

Ratings

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Rating Rationale

January 08, 2021 | Mumbai

Hinduja Leyland Finance Limited

'CRISIL AA-/Stable' assigned to NCD

Rating Action

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

Rs.400 Crore Non Convertible Debentures	CRISIL AA-/Stable (Reaffirmed)
Rs.150 Crore Non Convertible Debentures	CRISIL AA-/Stable (Assigned)
Rs.200 Crore Subordinated Debt	CRISIL AA-/Stable (Reaffirmed)
Rs.200 Crore Subordinated Debt	CRISIL AA-/Stable (Reaffirmed)
Rs.230 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 on the Rs 150 crore non-convertible debentures of Hinduja Leyland Finance Ltd (HLF) and has reaffirmed its ratings on the existing debt instruments and bank facilities at 'CRISIL AA-/Stable/CRISIL A1+'. The ratings continue to reflect the majority ownership of HLF held by its parent, Ashok Leyland Ltd (Ashok Leyland), and the Hinduja group; and the company's strategic importance to the parent and the group. The ratings also factor in HLF's growing presence in the Indian vehicle finance market. These strengths are constrained by the moderate asset quality metrics and earnings profile.

HLF continues to receive strategic support from Ashok Leyland, which holds the primary stake of 68.81%. The promoters have also infused capital at regular intervals, with Rs 650 crore brought in since June 2017, through a rights issue. Consequently, capitalisation metrics are strong with networth of Rs 3,469 crore and adjusted gearing of 6.2 times as on September 30, 2020, as compared to Rs 3,246 crore and 6.8 times, respectively, as on March 31, 2020.

Over the past four years, scale of operations has improved significantly, with assets under management (AUM) registering a compounded annual growth rate (CAGR) of 28% to reach Rs 26,450 crore as on March 31, 2020. However, performance remains subdued, with the AUM shrinking to Rs 26,195 crore as on September 30, 2020, reflecting a 2% annualised de-growth over the first half of fiscal 2021.

Asset quality metrics, albeit improved, were elevated with delinquencies, as measured by 90 days past due (dpd), at 4.4% as on September 30, 2020, vis-à-vis 4.4% as on March 31, 2020, and 4.7% as on March 31, 2019. During the nationwide lockdown imposed between March and June 2020, collection efficiencies dropped to 41% in April 2020, and have subsequently improved to 92% for November 2020. Also, while the one-time restructuring scheme announced by the Reserve Bank of India (RBI) will support the borrowers affected by the pandemic, details and implementation of the scheme are yet to be seen.

Earnings profile was also modest, driven by a relatively lower net interest margin (NIM), though partially offset by the lower-than-industry average operating expenses ratio. NIM (annualised) dropped to 3.9% in the first six months of fiscal 2021, owing to low revenue and limited growth. On the other hand, aided by improvement in the 90+ dpd, credit cost stood at 2.3% (annualised) in the first six months of fiscal 2021, vis-a-vis 2.4% for fiscal 2020 and 2.6% for fiscal 2019. Consequently, return on managed assets (RoMA) remained stable at 1.1% (annualised) in six months ended September 30, 2020.

Analytical Approach

The ratings factor in expectation of strong support to HLF from Ashok Leyland and the Hinduja group, given the majority ownership and strategic importance of HLF to Ashok Leyland 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 between 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, Ashok Leyland and the Hinduja group**

The Hinduja group entities held 99.37% in HLF as on September 30, 2020, with Ashok Leyland being the primary shareholder with around 68.81% stake. HLF plans to come out with an initial public offering (IPO) in the near to medium term. Even post the IPO, the Hinduja group may continue to hold the majority stake.

The Ashok Leyland portfolio vehicles constituted around 35% of HLF's portfolio as on September 30, 2020. Existing shareholders have also infused capital at regular intervals; and have infused fresh capital of around Rs 650 crore since June 2017.

CRISIL believes HLF will continue to receive strategic support from Ashok Leyland over the medium term. The Hinduja group will remain the largest shareholder and maintain a controlling stake in the company.

- **Significant presence in the Indian vehicle finance market**

Scale of operations has improved significantly, with AUM recording 28% CAGR over the past four fiscals, to Rs 26,450 crore as on March 31, 2020. However, growth has been subdued amidst the current economic environment, and AUM has shrunk by 2% (in annualised terms) over the first six months of fiscal 2021, to reach Rs 26,195 crore as on September 30, 2020.

Vehicle loans accounted for bulk of the portfolio (77%), making HLF a large player in the vehicle finance space. The balance portfolio comprises loans against property or LAP (14% share) and portfolio buyouts. HLF forayed into these segments so as to diversify its business mix and increase the share of the non-vehicle portfolio.

Within vehicle finance, commercial vehicles and construction equipment accounted for 45% of the AUM, followed by new two- and three-wheelers (17%), and other vehicles (~15%). The loan book is also well-diversified in terms of geographic reach, as HLF is present at more than 1,500 locations across 24 states and union territories.

Growth in fiscal 2021 may remain muted on account of the Covid-19 pandemic and slowdown in the vehicle industry. However, with the overall economy likely to witness a rebound in fiscal 2022, the situation may improve for HLF as well.

Weakness:

- **Moderate asset quality metrics and earnings profile**

Asset quality metrics, albeit improved, remained elevated, with delinquencies at 4.4% as on September 30, 2020, [as measured by 90 days past due (dpd)], as compared to 4.4% as on March 31, 2020 and 4.7% as on March 31, 2019. Segment-wise, the 90+ dpd in vehicle portfolio stood at 5.4% as on September 30, 2020, slightly better than 5.6% as on March 31, 2020. LAP 90+ dpd stood at 1.5% as on September 30, 2020, vis-a-vis 1.3% as on March 31, 2020. The company shall now reduce its focus on first-time users/buyers, and rather increase the share of large and medium fleet operators to support asset quality metrics in the medium term. Further, while the company has forayed into non-vehicle loans, this segment is relatively new, having been built up only over the last few years. Collection efficiencies dropped to 41% in April 2020, following the lockdown imposed in March 2020, and have improved to 92% for November 2020. Though the RBI has announced a one-time restructuring scheme to support the affected borrowers during the pandemic, the details and implementation of the scheme are yet to be seen.

The earnings profile is marked by relatively lower net interest margin (NIMs), though partly aided by the operating expenses ratio, which lags the industry average. NIMs have fallen sharply from their levels seen in fiscal 2014, in line with change in focus towards the competitive strategic segment. Annualised NIM fell to 3.9% for the first six months of fiscal 2021, owing to low revenue and limited growth. On the other hand, credit cost improved to 2.3% (annualised) in the first six months of fiscal 2021, from 2.4% for fiscal 2020 and 2.6% for fiscal 2019, aided by better 90+ dpd. Consequently, return on managed assets (RoMA) was stable at 1.1% (annualised) in the six months ended September 30, 2020, similar to levels reported in fiscal 2020. Ability to manage asset quality amidst the pandemic, and hence, credit cost, will remain a key monitorable. In the long-run, asset quality management as the portfolio seasons and scales up will be the key determinant of earnings profile of the company

Liquidity: Strong

HLF has an adequate asset liability management profile, with positive cumulative mismatches across all buckets upto 1 year as on September 30, 2020 (excluding unutilised bank limit and committed disbursement). The company has no commercial paper borrowings as on September 30, 2020

As on November 30, 2020, HLF had liquidity of around Rs 2987 crore, comprising cash and liquid investments, unutilised cash credit/working capital demand loan (CC/WCDL), term loan and securitisation lines. Additionally, HLF has around Rs 2500 crore of funds in pipeline in the form of non-convertible debentures and direct assignments. Against the same, the company has total debt obligation of Rs 1,688 crore (excluding scheduled CC/WCDL renewal/roll-over) over December 2020 to February 2021.

Outlook Stable

CRISIL believes HLF will continue to receive strong support from Ashok Leyland 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

- Better asset quality metrics, with gross non-performing assets declining below 2.5%, translating to improved earnings profile as the portfolio scales up
- Upward revision in CRISIL's view on Ashok Leyland's credit risk profile

Downward factors

- Decline in support from Ashok Leyland or material change in Ashok Leyland's shareholding in HLF, or any downward revision in CRISIL's view on the credit profile of Ashok Leyland
- Weakening of asset quality metrics, with GNPA's exceeding 6% and exerting 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, Ashok Leyland. Gradually, HLF ventured into financing of non- Ashok Leyland vehicles, and forayed into the LAP segment in fiscal 2015. Apart from commercial vehicles, the company also funds purchase of two- and three-wheelers, tractors, construction equipment and used CVs. The company has also been buying portfolios over the past two years to diversify its product profile, thereby augmenting net interest margin.

Profit after tax (PAT) was Rs 292 crore on total income of Rs 2927 crore in fiscal 2020, against Rs 276 crore and Rs 2561 crore, respectively, in the previous fiscal.

In the six months ended September 30, 2020, PAT of Rs 138 crore was reported on total income of Rs 1343 crore.

Key Financial Indicators

As on / for the half year/for the year ended	Unit	Sep20**	Mar-2020	Mar-2019**
Total assets	Rs crore	20,373	20,761	20,201
Total income	Rs crore	1,343	2,927	2561
Profit after tax	Rs crore	138	292	276
Gross NPA	%	4.4	4.4	4.7
Overall capital adequacy ratio	%	17.40	17.25	16.97
Adjusted gearing [^]	Times	6.2	6.8	7.7
Return on managed assets [^]	%	1.1*	1.1	1.3

*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)	Complexity Level	Rating Outstanding with Outlook
INE146O07326	Debenture	28-Mar-18	9.10	26-Mar-21	100	Simple	CRISIL AA-/Stable
INE146O07359	Debenture	18-May-18	9.05	06-Apr-21	50	Simple	CRISIL AA-/Stable
INE146O07409	Debenture	06-Oct-20	8.05	06-Apr-22	100	Simple	CRISIL AA-/Stable
NA	Debenture [^]	NA	NA	NA	50	Simple	CRISIL AA-/Stable
NA	Debenture [^]	NA	NA	NA	150	Simple	CRISIL AA-/Stable
INE146O08068	Subordinate Debt	30-Nov-15	11.5	31-May-21	85	Complex	CRISIL AA-/Stable
INE146O08084	Subordinate Debt	20-Jan-16	11.3	21-Jul-21	85	Complex	CRISIL AA-/Stable
INE146O08076	Subordinate Debt	15-Dec-15	11.4	15-Jun-21	35	Complex	CRISIL AA-/Stable
INE146O08019	Subordinate Debt	21-Feb-14	12.00	21-Feb-21	25	Complex	CRISIL AA-/Stable
NA	Subordinate Debt [^]	NA	NA	NA	200	Complex	CRISIL AA-/Stable
NA	Subordinate Debt [^]	NA	NA	NA	100	Complex	CRISIL AA-/Stable
INE146O08159	Subordinate Debt	29-Mar-19	11.6	29-Sep-24	100	Complex	CRISIL AA-/Stable
NA	Commercial Paper	NA	NA	7-365 days	1800	Simple	CRISIL A1+
NA	Proposed Long Term	NA	NA	NA	700	NA	CRISIL AA-/Stable

	Bank Loan Facility						
NA	Term Loan	NA	NA	Nov-24	500	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Nov-24	500	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jan-25	300	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Mar-25	300	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jan-24	200	NA	CRISIL AA-/Stable
NA	Long Term Bank Facility	NA	NA	NA	500	NA	CRISIL AA-/Stable

^Yet to be issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Hinduja Leyland Finance Ltd	Full	Parent
Hinduja Housing Finance Ltd	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018		
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating		
Fund Based Facilities	LT	3000.0	CRISIL AA-/Stable		--	10-06-20	CRISIL AA-/Stable	31-12-19	CRISIL AA-/Stable		--	--		
					--	27-03-20	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		--	--
Non Convertible Debentures	LT	550.0	CRISIL AA-/Stable		--	10-06-20	CRISIL AA-/Stable	31-12-19	CRISIL AA-/Stable	26-06-18	CRISIL AA-/Stable	--		
Subordinated Debt	LT	630.0	CRISIL AA-/Stable		--	10-06-20	CRISIL AA-/Stable	31-12-19	CRISIL AA-/Stable	26-06-18	CRISIL AA-/Stable	--		
					--	27-03-20	CRISIL AA-/Stable	28-08-19	CRISIL AA-/Stable	23-01-18	CRISIL AA-/Stable	--		
					--	27-03-20	CRISIL AA-/Stable	28-08-19	CRISIL AA-/Stable		--	--		
					--		--		--	14-06-19	CRISIL AA-/Stable		--	--
					--		--		--	14-06-19	CRISIL AA-/Stable		--	--
	--		--		--	17-05-19	CRISIL AA-/Stable		--	--				
	--		--		--	17-05-19	CRISIL AA-/Stable		--	--				
	--		--		--	08-01-19	CRISIL AA-/Stable		--	--				
	--		--		--	08-01-19	CRISIL AA-/Stable		--	--				
Commercial Paper	ST	1800.0	CRISIL A1+		--	10-06-20	CRISIL A1+	31-12-19	CRISIL A1+	26-06-18	CRISIL A1+	--		
					--	27-03-20	CRISIL A1+	28-08-19	CRISIL A1+	23-01-18	CRISIL A1+	--		
					--		--		--	14-06-19	CRISIL A1+		--	--
					--		--		--	17-05-19	CRISIL A1+		--	--
					--		--		--	08-01-19	CRISIL A1+		--	--

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	Long Term Bank Facility	500	CRISIL

		AA-/Stable			AA-/Stable
Proposed Long Term Bank Loan Facility	700	CRISIL AA-/Stable	Proposed Long Term Bank Loan Facility	700	CRISIL AA-/Stable
Term Loan	1800	CRISIL AA-/Stable	Term Loan	1800	CRISIL AA-/Stable
Total	3000	-	Total	3000	-

Links to related criteria

[Rating Criteria for Finance Companies](#)

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

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

[CRISILs Criteria for Consolidation](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Krishnan Sitaraman Senior Director CRISIL Ratings Limited D:+91 22 4097 8209 krishnan.sitaraman@crisil.com</p> <p>Ajit Velonie Director CRISIL Ratings Limited D:+91 22 4097 8209 ajit.velonie@crisil.com</p> <p>Vaibhav Arora Rating Analyst CRISIL Ratings Limited B:+91 22 3342 3000 Vaibhav.Arora@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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