

Rating Rationale

June 26, 2018 | Mumbai

Hinduja Leyland Finance Limited

'CRISIL AA-/Stable' assigned to Subordinated Debt

Rating Action

Rs.200 Crore Subordinated Debt	CRISIL AA-/Stable (Assigned)
Rs.500 Crore Non Convertible Debentures	CRISIL AA-/Stable (Reaffirmed)
Rs.1250 Crore Commercial Paper (Enhanced from Rs.750 Crores)	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 to the Rs 200 crore subordinated debt of Hinduja Leyland Finance Limited (HLF) and reaffirmed its '**CRISIL AA-/Stable/CRISIL A1+**' ratings on the company's non-convertible debentures and commercial paper. The rating reflects the majority ownership by the parent Ashok Leyland Ltd (ALL) and Hinduja Group and HLF being of strategic importance to ALL. The rating also factors in HLF's growing presence in the Indian vehicle finance market and its comfortable liquidity profile.

Analytical Approach

The rating centrally factors in the expectation of strong support to HLF from ALL and the Hinduja group given the strategic importance of HLF to ALL and the group and the strong moral obligation to support HLF-. The rating also factors in HLF's growing presence in the Indian vehicle finance market and its comfortable liquidity profile

Key Rating Drivers & Detailed Description

Strengths

* Majority ownership by, and strategic importance to ALL and Hinduja Group

Hinduja group entities hold 92.4% in HLF as on March 31, 2018 with ALL being the primary shareholder with around 61.8% stake. CRISIL believes that the strategic importance of HLF to ALL and the Hinduja group is high given HLF's strategic role in financing ALL vehicles. ALL portfolio vehicles constituted around 39% of HLF's portfolio as on March 31, 2018. Existing shareholders have also infused capital at regular intervals; in the last one year, they have infused fresh capital of around Rs 450 crore. HLF also benefits from the common brand, which enables it to access - resources at competitive rates.

The company has recently filed for IPO. While the stake of Hinduja group entities would reduce post the IPO, they would continue to hold majority controlling stake with ALL remaining as the primary shareholder.

CRISIL believes that HLF will continue to benefit from the strategic support from ALL over the medium term. Hinduja Group will remain as the largest shareholder and maintain controlling stake in the company.

* Growing presence in the Indian vehicle finance market

HLF's scale of operations has improved significantly with assets under management (AUM) registering a compounded annual growth rate (CAGR) of 41% over the past five years. AUM reached Rs 19,263 crore as on March 31, 2018, with vehicle loans accounting for almost 77% of the portfolio, making it one of the large players in the vehicle finance space. The remaining portfolio comprises of loans against property (13%) and portfolio buyouts, which were started to diversify the business mix. The company has plans to increase the share of the non-vehicle portfolio over the medium term which would add further diversification to the AUM profile.

Within vehicle finance, new commercial vehicles and construction equipment accounted for 47% of the AUM followed by 2/3 wheelers at 12%, used vehicle at 11% and other vehicles accounted for around 10% of the AUM. Geographically also, the loan book remains well-diversified with pan-India presence in over 1500 locations across 24 States and Union Territories in India. CRISIL believes that HLF would continue to grow faster than industry average over the medium term and thus gain share in the vehicle finance market.

* Comfortable liquidity

HLF has a comfortable liquidity profile with positive cumulative mismatches across buckets and high quantum of unutilised bank lines. Commercial paper borrowings are limited to the extent of available cash credit lines. As a liquidity management strategy, the entity also maintains unutilized bank lines equal to 3 months disbursements. Additionally, HLF has been focusing on diversifying its borrowings profile over the past several years with increasing share of capital market instruments and reducing share of bank borrowings.

Weaknesses

* Moderate asset quality metrics and earnings profile

Asset quality metrics have been improving over the past couple of years. As on March 31, 2018, delinquencies, as measured by 90 days past due (dpd) improved to 3.89% as on March 31, 2018 as against 4.2% (120+ dpd) the previous

year. The decline in delinquencies in fiscal 2018 was driven by write-offs during the fiscal. Further, the inherent asset quality has improved following the reduced focus on first time users/buyers and rising share of large and medium fleet operators in the portfolio. CRISIL believes that the asset quality will improve over the medium term. Further, while the company has diversified its portfolio towards non-vehicle loans, this segment is also relatively new having been built up only over the last couple of years.

HLF's earnings profile is marked by relatively lower net interest margins (NIMs), which is partly offset by the lower than industry average operating expenses ratio. HLF's NIMs have fallen sharply from fiscal 2014 levels as the company has increased its focus on the competitive strategic segment. However, while operating expenditure has declined over the past few years, return on managed assets (RoMA) too has declined to 1.2% in fiscal 2018 from 2.0% in fiscal 2014 owing to compression in NIMs and increase in credit costs in fiscal 2018. The ability to manage asset quality as the portfolio seasons and scales up will be the key determinant of HLF's earnings profile over the medium term.

Outlook: Stable

CRISIL believes HLF will continue to benefit from strong support from ALL and the Hinduja group and will also increase its share in the Indian vehicle finance market over the medium term. The outlook may be revised to 'Positive' in case of demonstrated ability to improve asset quality metrics as the loan book scales up. A revision in CRISIL's view on ALL's credit risk profile may also result in a corresponding revision in the rating or outlook on the debt instruments of HLF. The outlook may be revised to 'Negative' in the event of any decline in support from ALL and/or material change in ALL's and the Hinduja group's shareholding in HLF, and sharp deterioration in asset quality as loan book seasons.

About the Company

Hinduja Leyland Finance, incorporated in 2008, commenced operations in 2010. It was promoted as a captive financier by Hinduja group's flagship automobile manufacturing company Ashok Leyland Ltd. Gradually, HLF has ventured into financing of non ALL vehicles while entering into Loan against Property segment in fiscal 2015. Apart from commercial vehicle segments, the company is also engaged in extending loans to three-wheelers, two wheelers, tractor, construction equipment, used CV financing and LAP. The company has also been buying portfolios-over the past two years in order to diversify its product profile which adding support to the Net Interest Margins.

Profit after tax (PAT) was Rs 190 crore on total income of Rs 1959 crore in fiscal 2018, against a PAT of Rs 168 crore on total income of Rs 1486 crore the previous fiscal. Profitability was impacted in fiscal 2018 due to change in NPA recognition norms from 120 dpd to 90dpd.

Key Financial Indicators

As on / for the period ended March 31		2018	2017
Total Assets	Rs crore	15,502	11,566
Total income	Rs crore	1959	1486
Profit after tax	Rs crore	190	168
Gross NPA	%	3.9*	4.2**
Overall capital adequacy ratio -	%	17.2	15.8
Adjusted gearing ^	Times	7.4	7.6
Return on managed assets^	%	1.2	1.5

*90+ dpd; **120+ dpd;

^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)	Rating Outstanding with Outlook
INE146O07300	Debenture	28-Mar-18	8.90	28-Mar-19	50	CRISIL AA-/Stable
INE146O07318	Debenture	28-Mar-18	8.90	28-Mar-20	50	CRISIL AA-/Stable
INE146O07326	Debenture	28-Mar-18	9.10	26-Mar-21	100	CRISIL AA-/Stable
INE146O07359	Debenture	18-May-18	9.05	06-Apr-21	50	CRISIL AA-/Stable
INE146O07342	Debenture	24-May-18	9.05	06-Apr-20	50	CRISIL AA-/Stable
INE146O07367	Debenture	31-May-18	8.90	31-May-19	50	CRISIL AA-/Stable
NA	Debenture^	NA	NA	NA	150	CRISIL AA-/Stable
NA	Subordinate Debt^	NA	NA	NA	200	CRISIL AA-/Stable
NA	Commercial Paper	NA	NA	7-365 days	1250	CRISIL A1+

^Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2018 (History)		2017		2016		2015		Start of 2015
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial	ST	1250.00	CRISIL	23-01-18	CRISIL		--		--		--	--

Paper			A1+		A1+							
Non Convertible Debentures	LT	350.00 26-06-18	CRISIL AA-/Stable	23-01-18	CRISIL AA-/Stable		--		--		--	--
Subordinated Debt	LT	0.00 26-06-18	CRISIL AA-/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

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](#)

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