGCL is also downgraded from 'AA-' to 'A' on 31<sup>st</sup> March, 2019.

However, the said material information is not disclosed to debenture holders / Debenture Trustee.

**(e) Maintenance of adequate security cover**

As per clause 7.3(j) and 7.3(x) of the Debenture Trust Deed if the Company is unable to maintain required security cover or sells the trust property, the same amounts to event of default.

It is observed from various certificates issued by Credit Rating Agencies from February, 2019, as also it is reflected in the communications of DHFL that it is facing the liquidity problems and therefore raising the funds by sale of loan assets (for payment of its obligations, mainly the unsecured one), which form the security for the NCDs. Debenture Trustee has therefore, called upon DHFL to give the details of such transactions and also to stop further down selling of loan assets. DHFL has also been requested to submit the detailed Asset Cover Certificates issued by an independent Chartered Accountant, on monthly basis w.e.f. April, 2019 certifying the availability of assets as security for the secured lenders, including the debenture holders. However, the same have not been submitted as yet. The Debenture Trustee therefore, concludes that DHFL has failed to maintain adequate security cover.

**(f) Failure to Submit Utilization Certificate**

Pursuant to Clause 25.2(vi) of Debenture Trust Deed, DHFL is required to submit certificate from the Statutory Auditor / Chartered Accountant with



respect to the use of the proceeds raised through the issue of NCDs on a semi-annual basis.

Even if DHFL has submitted the utilization certificate issued by Statutory Auditors in respect of funds raised by way of NCDs in year 2016-17, it has not submitted such report to the DT on semi-annual basis, in terms of Clause 25.2 (vi). The same amounts the breach of a condition of the Debenture Trust Deed, as provided in Clause 7.3(e) of the DTD.

**(g) Extra-ordinary Circumstances making it Improbable to fulfil Obligations**

As per clause 7.3(l) of Debenture Trust Deed, one of the events of defaults is that if the Company is unable to or has admitted in writing its inability to pay its material debts as and when the same are due by the reasons of Company's liquidity position, insufficiency of cash-flows or otherwise, it is unlikely that the Company would be in a position to pay its obligations in connection with the NCDs.

Further, as per the 7.3 (o) of Debenture Trust Deed, it is also an event of default if any extra-ordinary circumstances have occurred which make it improbable for the Company to fulfil its material obligations.

In this connection, it is observed that the both the credit rating agencies have repeatedly mentioned about the liquidity problems faced by DHFL during last more than six months and the same is the main reasons for downgrading the rating from time to time. DHFL has in its communications admitted the said position and has been requesting the debenture holders to grant some time to fulfil its obligations. Further, DHFL has also failed to make the payment of interest on the NCDs due on 4<sup>th</sup> June, 2019.



Due to the substantial downgrading of credit rating, irregular debt servicing and deterioration of financial conditions, the Debenture Trustee has reason to believe that it may not be possible for the DHFL to fulfil its financial and non-financial obligations under Debenture Trust Deed, which amount to an event of default under Clause 7.3 (o) of Debenture Trust Deed.

6. In view of the above facts as set out herein above and the non-compliances on your part in respect of the terms and conditions of the NCDs issued by DHFL, the events of default have occurred in terms of the Debenture Trust Deed. Our Client therefore, calls upon you to take corrective steps in accordance with the provisions of Debenture Trust Deed within a period of thirty (30) days from the date of this Notice. Unless the said events of default mentioned above or those may occur subsequent to this notice, are not remedied to the satisfaction of the Debenture Trustee / Debenture Holders, our Client shall be compelled to exercise all such rights and remedies in accordance with the provisions of applicable laws and subject to the terms of Debenture Trust Deed.
7. The capitalized terms used but not defined hereunder shall have the meaning assigned to them under the Debenture Deeds and / or Transaction Documents.

<Dial 1800 266 6868>

भारतीय डाक

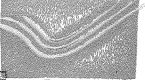


RM099904653IN IVR:8277099904653  
RL HIGH COURT BUILDING SO MUMBAI <400032>  
Counter No:1,26/06/2019,15:22  
To:DEWAN HOUSING CORPORATION LTD  
PIN:400098, Vidyanagari S.O  
From:ORBIT LAW S,DALAMAL TOWERS  
Wt:35gms  
Amt:27.00(Cash)

<Track on [www.indiapost.gov.in](http://www.indiapost.gov.in)>

<Dial 1800 266 6868>

भारतीय डाक



EM878709488IN IVR:6977878709488  
SP HIGH COURT BUILDING SO MUMBAI <400032>  
Counter No:1,26/06/2019,15:22  
To:DEWAN HOUSE F,CORPORATION LTD  
PIN:400098, Vidyanagari S.O  
From:ORBIT LAW S,DALAMAL TOWERS  
Wt:30gms  
Amt:17.70(Cash)Tax:2.70  
<Track on [www.indiapost.gov.in](http://www.indiapost.gov.in)>



Yours faithfully,

*VRoudbecker*

Orbit Law Services

(Partner)