Hinduja Leyland Finance Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	4,932	CARE A+ [Single A Plus]	Reaffirmed
Non-Convertible Debentures	300	CARE A+ [Single A Plus]	Reaffirmed
Subordinated Debt	300	CARE A+ [Single A Plus]	Reaffirmed
Commercial Paper	300	CARE A1+ [A One Plus]	Reaffirmed

Rating Rationale

The ratings assigned to bank facilities and various debt instruments of Hinduja Leyland Finance Ltd (HLF) continue to factor in the experienced management team of HLF, benefits derived from being part of Hinduja group which has significant presence in banking, financial services and commercial vehicle segment, comfortable capital adequacy post mobilization of fresh equity by HLF during FY14 (refers to the period April 1 to March 31) signifying demonstrated ability of HLF to raise funds to support business growth. The ratings also take note of improvement in level of portfolio diversification on account of HLF's entry into new segments. However, the ratings continue to be constrained by significant exposure to heavy commercial vehicle segment and the underlying industry risk particularly in light of the prevalent economic environment. The ratings also take note of HLF's asset quality during FY14.

Going forward, increasing portfolio diversification with control over asset quality will be key rating sensitivity.

Background

HLF is a RBI-registered non-deposit taking systemically important (ND SI) NBFC based out of Chennai, Tamil Nadu and is part of the Hinduja group. Established in 2008, HLF started its lending operations in FY11 subsequent to receipt of RBI license in March 2010. HLF is promoted by the group's flagship automobile manufacturing company Ashok Leyland Ltd (ALL; rated CARE A+/ CARE A1+) with the aim of providing funding support to ALL vehicles. As on March 31, 2014, HLF's exposure to ALL vehicles was around 48% of its Assets Under Management (AUM). HLF is also engaged in 3-wheeler loans, loans to SCV (Small Commercial Vehicles) & LCV (Light Commercial Vehicles) and used CV financing. During FY14, HLF expanded its loan portfolio with respect to two wheeler segment, in addition to tractor and construction equipment segments. Currently, shareholding of Hinduja group stands at 85.93%, wherein ALL holds 57.51% stake.

Credit Risk Assessment

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. Major companies in domestic market include Ashok Leyland Ltd (ALL, rated CARE A+/ CARE A1+), IndusInd Bank (rated CARE AA for its subordinated debt), Gulf Oil and HTMT IT Services. ALL is one of the leading players in domestic commercial vehicle segment.

Experienced management team

The Hinduja group has track record of establishing and successfully running Banking & Finance companies. The group had established a NBFC 'Ashok Leyland Finance' in 1982, which was merged with the group which promoted IndusInd Bank during FY04. During its operations of more than a decade, ALF was one of India's leading NBFCs in vehicle finance. Post merger the key management team having experience of running ALF for over 15 years became part of IndusInd Bank. Most of the experienced management team of erstwhile ALF has joined HLF. The experience of the management team in running the similar business is a key strength for HLF. The day-to-day activities of the company are managed by MD who is supported by a team of well experienced management.

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 management in monitoring/reviewing its portfolio on daily basis.

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

Growth in disbursements in FY14 followed by year of flat growth and moderation in profitability

After recording almost flat growth in FY13, disbursements grew by 25% (y-o-y) during FY14, driven majorly by HCV and two wheeler segments. During FY14, HLF registered 19% growth in total income, driven by 20% growth in AUM. The company reported PAT of Rs.81 crore (PY: Rs.91 crore) on total income of Rs.596 crore (PY: Rs.499 crore) during FY14. NIM moderated by 64 bps during FY14 to 7.36%, which could be attributed to the increased focus on loans to strategic operators in the HCV segment against First Time User (FTU) and First Time Buyer (FTB) segment. On account of lower interest spreads and higher provisioning cost, ROTA declined to 2.39 in FY14 (PY: 3.61%).

Comfortable capital adequacy backed by demonstrated ability to mobilise capital

HLF has been supported by continuous equity infusion from promoters in the past. The promoters infused Rs.210 crore in FY11 and Rs.100 crore in FY12. Further, during FY14, HLF has raised an amount of Rs.200 crore by way of fresh equity from third parties. Backed by this equity infusion, capital adequacy improved as at the end of March 2014 and remained at comfortable levels, with total CAR of 20.42% (PY: 15.95%) entirely made of tier I capital. This provides adequate cushion to raise tier II capital, if required. Also, in order to augment its capitalization levels and fund its growth, the company has raised Rs.250 crore subordinated debt during Q1FY15 and is expected to raise an additional amount of Rs.50 crore in the near term. This would augment the capital adequacy. HLF's liquidity profile remains comfortable with no negative cumulative mismatches across the time buckets.

Significant exposure to commercial vehicle segment & geographical concentration

In addition to financing ALL vehicles, HLF also finances vehicles of other makes. Exposure to ALL vehicles remained significant at around 48% of AUM as on March 31, 2014 whereas exposure to HCV stood at 43% of AUM. In order to mitigate risk associated with CVs, HLF ventured into 2 Wheeler, construction equipment and tractor segments. The company has been able to considerable grow these portfolios during FY14, wherein the share of these three segments improved from 9.20% of AUM as on March 31, 2013 to 20.40% of AUM as on March 31, 2014, majorly driven by loan portfolio growth in two wheeler segment. Used vehicles portfolio remained flat at 14% of AUM as on March 31, 2014. During FY14, HLF also bought assets aggregating Rs.299 crore by way of PTCs (microfinance assets) and Direct Assignment transactions (CV assets), in order to diversify its portfolio further. Going forward, the company has also planned to enter into loan against property (LAP) segment, the exposure of which would be limited to 15% of the overall portfolio, thereby providing certain diversification to the company's loan portfolio.

HLF has presence across 20 states of India as at the end of March 2014. Exposure to top 3 states (Rajasthan, Andhra Pradesh and Tamil Nadu) accounted for 50% of AUM as on March 31, 2014 as against 49% of AUM as on March 31, 2013. Rajasthan has accounted for 19% of AUM followed by AP (17% of AUM) and TN (14% of AUM).

Asset quality

During FY14, in trend with the industry, HLF witnessed moderation in its asset quality indicators wherein Gross NPA (GNPA) and Net NPA(NNPA) ratios increased from 2.43% and 2.12% of Assets Under Management as on March 31, 2013 to 3.15% and 2.62% of Assets Under Management as on March 31, 2014 respectively. Net NPA to networth ratio improved to 12.95% as on March 31, 2014 as against 13.36% as on March 31, 2013, on account of equity infusion. Moderation in asset quality is majorly on account of increase in NPA levels in the LCV, SCV and used vehicle segments. During FY14, delinquency levels increased till the end of December 2013. With the company taking corrective steps, delinquency level has improved by the end of FY14. In order to de-risk its CV portfolio, HLF has shifted its focus from first time user (FTU) and first time buyer (FTB) to strategic operators. Though this is expected to result in relatively lower IRR, this is likely to result in lower credit losses from this segment.

Prospects

Aided by well-established systems, experienced management and support from the group, HLF grew its operations significantly, in the past, except during FY13, wherein the disbursements remained flat. HLF has seen moderation in asset quality during FY13 and FY14 in trend with industry. With infusion of fresh equity in FY14 and raising of tier II capital, capital adequacy has improved significantly and remains adequate to support the HLF's growth in the near term. In view of significant exposure to HCV and continuation of slowdown in FY14 in this segment due to the adverse economic environment, ability of HLF to increase portfolio diversification with an eye on asset quality will be key rating sensitivity.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Working Results			
Interest Income	310.84	484.30	571.58
Other Interest and Op. Income	13.38	15.11	24.39
Total Income	324.22	499.40	596.17
Interest expense & Financial Charges	145.58	232.96	287.22
Operating & other expenses	41.05	75.12	107.45
Total Provision / Write offs	13.68	56.04	78.50
PBT	123.91	135.28	123.00
PAT	83.70	91.38	81.19
Financial Position			
Net worth	430.23	519.94	794.46
Total Debt	1,580.61	2,404.64	2,933.62
Loan Portfolio	1,793.01	2,561.05	3,221.93
Total Assets	2,071.31	2,984.55	3,810.96
AUM (incl. dealer trade advances)	2,678.01	3,280.98	3,948.38
Key Ratios			
Solvency			
Overall Gearing (times)	3.67	4.62	3.69
Capital Adequacy Ratio (CAR) (%)	15.77	15.95	20.42
Tier I CAR (%)	15.77	15.95	20.42
Interest Coverage (times)	1.85	1.58	1.43
Profitability (%)			
Net Interest Margin	8.25	8.00	7.36
ROTA (PAT/Avg Total Assets)	5.19	3.61	2.39
Operating expenses to Total Assets	2.50	2.91	3.00
Asset Quality			
Gross NPA Ratio (%) #	0.76	2.43	3.15*
Net NPA Ratio (%) #	0.66	2.12	2.62*
Net NPA/ Net worth Ratio (%)	4.12	13.36	12.95

A – Audited; #calculated on Assets Under Management ; Gross and Net NPA ratios calculated on loan portfolio stood at 3.86% and 3.21% as on March 31, 2014.*

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