InvestorZone

Understanding DHFL Problem for Beginners or Retail Investors

Before we deep-dived into DHFL or in broader term NBFC Issues let us try to understand simple terminologies in debt market.

Bond: It is an instrument used by Banks, NBFC, HFCs to raise money from market for their business.

Face Value and Coupon Rate: Every bond issue by these institutions carries face value and coupon rate. Face value represent loan by a particular debt paper and coupon rate represents interest paid on these bonds on face value every year till maturity.

For Example: A bond with Face Value 100 having 10% as Coupon rate will give investors every year Rs. 10 as interest till maturity and on maturity Rs.100 will be given back.

Zero Coupon Bonds: As the name suggest it represents bonds with Zero Coupon Rates. Then question is why investors should buy these bonds. The answer is, they list at deep discount and then later on can be redeemed at par.

For Example: A bond with Maturity value of 100 will be given to investors at Rs. 85.80 implying 9.15% Interest Rates. On Maturity they can be redeemed at Rs. 100 thereby gaining Rs.14.20 at the end of every year.

Examples: Zero Coupon Bonds.

1. T-Bill issued by Govt. of India
2. Commercial Paper Issued by Corporates.(Like DHFL)
3. Certificate of Deposits by Banks.

All the above Bonds are issued for less than 1 year.

DHFL Dilemma

As per Sources, the Company has issued commercial paper worth Rs 13500 Cr which is due for redemption by Dec end. Now to pay back the dues the company has two options:

1. Either rolls back the dues of Commercial Paper to next year at higher rates.
2. Or Pay the dues on Dec.

The DHFL has only 3000 Cr cash in Hand.

So how they will able to meet out the obligation?

In normal situation they would have got liquidity from the market and they would have paid dues on time. However, due to ILFS issue the liquidity is not available in the market.

In anticipation of DHFL not able to pay their dues on redemption, DSP Black Rock Last month sold 300 Cr of Commercial Paper in the open market at discount to what they would have got had they redeemed at maturity.

The Coming time would be very difficult for the company. Let us see how the management of the company cope up with the situation and how they will able to float the company in difficult times.