

Rating Rationale

August 21, 2019 | Mumbai

HDB Financial Services Limited

'CRISIL AAA/CRISIL PP-MLD AAAr/Stable' assigned to debt instruments

Rating Action

Total Bank Loan Facilities Rated	Rs.25000 Crore (Enhanced from Rs.20000 Crore)
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Rs.15000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Assigned)
Rs.500 Crore Perpetual Bonds Issue	CRISIL AAA/Stable (Assigned)
Rs.2000 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PP-MLD AAAr/Stable (Assigned)
Rs.1000 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PP-MLD AAAr/Stable (Reaffirmed)
Rs.500 Crore Perpetual Bonds Issue	CRISIL AAA/Stable (Reaffirmed)
Non Convertible Debentures Aggregating Rs.22341.92 Crore	CRISIL AAA/Stable (Reaffirmed)
Non Convertible Debentures Aggregating Rs.8078.88 Crore	CRISIL AAA/Stable (Withdrawn)
Subordinated Debt Aggregating Rs.3500 Crore	CRISIL AAA/Stable (Reaffirmed)
Rs.12500 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 AAA/CRISIL PP-MLD AAAr/Stable**' ratings to Rs.500 crore perpetual bonds issue, Rs.15,000 crore non-convertible debentures and Rs.2000 crore long-term principal protected market-linked debentures of HDB Financial Services Limited (HDB Finance) and reaffirmed its ratings on the bank loan facilities and other debt instruments at '**CRISIL AAA/CRISIL PP-MLD AAAr/Stable/CRISIL A1+**'.

CRISIL has also withdrawn its rating on the non-convertible debentures of Rs 1207 crore (See Annexure 'Details of Rating Withdrawn' for details) in-line with its withdrawal policy. CRISIL has received independent verification that these instruments are fully redeemed.

The ratings reflect benefits that HDB Finance derives, from its majority owner HDFC Bank Ltd (HDFC Bank; rated '**CRISIL AAA/CRISIL AA+/Stable**'), and its strategic importance to the parent. The shared logo also enhances the moral obligation of HDFC Bank towards this entity. The ratings are also underpinned by the company's established presence in the retail finance space, and its healthy capitalisation and earnings profile.

Analytical Approach

For arriving at the ratings, CRISIL has analysed the business and financial risk profiles of HDB Finance. CRISIL has factored in the strong support that HDB Finance is expected to receive from its parent, HDFC Bank, on an ongoing basis and in times of distress.

Key Rating Drivers & Detailed Description

Strengths

* **Majority ownership by, and strategic importance to HDFC Bank:** The ratings centrally factor in support that HDB Finance receives from HDFC Bank. The company complements the parent's product portfolio and distribution network, and supports collection activities for the retail portfolio. It receives operational and managerial support from HDFC Bank, with regard to formulation of credit policies, portfolio monitoring and collection practices, if required. Presence of senior functional executives from HDFC Bank on HDB Finance board, ensures adequate supervision over its performance. The company also receives regular funding support from its parent - Rs 3,480 crore has been infused cumulatively.

* **Established presence in the retail finance segment:** HDB Finance has emerged as one of the larger players in the retail financing space, over the past few years. The overall loan portfolio has grown 22% to Rs 56,287 crore as on June 30, 2019, from Rs 45,889 crore a year ago. The loan book has also diversified, with increased presence in commercial vehicle/construction equipment (CV/CE) financing and business loans.

As a result, the share of loans against property (LAP) declined to 35% as on June 30, 2019, as compared to 60% as on March 31, 2016. Whereas, that of CV/CE loans and business loans rose to 34% and 21%, respectively, from 21% and 15%, respectively.

HDB Finance is now expanding into consumer durable financing, digital products loans and other related segments. Apart from its traditional focus on the self-employed segment in non-metros, the company has now widened its reach to the metros as well. With a diversified product offering and a pan India presence, CRISIL expects growth for HDB Finance to be above the industry average over the medium term.

* **Healthy capital position:** Capitalisation remains healthy, as reflected in Tier-1 capital adequacy ratio (CAR) of 12.5%, and overall CAR of 18.1% (as per Ind AS) as on June 30, 2019. Networth expanded to around Rs 7,237 crore as on June 30, 2019 (from Rs 7,178 crore as on March 31, 2019), while gearing stood at ~6.5 times. Cushion for asset side risks was healthy, as reflected in networth coverage for net non-performing assets (NPAs) at around 12 times. While capital generation remains comfortable, the capital profile is also aided by periodic infusion by HDFC Bank.

* **Comfortable earnings profile:** Return on managed assets was 2.3% for the full year ended March 31, 2019. It has been stable for the past three years, aided by healthy net interest margin of over 6.5% and low credit cost of 1.3% for fiscal 2019. Operating expenses, which had increased to 7.7% (as a percentage of average total assets) in fiscal 2017 on account of amalgamation of its business process outsourcing (BPO) operations fell to 6% during fiscal 2019, but continue to be relatively high.

Weaknesses:

* **Ability to maintain asset quality metrics given the current challenging environment to remain monitorable:**

Overall asset quality remains adequate, though gross NPAs have risen to 2.3% as on June 30, 2019, compared to 1.78% as on March 31, 2019 (1.86% as on June 30, 2018). The increase in gross NPAs was mainly account of increased slippages in the asset financing book.

Further, given the evolving situation for non-banking financial institutions on the liquidity front, since September 2018, asset quality in micro, small and medium enterprises segments, and loans against property (LAP) would be a key monitorable. This stems from the sensitivity of such borrowers to an environment of prolonged liquidity tightness. Though delinquencies in these loans are not high currently, owing to strong credit appraisal and risk mitigating mechanisms, if the liquidity situation does not stabilise, asset quality challenges could manifest.

Liquidity

HDB Finance's asset - liability management profile has minor cumulative mismatches in the up to one year segment. The company has upcoming repayments of Rs 3541 crore (including Rs 700 crore of commercial papers) over the 3 months till October 31, 2019. Against this, the company has adequate liquidity in the form of unutilised bank lines amounting to Rs 6200 crore and liquid investments of Rs 819 crore as on June 30, 2019. The company's liquidity is further cushioned by healthy inflows from assets, option to securitise loans and funding support from HDFC Bank, if required.

Outlook: Stable

CRISIL factors strong financial, managerial, and operational support for HDB Finance, from HDFC Bank. On a standalone basis, HDB Finance should maintain its strong position in the retail finance space, and report healthy profitability. However, the outlook may be revised to 'Negative' if HDFC Bank's credit risk profile weakens, or if significant deterioration in asset quality of HDB Finance, adversely impacts profitability. Diminution in expected support from HDFC Bank, caused by a significant decline in the bank's ownership, or in strategic importance of HDB Finance to HDFC Bank, may also result in a 'Negative' outlook.

In addition, the rating on perpetual bonds remains sensitive to the capital buffer maintained by HDB Finance, over regulatory capital requirements, and rating transition on these instruments could potentially be sharper than those on other debt instruments and bank facilities.

About the Company

HDB Finance was set up as a non-banking finance company by HDFC Bank in June 2007. The company began operations in fiscal 2008. As on March 31, 2019, HDFC Bank owned 95.9% of HDB Finance's equity shares. On the same date, the company had 1350 branches across 961 cities in India. Apart from the lending business, HDB Finance is also engaged in the distribution of general and life insurance products for HDFC Ergo General Insurance Company and HDFC Standard Life Insurance Company, respectively. The company also runs BPO services that undertake collection services, back office and sales support functions under a contract with HDFC Bank.

HDB Finance reported a profit after tax of Rs 1153 crore on a total income of Rs 8724 crore for fiscal 2019 as against Rs 933 crore and Rs 7027 crore, respectively, in fiscal 2018.

Key Financial Indicators

As on /for the period ended March 31	Unit	2019	2018
Total assets	Rs crore	56540.32	45446
Total income	Rs crore	8724	7027
Profit after tax	Rs crore	1153	933
Gross NPA	%	1.78	1.58
Overall capital adequacy ratio	%	17.9	18
Return on average assets	%	2.3	2.3

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 the instrument	Date of issuance	Coupon rate (%)	Maturity date	Issue Size (In.Cr)	
NA	Long Term Principal Protected Market Linked Debentures#	NA	NA	NA	2236.1	CRIS
NA	Perpetual bonds#	NA	NA	NA	600	
NA	Debentures#	NA	NA	NA	16024.32	
NA	Commercial Paper Programme	NA	NA	7 to 365 Days	12500	
INE756I08017	Subordinate Debt	9-Aug-12	10.20%	9-Aug-22	250	
INE756I08025	Subordinate Debt	30-Nov-12	9.70%	30-Nov-22	150	
INE756I08033	Subordinate Debt	22-Mar-13	9.60%	22-Mar-23	200	
INE756I08041	Subordinate Debt	18-Oct-13	10.20%	17-Oct-23	100	
INE756I08058	Subordinate Debt	20-Dec-13	10.05%	20-Dec-23	50	
INE756I08066	Subordinate Debt	18-Mar-14	10.19%	18-Mar-24	80	
INE756I08074	Subordinate Debt	20-Jun-14	9.70%	20-Jun-24	200	
INE756I08082	Subordinate Debt	13-Nov-14	9.55%	13-Nov-24	100	
INE756I08090	Subordinate Debt	17-Nov-14	9.55%	15-Nov-24	200	
INE756I08108	Subordinate Debt	22-Jul-16	8.79%	22-Jul-26	220	
INE756I08116	Subordinate Debt	6-Dec-16	8.05%	4-Dec-26	170	
INE756I08124	Subordinate Debt	1-Feb-18	8.42%	1-Feb-28	150	
INE756I08132	Subordinate Debt	21-Feb-18	8.45%	21-Feb-28	130	
NA	Subordinate Debt#	NA	NA	NA	585	
NA	Long Term Bank Facility	NA	NA	NA	15330	
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	9670	
INE756I08199	Perpetual bonds	16-Aug-19	8.70%	Perpetual, unless call option is exercised any time after 10 years from the Deemed Date of Allotment.	100	
INE756I08165	Perpetual bonds	7-Sep-18	9.15%	Perpetual, unless call option is exercised any time after 10 years from the Deemed Date of	100	

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				Allotment.		
INE756I08157	Perpetual bonds	6-Aug-18	9.40%	Perpetual, unless call option is exercised any time after 10 years from the Deemed Date of Allotment.	200	
INE756I07CL2	Long Term Principal Protected Market Linked Debentures	8-Feb-19	If Final Fixing Level <= 25% of Initial Fixing Level: 0.000% If Final Fixing Level > 25% of Initial Fixing Level: 8.64% p.a. (XIRR 8.45% p.a.)	31-Jul-20	300	CRIS
INE756I07CN8	Long Term Principal Protected Market Linked Debentures	1-Mar-19	If Final Fixing Level <= 25% of Initial Fixing Level: 0.000% If Final Fixing Level > 25% of Initial Fixing Level: 8.70% p.a. (XIRR 8.35% p.a.)	4-Feb-21	338.9	CRIS
INE756I07CR9	Long Term Principal Protected Market Linked Debentures	13-Jun-19	If Final Fixing Level <= 25% of Initial Fixing Level: 0.000% If Final Fixing Level > 25% of Initial Fixing Level: 8.44% p.a. (XIRR 8.10% p.a.)	4-Jun-21	125	CRIS
INE756I08173	Subordinate Debt	15-Nov-18	9.70%	15-Nov-28	350	
INE756I08181	Subordinate Debt	7-Jun-19	8.85%	7-Jun-29	315	
INE756I08140	Subordinate Debt	27-Jul-18	9.05%	27-Jul-28	250	
INE756I07944	Debentures	14-Jun-16	8.66%	13-Mar-20	100	
INE756I07951	Debentures	14-Jun-16	8.65%	13-Sep-19	200	
INE756I07AA9	Debentures	3-Aug-16	Zero Coupon	12-Sep-19	100	
INE756I07AD3	Debentures	1-Sep-16	8.06%	2-Mar-20	260	
INE756I07AE1	Debentures	15-Sep-16	7.95%	17-Sep-19	102	
INE756I07AF8	Debentures	15-Sep-16	Zero Coupon	16-Dec-19	100	
INE756I07AI2	Debentures	28-Sep-16	Zero Coupon	27-Sep-19	200	
INE756I07AJ0	Debentures	28-Sep-16	7.90%	27-Sep-19	100	
INE756I07AL6	Debentures	27-Oct-16	7.78%	25-Oct-19	135	
INE756I07AN2	Debentures	8-Nov-16	7.97%	6-Dec-19	300	

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INE756I07AQ5	Debentures	1-Dec-16	7.50%	3-Jan-20	215	
INE756I07AS1	Debentures	17-Jan-17	7.68%	27-Jan-20	110	
INE756I07AU7	Debentures	17-Jan-17	7.67%	17-Feb-20	100	
INE756I07AW3	Debentures	25-Jan-17	Zero Coupon	20-Mar-20	300	
INE756I07AZ6	Debentures	31-Jan-17	7.71%	24-Feb-20	200	
INE756I07BB5	Debentures	22-Feb-17	7.82%	24-Feb-20	260	
INE756I07BC3	Debentures	26-Apr-17	7.76%	26-May-20	135	
INE756I07BE9	Debentures	11-May-17	7.83%	11-Jun-20	100	
INE756I07BF6	Debentures	11-May-17	Zero Coupon	8-Jul-20	125	
INE756I07BG4	Debentures	18-May-17	7.80%	18-Jun-20	100	
INE756I07BH2	Debentures	29-May-17	7.80%	29-Jun-20	300	
INE756I07BJ8	Debentures	13-Jun-17	7.70%	12-Jun-20	200	
INE756I07BK6	Debentures	19-Jun-17	7.55%	19-Jun-20	375	
INE756I07BL4	Debentures	18-Jul-17	7.52%	17-Aug-20	500	
INE756I07BM2	Debentures	27-Jul-17	7.43%	28-Sep-20	400	
INE756I07BN0	Debentures	28-Aug-17	7.28%	28-Aug-19	400	
INE756I07BP5	Debentures	8-Sep-17	7.30%	8-Sep-20	400	
INE756I07BQ3	Debentures	20-Sep-17	Zero Coupon	20-Oct-20	400	
INE756I07BR1	Debentures	18-Oct-17	7.50%	18-Nov-20	500	
INE756I07BS9	Debentures	31-Oct-17	7.42%	31-Oct-19	200	
INE756I07BT7	Debentures	6-Dec-17	7.63%	7-Dec-20	800	
INE756I07BU5	Debentures	15-Jan-18	7.94%	15-Apr-21	145	
INE756I07BV3	Debentures	16-Mar-18	Zero Coupon	10-May-21	373	
INE756I07BW1	Debentures	16-Mar-18	Zero Coupon	6-Apr-21	299	
INE756I07BX9	Debentures	1-Jun-18	Zero Coupon	8-Jun-21	663	
INE756I07BY7	Debentures	27-Jun-18	8.81%	7-Jul-21	215	
INE756I07BZ4	Debentures	27-Jun-18	Zero Coupon	27-Dec-19	450	
INE756I07CA5	Debentures	11-Jul-18	T-BILL ENCHMARK RATE LINKED	12-Jul-21	575	
INE756I07CB3	Debentures	16-Aug-18	8.7	14-Aug-20	360	
INE756I07CC1	Debentures	31-Aug-18	8.82%	9-Sep-21	552	
INE756I07CD9	Debentures	17-Oct-18	Zero Coupon	29-Oct-21	701	
INE756I07CE7	Debentures	26-Oct-18	9.35%	25-Mar-22	449.5	
INE756I07CF4	Debentures	2-Nov-18	9.38%	15-Jun-20	385	
INE756I07CG2	Debentures	22-Nov-18	9.26%	24-Feb-20	500	
INE756I07CH0	Debentures	22-Nov-18	9.18%	13-Dec-19	350	
INE756I07CI8	Debentures	3-Dec-18	Zero Coupon	5-Apr-22	500	
INE756I07CI8	Debentures	21-Dec-18	Zero Coupon	5-Apr-22	361.2	
INE756I07BF6	Debentures	28-Dec-18	Zero Coupon	8-Jul-20	125	
INE756I07BK6	Debentures	28-Dec-18	7.55%	19-Jun-20	285	
INE756I07BF6	Debentures	10-Jan-19	Zero Coupon	8-Jul-20	200	
INE756I07CJ6	Debentures	10-Jan-19	8.80%	10-Aug-20	300	
INE756I07BQ3	Debentures	23-Jan-19	Zero Coupon	20-Oct-20	200	
INE756I07BT7	Debentures	23-Jan-19	7.63%	7-Dec-20	300	

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INE756I07CI8	Debentures	23-Jan-19	Zero Coupon	5-Apr-22	575	
INE756I07CK4	Debentures	23-Jan-19	8.83%	4-May-22	386.9	
INE756I07CI8	Debentures	21-Feb-19	Zero Coupon	5-Apr-22	111	
INE756I07CM0	Debentures	21-Feb-19	8.71%	18-Feb-21	250	
INE756I07CI8	Debentures	14-Mar-19	Zero Coupon	5-Apr-22	290	
INE756I07CM0	Debentures	14-Mar-19	8.71%	18-Feb-21	500	
INE756I07CO6	Debentures	14-Mar-19	8.80%	14-Mar-22	290	
INE756I07CP3	Debentures	3-May-19	8.55%	17-Jun-22	225	
INE756I07BX9	Debentures	17-May-19	Zero Coupon	8-Jun-21	97	
INE756I07CQ1	Debentures	17-May-19	8.71%	17-May-21	365	
INE756I07CQ1	Debentures	30-May-19	8.71%	17-May-21	300	
INE756I07CP3	Debentures	21-Jun-19	8.55%	17-Jun-22	305	
INE756I07CS7	Debentures	25-Jul-19	8.00%	25-Aug-22	117	
INE756I07CT5	Debentures	8-Aug-19	8.05%	8-Aug-29	1500	

#Yet to be issued

Annexure - Details of Rating Withdrawn

ISIN	Name of the instrument	Date of issuance	Coupon rate (%)	Maturity Date
INE756I07399	Debentures	18-Jun-14	9.49%	18-Jun-19
INE756I07423	Debentures	31-Jul-14	9.56%	31-Jul-19
INE756I07894	Debentures	2-May-16	8.50%	12-Jun-19
INE756I07910	Debentures	20-May-16	8.60%	17-Jun-19
INE756I07928	Debentures	3-Jun-16	8.70%	3-Jul-19
INE756I07985	Debentures	27-Jul-16	8.40%	29-Jul-19
INE756I07B10	Debentures	13-Jun-17	7.63%	28-Jun-19
INE756I07AB7	Debentures	10-Aug-16	8.30%	9-Aug-19

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		Date
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	
Commercial Paper	ST	12500.00	CRISIL A1+	28-05-19	CRISIL A1+	14-11-18	CRISIL A1+	02-11-17	CRISIL A1+	
						02-07-18	CRISIL A1+			
Long Term Principal Protected Market Linked Debentures	LT	763.90 21-08-19	CRISIL PP-MLD AAA/Stable	28-05-19	CRISIL PP-MLD AAA/Stable	14-11-18	CRISIL PP-MLD AAA/Stable		--	
Non Convertible Debentures	LT	21317.60 21-08-19	CRISIL AAA/Stable	28-05-19	CRISIL AAA/Stable	14-11-18	CRISIL AAA/Stable	02-11-17	CRISIL AAA/Stable	11-07-1
						02-07-18	CRISIL AAA/Stable	16-06-17	CRISIL AAA/Stable	
Perpetual Bonds	LT	400.00 21-08-19	CRISIL AAA/Stable	28-05-19	CRISIL AAA/Stable	14-11-18	CRISIL AAA/Stable	02-11-17	CRISIL AAA/Stable	
						02-07-18	CRISIL AAA/Stable	16-06-17	CRISIL AAA/Stable	
Short Term Debt (Including Commercial Paper)	ST							16-06-17	CRISIL A1+	11-07-1
Subordinated Debt	LT	2915.00 21-08-19	CRISIL AAA/Stable	28-05-19	CRISIL AAA/Stable	14-11-18	CRISIL AAA/Stable	02-11-17	CRISIL AAA/Stable	11-07-1
						02-07-18	CRISIL AAA/Stable	16-06-17	CRISIL AAA/Stable	
Fund-based Bank Facilities	LT/ST	25000.00	CRISIL AAA/Stable	28-05-19	CRISIL AAA/Stable	14-11-18	CRISIL AAA/Stable	02-11-17	CRISIL AAA/Stable	11-07-1
						02-07-18	CRISIL AAA/Stable	16-06-17	CRISIL AAA/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)
Long Term Bank Facility	15330	CRISIL AAA/Stable	Long Term Bank Facility	15330
Proposed Long Term Bank Loan Facility	9670	CRISIL AAA/Stable	Proposed Long Term Bank Loan Facility	4670
Total	25000	--	Total	20000

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[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](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Se
<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>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crisil.com</p>	<p>Krishnan Sitaraman Senior Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 8070 krishnan.sitaraman@crisil.com</p> <p>Subhasri Narayanan Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3403 subhasri.narayanan@crisil.com</p> <p>Samip Bhansali Rating Analyst - CRISIL Ratings CRISIL Limited B:+91 22 3342 3000 Samip.Bhansali@crisil.com</p>	<p>Timings: 10.00 am to 7.00 Toll free Number:1800 26</p> <p>For a copy of Rationales / CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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