

Hinduja Leyland Finance Limited

December 29, 2020

Rating

Facilities/Instruments	Amount (Rs. Crore)	Ratings ¹	Rating Action
Proposed Non-Convertible Debenture issue	300	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Assigned
Proposed Principal Protected Market Linked Debenture issue	100	CARE PP-MLD AA-; Stable [Principal Protected - Market Linked Debenture Double A Minus; Outlook: Stable]	Assigned
Total Instruments	400 (Rs. Four hundred crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the proposed debt instruments of Hinduja Leyland Finance Limited (HLF) continue to factor in the experienced management team of HLF, benefits derived from being a part of the Hinduja group, including periodic infusion of equity on need basis, demonstrated ability of HLF to raise funds to support business growth, diversified product profile, geographical diversification and relatively diversified funding profile. The ratings continue to be constrained by moderate profitability, moderate asset quality and capitalization levels.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant increase in the scale of operations along with improvement in asset quality and profitability parameters on a sustained basis

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Further moderation in asset quality and delinquency levels
- Deterioration in capital adequacy parameters
- Significant deterioration in the credit profile of the parent

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and benefits derived from being part of the Hinduja group

The Hinduja group, established in Mumbai in 1918, has global presence across 30 countries. The group has presence in various industries including Automotive, Banking & Finance, IT/ ITES and Energy & Chemicals. HLF is the subsidiary of Ashok Leyland Limited (ALL), one of the leading players in domestic commercial vehicle segment. Being part of the Hinduja group, HLF enjoys significant financial flexibility in terms of mobilizing funds from various sources at competitive rates.

Experienced promoters & senior management team

The Hinduja group has track record of establishing and successfully running Banking & Finance companies. The experience of the management team in running the similar business is a key strength for HLF. Mr S. Nagarajan is the Executive Vice Chairman of the company. Mr Dheeraj Hinduja, Chairman of ALL, is also the chairman of HLF. The board of HLF consists of ten directors, including five independent directors with rich experience in the financial services sector. Also, the company has an experienced senior management team which takes care of the day-to-day operations of the company.

Established credit appraisal, risk monitoring & collection

The branch structure consists of one Branch Manager, one Marketing Executive (M.E) and one Collection Executive. The Marketing Executive (M.E) obtains the applications on pre-printed Proposal Booklet and Proposal Evaluation Form. The Field Investigation is done by the Marketing Executive. The Branch Manager or location manager will review the proposal. The documents are sent for Approval / Sanction to appropriate authority as per delegation of powers. Post approval and completion of pre-disbursal documentation, loan amount to be disbursed post creation of the contract and checking of complete file. Credit Audit team will do the review on documents and policy adherence points and give feedback to location for any discrepancies.

The collection process has been strengthened by employing larger supervisory levels and launch of a collections app. The collections happen in the form of NACH/Cheque and Cash.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Based on the knowledge and expertise gained in the financial services sector, the management has developed an in-house enterprise IT system. In addition to providing complete information about each account throughout its credit life cycle, the IT system also aids the management in monitoring/reviewing its portfolio on daily basis.

Diversified funding profile; however, bank funding remains a major source in FY20

HLF's funding profile is well diversified with access towards low cost funding from banks, market instruments like NCDs & subordinated debt and short-term commercial papers. HLF's bank borrowings are diversified with borrowings from various banks which include a good mix of both public and private sector banks. The share of bank borrowings (as term loan & CC/WCDL) stood at 81% of the total borrowings as on March 31, 2020 as against 71% as on March 31, 2019 and share of Fls stood at 4% as on March 31, 2020 (PY: 1%). NCDs constituted 5% as on March 31, 2020, followed by sub-debt (7%) and PTC (3%) as on March 31, 2020. HLF has reduced the share of CP from 7% as on March 31, 2019 to 0% as on March 31, 2020.

Key Rating Weaknesses

Moderate growth in AUM during FY20

HLF has registered a moderate growth of 4% in Assets Under Management during FY20 (refers to the period April 1 to March 31) as against 32% during FY19, 37% during FY18 and 41% during FY17. As on March 31, 2020, AUM stood at Rs.26,451 crore as against Rs.25,417 crore as on March 31, 2019. Disbursements de-grew by 11% and stood at Rs.13,565 crore during FY20 as against a growth of 18% during FY19 and 31% during FY18. While overall book witnessed 4% growth, some of the sub-segments (Cars, LCV, LAP, SCV, 3W, tractor, 2W) witnessed higher growth on account of growth witnessed by respective industry segments and increased focus by the company. With the moratorium in place and slowdown in the CV industry, AUM remained at Rs.26,195 crore as on September 30, 2020.

Moderate asset quality

The company follows 90+DPD basis for recognition of NPAs. GNPA and NNPA (on AUM basis) stood at 4.4% and 2.6% as on March 31, 2020 as against 4.7% and 3.0% as on March 31, 2019. 30+ DPD has increased from 13.6% as on March 31, 2019 to 24.0% as on March 31, 2020 majorly due to lockdown imposed by the Government during end of March 2020. However, with the moratorium benefit, 30+ improved to 11.0% as on September 30, 2020. As on September 30, 2020, GNPA and NNPA stood at 4.4% and 2.3%, respectively. As on March 31, 2020, Stage II assets and Stage III assets have a provision coverage of 0.25% and 41.57%, respectively.

Total repossessed assets (Net) stood at Rs.590 crore (2.23% of AUM) as on March 31, 2020 as against Rs.404 crore (1.59% of AUM) as on March 31, 2019.

Moderate capitalization levels

CAR and Tier I CAR stood at 17.3% and 14.4% as on March 31, 2020 as compared with 17.0% and 11.1% as on March 31, 2019. Overall gearing stood at 5.23x times as on March 31, 2020, as compared with 6.25x times as on March 31, 2019. The existing investors have been providing need-based support to the company in the form of fresh equity as and when required. As on September 30, 2020, CAR and Tier I CAR stood at 17.4% and 15.1%.

Moderate profitability levels

With the improvement in yield on advances, Net Interest Margin (NIM) improved from 5.26% in FY19 to 5.63% in FY20. Improvement in yield is mainly because of high growth in the high yielding segments such as two-wheeler (23%), three-wheelers (37%) and tractor (35%).

Opex remained low at 1.54% in FY20 as against 1.37% in FY19. Loan loss provisions and write-offs to average total assets slightly improved to 3.01% in FY20 from 3.16% in FY19. ROTA slightly moderated to 1.43% in FY20 from 1.54% in FY19 although there is a reduction in the tax rate. Profit before provisions and tax has increased by 7% from Rs.990 crore in FY19 to Rs.1,056 crore in FY20.

During H1FY21, the company reported PAT of Rs.138 crore on a total income of Rs.1,343 crore as against a PAT of Rs.133 crore on a total income of Rs.1,399 crore during H1FY20.

Impact of Covid-19

HLF has not requested any of its lenders for moratorium 1.0 as well as 2.0, and the company has provided moratorium to two-wheeler and wholesale portfolio customers on opt-in basis and opt-out basis for the remaining customers. Collection efficiency has improved from 22% during April 2020 to 92% during November 2020.

Slowdown in the CV sales and prevailing market conditions on account of Covid-19 is expected to have an impact on the asset quality and profitability going forward.

Industry Outlook and Prospects

Commercial vehicle sector is expected to face challenges as lesser movement of vehicles may translate to weak earnings for

fleet operators. Construction equipment and MHCVs involved in transporting of non-essential commodities and construction are likely to face revenue losses during the lockdown period. However, in view of the Govt's push to ensure the supply of essential commodities, it is expected that vehicles involved in transporting essential commodities will be able to continue the business. Thus, a large portion of LCVs (used in intra-state movement) and some portion of MHCVs (used in inter-state movement) are expected to be functional during the lockdown. However, the impact due to lower industrial and infrastructure-related activities could be adverse on this segment.

Financiers who provide loans to MSME units generally tend to rely on assessment of the estimated (surrogate) cash flows and offer loans at high yield. Lockdowns, disruptions in supply chain and impact on large industries would increase immediate delinquencies in this segment. However, secured MSME loans with collateral security (Property, machinery, etc.) and longer tenure may have the time for eventual recovery and may be more immune to the economic shocks compared to unsecured ones. Impact could vary across sub-segments and ticket sizes.

The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. While asset quality of NBFCs has witnessed moderation in FY20, the impact of COVID-19 on the asset quality remains to be seen.

Liquidity: Adequate

HLF's ALM profile stood adequate with no cumulative mismatch in any of the time buckets upto 1 year as on September 30, 2020, and the company has a contractual obligations of Rs.1,476 crore and Rs.1,375 crore (Principal alone) including capital market borrowings in Q3FY21 and Q4FY21, respectively. As on November 30, 2020, the company had cash and cash equivalents of Rs.250 crore, liquid investments of Rs.100 crore and unavailed lines of credit (including CC) of Rs.2,637 crore. During 8mFY21, HLF has raised Rs.2,200 crore through Term Loan, Rs.950 crore through NCD (under TLTRO 2.0 & PCG) and Rs.50 crore CC facility from banking system. The ability of the company to mobilize funds from the banks at a competitive rate adds comfort.

Analytical approach: Standalone approach also factoring in linkages with parent

HLF enjoys strong operational linkages with access to dealer network of Ashok Leyland Limited (ALL) and common brand name and logo. Apart from the demonstrated track record of equity infusion in the part, HLF also enjoys significant financial flexibility in terms of mobilizing funds from various sources at competitive rates.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

[Rating Methodology: Notching by Factoring Linkages in Ratings](#)

[Rating Methodology - Market linked Notes](#)

About the Company

HLF is a non-deposit accepting systemically important (ND-SI) NBFC based out of Chennai, Tamil Nadu, belonging to the Hinduja group. Established in 2008, HLF started its lending operations in FY11 subsequent to receipt of RBI license in March 2010. The company has been promoted by the group's flagship automobile manufacturing company Ashok Leyland Ltd (ALL, rated 'CARE AA; Negative'/'CARE A1+') with the aim of providing funding support to ALL vehicles. HLF's exposure to ALL vehicles stood around 35% of AUM as on March 31, 2020. HLF is also engaged in extending loans to three-wheelers, two-wheelers, SCV (Small commercial vehicles), LCV (Light Commercial Vehicles), tractor, construction equipment, Loan Against Property (LAP) and used CV financing. As on September 30, 2020, shareholding of the Hinduja group in HLF stands at 99.4%, wherein ALL holds 68.8% stake.

During FY20, the company reported a PAT of Rs.292 crore on a total income of Rs.2,927 crore.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	2,561	2,927
PAT	276	292
Interest Coverage (Times)	1.32	1.28
Total Assets	20,200	20,760
Net NPA/stage III (%) (On AUM Basis)	3.04	2.65
ROTA (%)	1.54	1.43

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Market Linked Debentures	-	-	-	-	100.00	CARE PP-MLD AA-; Stable
Debentures-Non Convertible Debentures	-	-	-	-	300.00	CARE AA-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	17703.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20) 2)CARE AA-; Stable (03-Jul-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (29-Aug-18) 2)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	1800.00	CARE A1+	1)CARE A1+ (30-Sep-20)	1)CARE A1+ (01-Oct-19) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (27-Jun-18)	1)CARE A1+ (07-Jul-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jul-17)
4.	Debt-Subordinate Debt	LT	35.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
9.	Debentures-Non Convertible	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable	1)CARE AA-; Stable	1)CARE AA-; Stable

	Debentures					(01-Oct-19)	(27-Jun-18)	(07-Jul-17)
10.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
11.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
12.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
13.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
14.	Debt-Subordinate Debt	LT	180.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
15.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
16.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
17.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
18.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
19.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
20.	Debt-Subordinate Debt	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (29-Aug-17)
21.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (27-Sep-17)
22.	Debt-Subordinate Debt	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (26-Mar-18)
23.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18) 2)CARE AA-; Stable (09-Apr-18)	-
24.	Debt-Subordinate Debt	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	-
25.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20)	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	-

26.	Debt-Subordinated debt - Market Linked Debenture	LT	150.00	CARE PP-MLD AA-; Stable	1)CARE PP-MLD AA-; Stable (30-Sep-20)	1)CARE PP-MLD AA-; Stable (01-Oct-19)	1)CARE PP-MLD AA-; Stable (14-Sep-18)	-
27.	Debentures-Non Convertible Debentures	LT	550.00	CARE AA-; Stable	1)CARE AA-; Stable (30-Sep-20) 2)CARE AA-; Stable (03-Jul-20)	-	-	-
28.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA-; Stable	-	-	-	-
29.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA-; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Market Linked Debentures	Complex
2.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: 022-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Sudhakar P
Contact no.: 044-2850 1000
Email ID: p.sudhakar@careratings.com

Relationship Contact

Name: Pradeep Kumar V
Contact no.: 044-2850 1000
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. CARE's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**