

# Ratings

# CRISIL

An S&P Global Company

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## Rating Rationale

April 30, 2021 | Mumbai

### Hinduja Leyland Finance Limited

*Ratings Reaffirmed*

#### Rating Action

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

<b>Rs.300 Crore Non Convertible Debentures (Reduced from Rs.550 Crore)</b>	<b>CRISIL AA-/Stable (Reaffirmed)</b>
<b>Subordinated Debt Aggregating Rs.805 Crore (Reduced from Rs.830 Crore)</b>	<b>CRISIL AA-/Stable (Reaffirmed)</b>
<b>Rs.1800 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA-/Stable/CRISIL A1+' ratings on the existing debt instruments and bank facilities of Hinduja Leyland Finance Limited (HLF). CRISIL Ratings has also withdrawn its rating on the non-convertible debentures of Rs.150 crore (See Annexure 'Details of Rating Withdrawn' for details) on confirmation from the debenture trustee as it is fully redeemed. The rating is withdrawn in line with CRISIL's policy.

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 infused since June 2017, through a rights issue. Consequently, capitalisation metrics are strong with networth of Rs 3,648 crore and adjusted gearing of 5.9 times as on December 31, 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 26,262 crore as on December 31, 2020, reflecting a 1% annualised de-growth over the first nine-months of fiscal 2021.

Asset quality metrics, albeit stable, were elevated with delinquencies, as measured by 90 days past due (dpd), at 4.5% (*pro-forma*) as on December 31, 2020, vis-à-vis 4.4% as on March 31, 2020, and 4.7% as on March 31, 2019. Furthermore, net repossessed assets stood at 0.9% of AUM as on December 31, 2020. During the nationwide lockdown imposed between March and June 2020, collection efficiencies after dropping to 41%<sup>1</sup> in April 2020, have subsequently improved to 95%<sup>1</sup> for March 2021. Also, under the one-time restructuring scheme announced by the Reserve Bank of India (RBI), HLF has restructured around 1-2% of its portfolio under one time restructuring (OTR) till Mar-21.

Earnings profile remains 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 nine months of fiscal 2021, owing to low revenue and limited growth. On the other hand, due to increased provisioning, credit cost also increased to 2.6% (annualised) in the first nine months of fiscal 2021, vis-a-vis 2.4% for fiscal 2020. Consequently, return on managed assets (RoMA) remained stable at 1.1% (annualised) in nine months ended December 31, 2020 aided by reduction in operating expenses and increase in other income.

#### 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 99.36% in HLF as on December 31, 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 December 31, 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 1% (in annualised terms) over the first nine-months of fiscal 2021, to reach Rs 26,262 crore as on December 31, 2020.

Vehicle loans accounted for bulk of the portfolio (79%), making HLF a large player in the vehicle finance space. The balance portfolio comprises loans against property or LAP (13% 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/construction equipment/tipper accounted for 50% of the AUM, followed by new two- and three-wheelers (18%), and other vehicles (~11%). 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.

#### **Weakness:**

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

Asset quality metrics, albeit stable, remained elevated, with delinquencies at 4.5% (*pro-forma*) as on December 31, 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. Furthermore, net repossessed assets stood at 0.9% of AUM as on December 31, 2020. Segment-wise, the 90+ dpd in vehicle portfolio stood at 5.5% as on December 31, 2020, slightly better than 5.6% as on March 31, 2020. LAP 90+ dpd stood at 1.3% as on December 31, 2020, vis-a-vis 1.3% as on March 31, 2020. The company is trying to 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 after dropping to 41%<sup>2</sup> in April 2020, following the lockdown imposed in March 2020, have improved to 95%<sup>2</sup> for March 2021. Also, under the one-time restructuring scheme announced by the Reserve Bank of India (RBI), HLF has restructured around 1-2% of portfolio till Mar-21.

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 nine months of fiscal 2021, owing to low revenue and limited growth. On the other hand, due to increased provisioning, credit cost also increased to 2.6% (annualised) in the first nine months of fiscal 2021, from 2.4% for fiscal 2020. Consequently, return on managed assets (RoMA) was stable at 1.1% (annualised) in the nine months ended December 31, 2020 aided by reduction in operating expenses and increase in other income. Ability to manage asset quality amidst the weak macro-economic environment, 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).

As on March 31, 2021, HLF had liquidity of around Rs 3525 crore, comprising cash and liquid investments, unutilised cash credit/working capital demand loan (CC/WCDL), and term loan lines. Additionally, HLF has around Rs 1100 crore of funds in pipeline in the form of bank loans and securitisation. Against the same, the company has total debt obligation (including interest payment) of Rs 2,081 crore (excluding scheduled CC/WCDL renewal/roll-over) over April 2021 to June 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 nine months ended December 31, 2020, PAT of Rs 218 crore was reported on total income of Rs 2084 crore.

<sup>1</sup>Collection Efficiency = Total Collections divided by current billing assuming no moratorium during moratorium period

<sup>2</sup>Collection Efficiency = Total Collections divided by current billing assuming no moratorium during moratorium period.

#### Key Financial Indicators

As on/for the half year/for the year ended	Unit	Dec 20**	Mar-2020**	Mar-2019**
Total assets	Rs crore	20,704	20,761	20,201
Total income	Rs crore	2,084	2,927	2561
Profit after tax	Rs crore	218	292	276
Gross NPA	%	4.5^^	4.4	4.7
Overall capital adequacy ratio	%	17.37	17.25	16.97
Adjusted gearing <sup>^</sup>	Times	5.9	6.8	7.7
Return on managed assets <sup>^</sup>	%	1.1*	1.1	1.3

\*annualized;

\*\*as per IND-AS

<sup>^</sup>based on year end averages

**Any other information:** Not applicable

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

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

#### 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
INE146O07409	Debenture	06-Oct-20	8.05	06-Apr-22	100	Simple	CRISIL AA-/Stable
NA	Subordinate Debt <sup>^</sup>	NA	NA	NA	200	Complex	CRISIL AA-/Stable
NA	Debenture <sup>^</sup>	NA	NA	NA	50	Simple	CRISIL AA-/Stable
NA	Debenture <sup>^</sup>	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
NA	Subordinated debt <sup>^</sup>	NA	NA	NA	25	Complex	CRISIL AA-/Stable
INE146O08209	Subordinated debt	22-Apr-21	9.75	21-Apr-28	50	Complex	CRISIL AA-/Stable
INE146O08191	Subordinated debt	26-Mar-21	9.75	25-Sep-26	75	Complex	CRISIL AA-/Stable
INE146O08183	Subordinated debt	19-Mar-21	9.75	18-Sep-26	50	Complex	CRISIL AA-/Stable
INE146O08175	Subordinated debt	08-Mar-21	9.75	08-Oct-26	55	Complex	CRISIL AA-/Stable
INE146O08167	Subordinated debt	16-Feb-21	9.75	18-Aug-26	45	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 Bank loan facility	NA	NA	NA	700	Simple	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Nov-24	500	Simple	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Nov-24	500	Simple	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jan-25	300	Simple	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Mar-25	300	Simple	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Jan-24	200	Simple	CRISIL AA-/Stable
NA	Long Term Bank Facility	NA	NA	NA	500	Simple	CRISIL AA-/Stable

^Yet to be issued

**Annexure - Details of Rating Withdrawn**

ISIN	Name of instrument	Date of allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Level
INE146O07359	Debenture	18-May-18	9.05	06-Apr-21	50	Simple
INE146O07326	Debenture	28-Mar-18	9.10	26-Mar-21	100	Simple

**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	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Fund Based Facilities	LT	3000.0	CRISIL AA-/Stable	03-03-21	CRISIL AA-/Stable	10-06-20	CRISIL AA-/Stable	31-12-19	CRISIL AA-/Stable		--	--
			--	08-01-21	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		--	--
Commercial Paper	ST	1800.0	CRISIL A1+	03-03-21	CRISIL A1+	10-06-20	CRISIL A1+	31-12-19	CRISIL A1+	26-06-18	CRISIL A1+	--
			--	08-01-21	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+		--	--
Non Convertible Debentures	LT	300.0	CRISIL AA-/Stable	03-03-21	CRISIL AA-/Stable	10-06-20	CRISIL AA-/Stable	31-12-19	CRISIL AA-/Stable	26-06-18	CRISIL AA-/Stable	--
			--	08-01-21	CRISIL AA-/Stable	27-03-20	CRISIL AA-/Stable	28-08-19	CRISIL AA-/Stable	23-01-18	CRISIL AA-/Stable	--
			--		--		--	14-06-19	CRISIL AA-/Stable		--	--
			--		--		--	17-05-19	CRISIL AA-/Stable		--	--
			--		--		--	08-01-19	CRISIL AA-/Stable		--	--
Subordinated Debt	LT	805.0	CRISIL AA-/Stable	03-03-21	CRISIL AA-/Stable	10-06-20	CRISIL AA-/Stable	31-12-19	CRISIL AA-/Stable	26-06-18	CRISIL AA-/Stable	--
			--	08-01-21	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		--	--	

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 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
<b>Total</b>	<b>3000</b>	<b>-</b>	<b>Total</b>	<b>3000</b>	<b>-</b>

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">Rating Criteria for Finance Companies</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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