

Hinduja Leyland Finance Limited

September 30, 2020

Ratings

Facilities/Instruments	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	17,703	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Total Facilities	17,703 (Rs. Seventeen thousand seven hundred three crore only)		
Commercial Paper	1,800	CARE A1+ (A One Plus)	Reaffirmed
Non-Convertible Debenture-XVII	200	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture-XVIII	500	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture-XIX	550	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Subordinated Debt-I	35	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Subordinated Debt-II	180	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Subordinated Debt-III	200	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Subordinated Debt-IV	200	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Subordinated Debt-V	200	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Subordinated Debt - Principal Protected Market linked debenture	150	CARE PP-MLD AA-; Stable [Principal Protected - Market Linked Debenture Double A Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debenture-II	-	-	Withdrawn
Non-Convertible Debenture-V	-	-	Withdrawn
Non-Convertible Debenture-VI	-	-	Withdrawn
Non-Convertible Debenture-VII	-	-	Withdrawn
Non-Convertible Debenture-XI	-	-	Withdrawn
Non-Convertible Debenture-XIV	-	-	Withdrawn
Non-Convertible Debenture-XV	-	-	Withdrawn
Non-Convertible Debenture-XVI	-	-	Withdrawn
Total Instruments	4,015 (Rs. Four thousand fifteen crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and 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.

CARE has withdrawn the rating assigned to the non-convertible debenture issues (NCD-II, NCD-V, NCD-VI, NCD-VII, NCD-XI, NCD-XIV, NCD-XV and NCD-XVI) of Hinduja Leyland Finance Limited with immediate effect, as the company has repaid the aforementioned non-convertible debenture issue in full and there is no amount outstanding under the issue as on date.

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

Rating Sensitivities

Positive Factors

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

Negative Factors

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

Credit Risk Assessment

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 10 directors, including 5 independent directors with rich experience in 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.

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 FIs 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 in Assets Under Management of 4% 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 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.25,656 crore as on June 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 15.8% as on June 30, 2020. As on June 30, 2020, GNPA and NNPA stood at 4.6% and 2.7%, respectively. Stage II assets and Stage III assets has 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 June 30, 2020, CAR and Tier I CAR stood at 17.9% and 15.2%.

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 Q1FY21, the company reported PAT of Rs.60 crore on a total income of Rs.655 crore as against a PAT of Rs.66 crore on a total income of Rs.682 crore during Q1FY20.

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. The company has improved its collection efficiency from 22% during April 2020 to 69% during August 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 June 30, 2020 and the company has a contractual obligations of Rs.1,163 crore and Rs.1,343 crore (Principal alone) including capital market borrowings in Q2FY21 and Q3FY21, respectively. As on July 31, 2020, the company had cash and cash equivalents of Rs.284 crore, liquid investments of Rs.100 crore and unavailed lines of credit (including CC) of Rs.3,470 crore. During 4mFY21, HLF has raised Rs.1,000 crore through Term Loan, Rs.450 crore through NCD (under TLTRO 2.0 & PCG) and Rs.100 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: Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

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 36% of AUM as on June 30, 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 June 30, 2020, shareholding of the Hinduja group in HLF stands at 96%, wherein ALL holds 69% 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

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
Fund-based-Long Term	-	-	-	Dec 2025	17703.00	CARE AA-; Stable
Debentures-Non Convertible Debentures-II	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-V	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-VI	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-VII	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-XI	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-XIV	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-XV	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-XVI	-	-	-	-	-	Withdrawn
Debentures-Non Convertible Debentures-XVII	INE146007359	May 18, 2018	9.05%	Apr 06, 2021	50.00	CARE AA-; Stable
	Proposed	-	-	-	150.00	
Debentures-Non Convertible Debentures-XVIII	INE146007375	Jun 05, 2020	9.25%	Jun 02, 2023	200.00	CARE AA-; Stable
	INE146007383	Jul 08, 2020	8.30%	Jan 07, 2022	250.00	
	Proposed	-	-	-	50.00	
Debentures-Non Convertible Debentures-XIX	INE146007391	Aug 07, 2020	8.15%	Feb 07, 2022	300.00	CARE AA-; Stable
	Proposed	-	-	-	250.00	
Debt-Subordinate Debt-I	INE146008027	Mar 28, 2014	12.00%	Mar 28, 2021	10.00	CARE AA-; Stable
	INE146008019	Feb 21, 2014	12.00%	Feb 21, 2021	25.00	
Debt-Subordinate Debt-II	INE146008092	Jun 23, 2016	11.10%	Apr 08, 2022	180.00	CARE AA-; Stable
Debt-Subordinate Debt-III	INE146008100	Aug 28, 2017	9.40%	Aug 28, 2024	100.00	CARE AA-; Stable
	INE146008118	Sep 13, 2017	9.20%	Sep 13, 2024	100.00	
Debt-Subordinate Debt-IV	INE146008134	Mar 27, 2018	10.15%	Mar 27, 2025	100.00	CARE AA-; Stable
	INE146008126	Mar 28, 2018	9.50%	Sep 28, 2023	50.00	
	Proposed	-	-	-	50.00	
Debt-Subordinate Debt-V	INE146008159	Mar 29, 2019	11.60%	Sep 29, 2024	100.00	CARE AA-; Stable
	Proposed	-	-	-	100.00	
Debt-Subordinated debt - Market Linked Debenture	INE146008142	Sep 18, 2018	Linked to G-Sec	Sep 17, 2024	150.00	CARE PP-MLD AA-; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 days to 1 year	1800.00	CARE A1+

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 (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+ (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 (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	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)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA-; Stable (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
10.	Debentures-Non Convertible Debentures	LT	-	-	-	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 (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (07-Jul-17)
15.	Debentures-Non Convertible Debentures	LT	-	-	-	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	1)CARE AA-; Stable

							(27-Jun-18)	(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)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)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 (01-Oct-19)	1)CARE AA-; Stable (27-Jun-18)	1)CARE AA-; Stable (29-Aug-17)
21.	Debentures-Non Convertible Debentures	LT	-	-	-	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 (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 (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 (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 (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 (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 (03-Jul-20)	-	-	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Debt-Subordinate Debt	Simple
4.	Debt-Subordinated debt - Market Linked Debenture	Complex
5.	Fund-based-Long Term	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.

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