Home Credit India Finance Pvt. Ltd.

July 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities @	625.50	CARE A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]	Revised from CARE BBB+ (SO); Stable [Triple B Plus (Structured Obligation); Outlook: Stable]
Long-term Bank Facilities #	24.50	Provisional CARE A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]	Revised from Provisional CARE BBB+ (SO); Stable [Triple B Plus (Structured Obligation); Outlook: Stable]
Total	**650 (Rupees Six Hundred Fifty crore only)**		
NCD	600	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE BBB; Stable [Triple B; Outlook: Stable]

@backed by the corporate guarantee/SBLC from Home Credit B.V.

 # proposed to be backed by the corporate guarantee from Home Credit B.V.

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Home Credit India Finance Pvt. Ltd. (HCIF) (S. No. 1 & 2) factor in the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided (proposed to be provided) by the ultimate holding company, Home Credit B.V. (HCBV). The ratings (S.No. 2) are 'provisional' and shall be confirmed once CARE receives the copy of guarantee documents executed to the satisfaction of CARE.

The revision in rating is on account of continued financial & management support from the parent company (Home Credit B.V.) which has enabled HCIF to scale up its business significantly in FY18 and expectation of continued strong support from parent in future as well. Significant scaling up of HCIF's loan book has also resulted improvement in HCIF's operating efficiency with reduction in operating expenses as % of average total assets in FY18 and consequently some improvement in profitability metrics and reduction in geographical concentration. The ratings also factor in experienced management team, comfortable capitalization levels on account of consistent equity infusion by the promoters and adequate risk monitoring & appraisal system in place. The ratings also factor in improvement in financial profile of Home Credit B.V. in CY2017 (refers to the period from January 01 to December 31).

These rating strengths, however, continue to be offset by HCIF's exposure to the relatively riskier borrower segment & largely unsecured nature of loan book (which is likely to result in higher delinquencies and credit cost, although same is cushioned through high lending IRRs), limited seasoning of loan book, continued net losses booked by the company on account of being in growth phase, high operating cost although reducing to some extent, moderate resource base albeit some improvement witnessed in last year and competition from other banks and NBFCs.

Going forward, profitable scale-up of operations while maintaining the asset quality and consequent credit cost under control and maintaining capitalization levels along with continuity of support from the promoters, would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management Team: HCIF is the part of the Home Credit Group. Home Credit Group (Home Credit B.V. and its subsidiaries) is one of the leading multi-channel providers of consumer finance in Central & Eastern Europe (CEE) and Asia. HCIF's operations are handled by an experienced management team. HCIF gets strong management support from parent group (which is in the same business across several countries / geographies).

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

Support from the parent group/promoters: HCIF is receiving financial support in the form of equity infusion from the promoters consistently. Overall, parent company has provided substantial financial support to HCIF in the form of direct equity infusion (cumulative equity infusion of Rs.2,394 crore till March 31, 2018), provided debt funding through NCDs (outstanding Rs.2,647 crore as on March 31, 2018) and the promoters (Home Credit B. V.) have also provided corporate guarantee to the lenders of HCIF for part of bank borrowings. HCIF is expected to receive further equity infusion of Rs.920 crore in CY2018. CARE expects continued strong support from parent in future as well.

Improvement in financial performance of the parent company: The financial risk profile of the parent, HCBV improved during CY2017 with the company reporting net profit of Euro 244 million in 2017, led by healthy growth in Asian markets of China and Vietnam and return of Russian market to profitability. The loan book grew by 57% from Euro 9,866 million as on December 31, 2016 to Euro 15,452 million as on December 31, 2017. However, HCBV registered net loss of Euro 30.8 million in Q1, 2018 on account of increase in NPAs and credit cost in China. Further, management envisaging better recovery performance for portfolio originated subsequent to tightening of underwriting criteria in September 2017.

Comfortable capitalization levels: The capitalization of HCIF continues to be comfortable supported by continuous infusion of equity from the promoters. The company reported CAR of 26.33% as on March 31, 2018, as against regulatory requirement of 15%. HCIF's gearing was 2.54 times as on March 31, 2018.

Increasing scale of operations, though continued losses on account of high operating cost on account of HCIF being in growth phase: HCIF is scaling up its business by rolling out its services on pan India basis. As of March 31, 2018, the company is operating in 20 states with an active customer base of 31 lakh customers. The loan portfolio of HCIF registered a growth of 124% y-o-y to Rs.4,285 crore as on March 31, 2018. However, the company continued to report net loss in FY18 on account of high operating costs as the company is in the growth phase. During FY18, the company reported total income of Rs.1,497 crore and net loss of Rs.261 crore as against net loss of Rs.426 crore in FY17. HCIF's net loss is on declining trend with net loss of Rs.44 crore in H2, FY18 vs. Rs.248 crore in H2 FY17. However, HCIF's profitability could remain under pressure in H1, FY19 as the company changes its accounting policy for subvention income from "up-front income booking" to "Amortized income booking" under Ind AS. Implementation of expected credit loss framework under Ind AS could also impact company's profitability on implementation. HCIF expects to achieve break-even / positive profitability from Q3, FY19.

Key Rating Weaknesses

Relatively riskier borrower segment & largely unsecured nature of loan book*:* HCIF provides loans for purchase of consumer durables (primarily mobile phones) and also provides cross sell cash loans (unsecured personal loans). A large numbers of its borrowers are non-credit tested borrowers. As on March 31, 2018, HCIF's loan book comprised loans for consumer durables (39% of loan book), cash loans (59% of loan book) and two wheeler loans (2% of loan).

Given company's presence in relatively riskier borrower segment and largely unsecured asset classes, its asset quality (delinquencies) and credit cost is expected to remain high. Company's Gross and net NPAs were 5.61% and 1.20% as on March 31, 2018. Its credit cost (credit provisions plus write offs in relation to average loan book) was high at 10.8% in FY18. However, same is cushioned through higher portfolio IRRs.

Furthermore, earlier HCIF was operating through manned PoS structure (HCIF employee present at each PoS location), incrementally company is following un-manned structure (loan document collection and customer interaction is done by the dealer), while this is expected to reduce level of operating expenses, Company's ability to maintain asset quality in unmanned PoS structure will be critical.

Geographical concentration: The company has significant presence in North India with 37% of loan book concentrated in the northern states of Delhi, Punjab, Uttar Pradesh, Uttarakhand, Haryana and Chandigarh. Delhi NCR alone contributed 19.37% of loan book as on March 31, 2018 (however declined from 26.2% of the loan book as on March 31, 2017). HCIF has been increasing its pan India presence by entering newer geographies and reducing its concentration in Delhi NCR.

Moderate Resource Base: The resources base of the company is moderate with funds raised from support of the promoter group. As on March 31, 2018, company had total borrowings of Rs.3,295 crore of which around 80% was raised from parent group and balance was from 11 banks / NBFCs & financial institutions. In addition, the company has securitized portfolio of Rs.292 cr as on March 31, 2018.

Analytical approach: The ratings assigned to bank facilities of HCIF are based on the assessment of the guarantor i.e. HCBV as the rated facilities are backed by credit enhancement in form of corporate guarantee/SBLC from HCBV. CARE, while arriving at the rating for bank facilities of HCIF, has considered consolidated financials of HCBV.

Standalone Approach for the ratings assigned to the NCDs.

Applicable Criteria
[CARE's Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Factoring Linkages in Ratings]
[Rating Methodology for Non-Banking Financial Companies]
[Financial Ratios (Financial Sector)]

About the Company
HCIF is a Non-Deposit taking NBFC registered with Reserve Bank of India (RBI). In 2012, the Home Credit Group acquired 'Rajshree Auto Finance Pvt. Ltd.' (incorporated in October, 1997) for its entry in India market and subsequently on June 5, 2013, the name of the company was changed to its present name. The company is engaged in providing loans to retail segment for two wheelers and consumer durables (mainly mobile phones, laptops and tablets) and cash loans. HCIF operates though POS (Point Of Sale) model and has about 22,982 POS in India as of March 31, 2018. As on March 31, 2018, HCIF has around 31 lac customers with loan book size of about Rs.4,285 crore. The company currently operates in 20 states with Delhi contributing 19.37% of the loan book as on March 30, 2018. Home Credit Group is one of the leading multi-channel consumer providers of consumer finance in Central & Eastern Europe (CEE) and Asia. Home Credit Group also has presence in the US.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Income	617	1,497
PAT	-426	-261
Interest coverage (%)	-0.96	0.16
Total Assets	2,355	5,172
Net NPA (%)	0.76	1.20
ROTA (%)	-26.51	-6.91

A: Audited

About Guarantor
Home Credit B.V. (HCBV) is the ultimate holding company of HCIF. HCBV is a part of PPF Group. The PPF Group is being led by the Czech founder and majority shareholder Mr Petr Kellner. PPF Group has investments in banking and financial services, telecommunications, insurance, real estate, agriculture and biotechnology. HCBV (along with its subsidiaries) is one of the leading multi-channel consumer providers of consumer finance in Central & Eastern Europe (CEE) and Asia. Home Credit Group also has presence in the US. HCBV was incorporated on December 28, 1999 in the Netherlands. Established in 1997, Home Credit Group is having presence in the Czech Republic (since 1997), Slovakia (since 1999), the Russian Federation (since 2002), Kazakhstan (since 2005), China (since 2007), India (since 2012), Indonesia (since 2013), Philippines (since 2013), Vietnam (since 2008) and USA (since 2015). The company has around 1,58,000 employees and 29.9 million customers as of December 31, 2017 across geographies.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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.*

Analyst Contact:
Name: Mr Puneet Maheshwari
Tel: 011 – 4533 3251
Mobile: +91 9871799127
Email: p.maheshwari@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	52.13	Provisional CARE A- (SO); Stable
Fund-based - LT-Working Capital Limits	-	-	-	120.00	CARE A- (SO); Stable
Fund-based - LT-Working Capital Limits	-	-	-	477.88	CARE A- (SO); Stable
Debentures-Non Convertible Debentures	June 28, 2016	12.5-12.9%	30-Sep-19	375.00	CARE A-; Stable
Debentures-Non Convertible Debentures	October 28, 2016	12.51%	31-Oct-19	225.00	CARE A-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	52.13	Provisional CARE A- (SO); Stable	-	1)Provisional CARE BBB+ (SO); Stable (28-Sep-17)	1)Provisional CARE BBB (SO); Stable (27-Jan-17) 2)Provisional CARE BBB- (SO) (07-Jun-16)	1)Provisional CARE BBB- (SO) (28-Jan-16) 2)CARE BBB- (SO) (In Principle) (13-May-15)
2.	Fund-based - LT-Working Capital Limits	LT	120.00	CARE A- (SO); Stable	-	1)CARE BBB+ (SO); Stable (28-Sep-17)	1)CARE BBB (SO); Stable (27-Jan-17) 2)CARE BBB- (SO) (07-Jun-16)	1)CARE BBB- (SO) (28-Jan-16) 2)CARE BBB- (SO) (13-May-15)
3.	Fund-based - LT-Working Capital Limits	LT	477.88	CARE A- (SO); Stable	-	1)CARE BBB+ (SO); Stable (28-Sep-17)	1)CARE BBB (SO); Stable (27-Jan-17) 2)CARE BBB- (SO) (07-Jun-16)	1)CARE BBB- (SO) (28-Jan-16) 2)CARE BBB- (SO) (13-May-15)
4.	Debentures-Non Convertible Debentures	LT	375.00	CARE A-; Stable	-	1)CARE BBB; Stable (28-Sep-17)	1)CARE BB+; Stable (27-Jan-17) 2)CARE BB+ (07-Jun-16)	-
5.	Debentures-Non Convertible Debentures	LT	225.00	CARE A-; Stable	-	1)CARE BBB; Stable (28-Sep-17)	1)CARE BB+; Stable (27-Jan-17) 2)CARE BB+ (07-Oct-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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