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## Rating Rationale

December 31, 2019 | Mumbai

### Hinduja Leyland Finance Limited 'CRISIL AA-/Stable' assigned to Subordinated Debt

#### Rating Action

Total Bank Loan Facilities Rated	Rs.3000 Crore (Enhanced from Rs.2000 Crore)
Long Term Rating	CRISIL AA-/Stable (Reaffirmed)

Rs.200 Crore Subordinated Debt	CRISIL AA-/Stable (Assigned)
Rs.500 Crore Non Convertible Debentures	CRISIL AA-/Stable (Reaffirmed)
Rs.200 Crore Subordinated Debt	CRISIL AA-/Stable (Reaffirmed)
Rs.1800 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has assigned its '**CRISIL AA-/Stable**' rating to the subordinate debt of Hinduja Leyland Finance Limited (HLF) and reaffirmed its ratings on other debt instruments and bank facilities at '**CRISIL AA-/Stable/CRISIL A1+**'.

CRISIL's ratings continue to reflect the company's majority ownership by parent, Ashok Leyland Ltd (ALL), and the Hinduja group; and its strategic importance to ALL. The ratings also factor in HLF's growing presence in the Indian vehicle finance market, and comfortable liquidity.

#### Analytical Approach

The ratings factor in the expectation of strong support to HLF from ALL and the Hinduja group given the majority ownership and strategic importance of HLF to ALL and the group.

CRISIL has fully consolidated the business and financial risk profiles of HLF and its subsidiaries, given the managerial, operational, and financial linkages amongst them.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### \* Majority ownership by, and strategic importance to, ALL and the Hinduja group

The Hinduja group entities held 92.4% in HLF as on September 30, 2019, with ALL being the primary shareholder with around 61.8% stake. The ALL portfolio vehicles constituted around 36.4% of HLF's portfolio as on September 30, 2019. Existing shareholders have also infused capital at regular intervals; from June 2017 onwards, they have infused fresh capital of around Rs 650 crore.

The company plans to come out with an initial public offering (IPO) in the near to medium term. While the stake of the Hinduja group entities would reduce post the IPO, they would continue to hold majority controlling stake with ALL remaining as the primary shareholder.

CRISIL believes that HLF will continue to benefit from the strategic support from ALL over the medium term. Hinduja Group will remain as the largest shareholder and maintain controlling stake in the company.

##### \* Growing presence in the Indian vehicle finance market

Scale of operations improved significantly, with assets under management (AUM) registering a compounded annual growth rate (CAGR) of 44% over the past five fiscals, to Rs 25,417 crore as on March 31, 2019. However, growth slowed down in the first half of fiscal 2020, amidst economic environment, with AUM growing by around 7% (annualised) to reach Rs 26,311 crore. Vehicle loans accounted for bulk of the portfolio (77%), making HLF one of the larger players in the vehicle finance space. The remaining portfolio comprises loans against property (11%) and portfolio buyouts, which were started to diversify the business mix. The company plans to increase the share of non-vehicle portfolio over the medium term, to diversify the AUM profile.

Within vehicle finance, new commercial vehicles and construction equipment accounted for 50% of the AUM, followed by two- and three-wheelers at 16%, and other vehicles at around 11%. Geographically also, loan book remains well-diversified, with pan-India presence in over 1,500 locations across 24 states and Union Territories.

#### **Weaknesses:**

##### **\* Moderate asset quality metrics and earnings profile**

Asset quality metrics remained elevated with delinquencies, as measured by 90 days past due (dpd), at 4.5% as on September 30, 2019, as compared to 4.7% as on March 31, 2019. Segment-wise, the 90+ dpd in vehicle portfolio stood at 5.7% as on September 30, 2019, which improved marginally from 5.9% as on March 31, 2019. LAP 90+ dpd stood at 1.3% as on September 30, 2019, compared to 1.1% as on March 31, 2019. The company plans to focus less on first-time users/buyers, and rather increase share of large and medium fleet operators to support asset quality metrics in the medium term. Further, while the company has diversified its portfolio towards non-vehicle loans, this segment is relatively new, having been built up only over the last couple of years.

Earnings profile is marked by relatively lower net interest margins (NIMs), which is partially offset by lower-than-industry average operating expenses ratio. In line with change in focus towards the competitive strategic segment, the NIMs have fallen sharply from fiscal 2014 levels. Since then, NIMs showed an improvement from 5.2% in fiscal 2015, to 5.7% in fiscal 2019. However, in the first half of fiscal 2020, NIMs (annualised) have reduced, to 4.8%, owing to the rising borrowing cost. On the other hand, amidst improvement in the 90+ dpd, credit cost improved to 2.1% (annualised) in the first half of fiscal 2020, from 2.6% for fiscal 2019. Consequently, return on managed assets (RoMA) dropped to 1.1% (annualised) in the first half ended September 30, 2019, from 1.3% in fiscal 2019. Ability to manage asset quality as the portfolio seasons and scales up will be the key determinant of earnings profile over the medium term.

#### **Liquidity Strong**

HLF has an adequate ALM profile with positive cumulative mismatches in upto 1 year bucket as on September 30, 2019 (excluding unutilized bank lines). Commercial paper borrowings stood at around 5% of total borrowings as on September 30, 2019. From November 30, 2019 to April 30, 2020, the company has debt repayment of Rs 3846 crore, of which commercial paper accounts for Rs 1625 crore. Against this, according to September 30, 2019 ALM, the company had Rs 3788 crore of scheduled collections till March 2020. Further, as on September 30, 2019, HLF had unutilised bank lines of Rs 1750 crore in the form of term loans and around Rs 900 crore of WCDL/CC bank lines along with available securitization lines in pipeline of Rs 1500 crore as on November 2019.

#### **Outlook: Stable**

CRISIL believes HLF will continue to benefit from the strong support from ALL and the Hinduja group, and will also increase its share in the Indian vehicle finance market over the medium term.

#### **Rating Sensitivity factors**

##### **Upward Factors**

- \* Improvement in asset quality metrics, with GNPA's going below 2.5%, translating to improvement in earnings profile as the portfolio scales up
- \* Upward revision in CRISIL's view on ALL's credit risk profile

##### **Downward Factors**

- \* Decline in support from ALL or material change in ALL's shareholding in HLF or in CRISIL's view any downward revision in the credit profile of ALL
- \* Deterioration in asset quality metrics with GNPA's increasing beyond 6% translating into pressure on profitability

#### **About the Company**

HLF, incorporated in 2008, commenced operations in 2010. It was promoted as a captive financier by the Hinduja group's flagship automobile manufacturing company, ALL. Gradually, HLF ventured into financing of non-ALL vehicles while entering into the loan against property segment (LAP) in fiscal 2015. Apart from the commercial vehicle segments, the company also extends loans to three-wheelers, two-wheelers, tractors, construction equipment; and used CV financing and LAP. The company has also been buying portfolios over the past two years to diversify its product profile, thereby augmenting net interest margins.

Profit after tax (PAT) was Rs 276 crore on total income of Rs 2561 crore in fiscal 2019, against a PAT of Rs 190 crore on total income of Rs 1,959 crore in the previous fiscal. Profitability has improved marginally in fiscal 2019 mainly on account on reduced operating expenses.

#### **Key Financial Indicators - (Standalone)**

As on / for the half year/for the year ended		Sep-2019**	Mar-2019**	Mar-2018
Total assets	Rs crore	20,673	20,201	15,502
Total income	Rs crore	1400	2561	1959
Profit after tax	Rs crore	133	276	190
Gross NPA	%	4.5	4.6	3.9
Overall capital adequacy ratio -	%	17.6	17.0	17.2
Adjusted gearing ^	Times	7.5	7.6	7.4
Return on managed assets ^	%	1.1*	1.3	1.2

\*annualized;

\*\*as per IND-AS

^based on year end averages

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

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**Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Outstanding with Outlook
INE146O07318	Debenture	28-Mar-18	8.90	28-Mar-20	50	CRISIL AA-/Stable
INE146O07326	Debenture	28-Mar-18	9.10	26-Mar-21	100	CRISIL AA-/Stable
INE146O07359	Debenture	18-May-18	9.05	06-Apr-21	50	CRISIL AA-/Stable
INE146O07342	Debenture	24-May-18	8.90	06-Apr-20	50	CRISIL AA-/Stable
NA	Debenture <sup>^</sup>	NA	NA	NA	150	CRISIL AA-/Stable
NA	Subordinate Debt <sup>^</sup>	NA	NA	NA	200	CRISIL AA-/Stable
NA	Subordinate Debt <sup>^</sup>	NA	NA	NA	100	CRISIL AA-/Stable
INE146O08159	Subordinate Debt	29-Mar-19	11.6	29-Sep-24	100	CRISIL AA-/Stable
NA	Commercial Paper	NA	NA	7-365 days	1800	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2500	CRISIL AA-/Stable
NA	Long Term Bank Facility	NA	NA	NA	500	CRISIL AA-/Stable

<sup>^</sup>yet to be issued

**Annexure - List of entities consolidated**

Entity Consolidated	Extent of Consolidation	Rationale for Consolidation
Hinduja Housing Finance Ltd	Full	Subsidiary

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Commercial Paper</b>	ST	1800.00	CRISIL A1+	28-08-19	CRISIL A1+	26-06-18	CRISIL A1+		--		--	--
				14-06-19	CRISIL A1+	23-01-18	CRISIL A1+					
				17-05-19	CRISIL A1+							
				08-01-19	CRISIL A1+							
<b>Non Convertible Debentures</b>	LT	500.00 31-12-19	CRISIL AA-/Stable	28-08-19	CRISIL AA-/Stable	26-06-18	CRISIL AA-/Stable		--		--	--
				14-06-19	CRISIL AA-/Stable	23-01-18	CRISIL AA-/Stable					
				17-05-19	CRISIL AA-/Stable							
				08-01-19	CRISIL AA-/Stable							
<b>Subordinated Debt</b>	LT	400.00 31-12-19	CRISIL AA-/Stable	28-08-19	CRISIL AA-/Stable	26-06-18	CRISIL AA-/Stable		--		--	--
				14-06-19	CRISIL AA-/Stable							
				17-05-19	CRISIL AA-/Stable							
				08-01-19	CRISIL AA-/Stable							
<b>Fund-based Bank Facilities</b>	LT/ST	3000.00	CRISIL AA-/Stable	28-08-19	CRISIL AA-/Stable		--		--		--	--
				14-06-19	CRISIL AA-/Stable							
				17-05-19	CRISIL AA-/Stable							
				08-01-19	CRISIL AA-/Stable							

All amounts are in Rs.Cr.

**Annexure - Details of various bank facilities**

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Long Term Bank Facility	500	CRISIL AA-/Stable	Long Term Bank Facility	500	CRISIL AA-/Stable
Proposed Long Term	2500	CRISIL	Proposed Long Term	1500	CRISIL

Bank Loan Facility		AA-/Stable	Bank Loan Facility		AA-/Stable
<b>Total</b>	<b>3000</b>	<b>--</b>	<b>Total</b>	<b>2000</b>	<b>--</b>

**Links to related criteria**

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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