

## Hero Fincorp Limited (Revised)

April 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	6,199.00	CARE AA+; Stable	Reaffirmed
Issuer rating	0.00	CARE AA+; Stable	Reaffirmed
Commercial Paper	50.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the facilities of Hero Fincorp Limited (HFCL) factor-in the strong parentage and strategic importance of HFCL to the Hero group, which is also reflected in periodic capital infusion by the latter in HFCL. In Q1FY23, out of the total capital infusion of ₹2,000 crore, promotor group invested ₹1,000 crore in HFCL, with Hero Moto Corp Limited (HMCL) infusing ₹700 crore, while the other promoters invested ₹300 crore. The ratings also derive comfort from the company's experienced management team and its comfortable capitalisation profile. The ratings continue to factor in HFCL's strong liquidity position, as reflected by positive cumulative mismatches in all the time buckets as per asset liability maturity (ALM) statement dated December 31, 2022, and diversified borrowing profile of the company.

These rating strengths are, however, partially offset by the weak asset quality profile with gross non-performing asset (GNPA) ratio of 5.6% and restructured book (excluding GNPA) of 1.1% as on December 31, 2022. Significant slippages in FY21 and FY22 (refers to the period April 1 to March 31), impacted the company's asset quality and consequently its profitability profile with HFCL reporting marginal return on total assets (ROTA) of 0.2% in FY21 and net losses in FY22. The provisioning expenses moderated in 9MFY23, however, remained higher than the pre-COVID-19 levels.

The ratings also take cognisance of the diversified product profile of the company, as the company has entered into newer asset classes like personal loans and unsecured business loans that are relatively riskier, and the portfolio has limited seasoning in those segments.

### Rating sensitivities

#### Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant growth in the loan portfolio through enhanced integration with parent along with improvement in asset quality.
- Return on total assets of more than 3% on a sustained basis.

#### Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Significant change in the shareholding pattern leading to decline in the promoter support.
- Moderation in the credit profile of HMCL (the promoter group).
- Significant deterioration in asset quality parameters or the capitalisation profile.

### Analytical approach:

Consolidated, taking into consideration its 100% subsidiary, Hero Housing Finance Limited (HHFL). The rating factors in the strong parentage of the Hero group, as HFCL is owned by the Hero group, which holds 73% shareholding as on December 31, 2022. The rating also factors in the synergies in terms of common brand name, common promoters and equity support from the parent in terms of regular equity infusion.

### Outlook: Stable

The stable outlook reflects the expectations that HFCL will continue to remain strategically and economically important for its parent group and thereby, continue to receive the required funding support. The outlook also reflects expectation of improved profitability driven by controlling credit costs over the medium term.

### Detailed description of the key rating drivers:

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key strengths

### Strong parentage with demonstrated support and integration with the group:

HFCL is the financing arm of the Hero group and is the one of the major financier for HMCL's two-wheeler's sales. HFCL is majority owned (73% as on December 31, 2022) by HMCL and its promoter group (members of the Munjal family and their investment companies). HMCL is the flagship entity of the Hero group having comfortable financial and credit risk profile and strong position in the two-wheeler industry.

HFCL is strategically important to the Hero group as reflected in its corporate identity in the form of shared brand name and the equity support provided to HFCL in the form of regular equity infusions from the promoter group. In Q1FY23, HFCL raised equity of ₹2,000 crore, of which promoter and promoter group invested ₹1,000 crore (led by HMCL with ₹700 crore), while the other investors invested ₹1,000 crore, led by Apollo Global Management who invested ₹937 crore.

Also, the company has a diverse board of six members and is chaired by Pawan Munjal (MD/CEO of HMCL). The operations of the company are headed jointly by Renu Munjal (MD) and Abhimanyu Munjal (Joint MD and CEO) who have extensive experience in the financial services industry and are supported by an experienced second level of management.

### Diversified borrowing profile:

The total borrowings of HFCL, on a consolidated basis, stood at ₹32,364 crore as on December 31, 2022, up from ₹28,519 crore as on March 31, 2022, which funded the 19.1% growth in the assets under management (AUM) during the period. The borrowing profile of HFCL is well diversified with 71% of the borrowings from banks, 12% in the form of commercial paper (CP) issue, 11% in the form of bonds issue and the rest in the form of working capital lines as of March 2022. Furthermore, being a Hero group entity, HFCL has been able to mobilise funds from banks and capital markets at competitive rates. Going forward, driven by its strong financial flexibility, CARE Ratings Limited (CARE Ratings) expects HFCL to continue to raise funding at competitive rates.

### Adequate capitalization profile and comfortable gearing levels:

HFCL, being a strategically important arm of the Hero group, has demonstrated strong capital raising ability and has raised equity of ₹1,178 crore in FY19 (refers to the period April 1 to March 31), ₹603 crore in FY20 and ₹472 crore in FY21. Furthermore, in Q1FY23, HFCL raised ₹2,000 crore from the promoter group and external investors. Supported by recent equity infusion, tier-1 capital adequacy ratio (CAR) and overall, CAR improved to 18.4% and 21.4% as on December 31, 2022, from 13.1% and 15.6% as on March 31, 2022, respectively. On a consolidated basis, tangible net worth of the company stood at ₹6,767.4 crore, with overall gearing (borrowings / tangible equity) of 4.8x as on December 31, 2022. However, CARE Ratings expects the gearing and capitalization levels to moderate with expected increase in the scale of operations.

## Key weaknesses

### Weak asset quality:

As on December 31, 2022, the asset quality of the company continues to be constrained, as HFCL reported gross non-performing assets (GNPA) of 5.6% (vs. 7.5% as on March 31, 2022, and 7.0% as on March 31, 2021) despite sizable write-offs (adjusted for recoveries and settlement loss) of ₹996 crore (3.0% of opening gross loans) during 9MFY23 (5.3% of opening gross loans in FY22). The provision coverage ratio stood at 51% as on December 31, 2022, improving from 43% as on March 31, 2022. As on December 31, 2022, the company's restructured book stood at 1.1% of the total loan assets, excluding stage 3. However, secured nature of the loan book (about 66% of AUM is secured as on December 31, 2022) gives some comfort on the asset quality front. Going forward, the ability of the company to scale down its GNPA and net NPA (NNPA) levels while controlling its write-off expenses would remain a key rating monitorable.

### High credit costs to constrain profitability:

The ROTA improved to 1.7% (annualised) in 9MFY23 compared with net loss in FY22, driven by improvement in the net interest margin of 9.1% in 9MFY23 against 8.0% in FY22 and lower credit cost of 3.7% of average total assets in 9MFY23 against 5.7% in FY22. The opex cost to average total assets remains high at 5.4% in 9MFY23, increased from 4.8% in FY22. However, CARE Ratings expects the profitability to remain moderate going forward constrained by high credit costs.

HFCL had reported net loss of ₹192 crore in FY22 and muted net profit ₹52 crore in FY21 caused by significant credit costs of ₹1,841 crore during the year. Any significant increase in the credit cost will continue to impact the profitability of HFCL.

### Liquidity: Strong

The liquidity position of HFCL is comfortable with positive cumulative mismatches in all the time buckets as per liquidity statement dated December 31, 2022. Also, liquidity profile of the company is supported by liquid assets of ₹4,111 crore as on December 31, 2022, covering debt maturities up to 3 months. The liquidity is also supported by undrawn committed bank lines of amount ₹3,843 crore as of December 31, 2022.

## Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)
[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios - Financial Sector](#)
[Issuer Rating](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Non-Banking Financial Companies](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

HFCL was incorporated in December 1991 under the name, Hero Honda Finlease Limited. Furthermore, the company changed its name to Hero Fincorp Limited in July 2011. HFCL is a non-deposit taking systemically important non-banking financial company (NBFC-ND-SI) registered with the Reserve Bank of India (RBI) and is engaged in the business of lending towards various products under corporate and retail lending. The company is mainly into retail lending (which includes two wheeler lending 23%, used car financing 5%, personal loans 26% and home loans 7%), retail SME lending 19% (which includes unsecured business loan, loan against property, supply chain finance), corporate lending 15% and lending on CROMS platform 5% as of December 31, 2022.

HHFL is a wholly owned subsidiary of HFCL with an AUM of ₹3,449 crore as on December 31, 2022. HHFL is engaged in the lending of housing loans, loan against property and construction loans.

HMCL and its promoter group (members of the Munjal family and their investment companies) together held 73% in HFCL as on December 31, 2022. HFCL is supported by strong parentage in terms of regular equity infusion from the promoter group.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M_FY23 (UA)
Total operating income	4,333.52	4,797.66	4,711.69
PAT	51.62	-191.90	460.75
Interest coverage (times)	1.04	0.85	1.39
Total Assets	29996.03	34399.05	37875.46
Net NPA (%)	4.39%	4.51%	2.89%
ROTA (%)	0.18	-0.60	1.70

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with
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	(DD-MM-YYYY)				Rating Outlook
Commercial Paper-	Proposed			50.00	CARE A1+
Fund-based - LT-Term Loan	-	-	September 14, 2025	6199.00	CARE AA+; Stable
Issuer Rating	-	-	-	0.00	CARE AA+; Stable

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-	ST	50.00	CARE A1+	1)CARE A1+ (06-Jan-23) 1)CARE A1+ (07-Mar-22)	2)CARE A1+ (09-Nov-21)	-	-
2	Fund-based - LT-Term Loan	LT	6199.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jan-23)	1)CARE AA+; Stable (09-Mar-22)	-	-
3	Issuer Rating-	Issuer rat	0.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jan-23) 2)CARE AA+; Stable (26-Dec-22)	1)CARE AA+ (1s); Stable (09-Mar-22)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper	Simple

2	Fund-based - LT-Term Loan	Simple
3	Issuer Rating	Simple

### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

### Contact us

<p><b>Media Contact</b></p> <p>Name: Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Name: Dinesh Sharma Director <b>CARE Ratings Limited</b> Phone: +91-11-4533 3200 E-mail: <a href="mailto:dinesh.sharma@careedge.in">dinesh.sharma@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Name: Sanjay Agarwal Senior Director <b>CARE Ratings Limited</b> Phone: 022- 6754 3500 / 582 E-mail: <a href="mailto:sanjay.agarwal@careedge.in">sanjay.agarwal@careedge.in</a></p> <p>Name: Gaurav Dixit Director <b>CARE Ratings Limited</b> Phone: +91-11-4533 3235 E-mail: <a href="mailto:gaurav.dixit@careedge.in">gaurav.dixit@careedge.in</a></p> <p>Name: Neha Kadiyan Associate Director <b>CARE Ratings Limited</b> Phone: +91-11-4533 3262 E-mail: <a href="mailto:Neha.Kadiyan@careedge.in">Neha.Kadiyan@careedge.in</a></p>
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### About us:

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### Disclaimer:

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