Housing Development Finance Corporation Limited

May 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	1,50,000.00 (Enhanced from 1,30,000.00)	CARE AAA; Stable / CARE A1+	Reaffirmed
Issuer rating^	-	CARE AAA; Stable	Reaffirmed
Commercial Paper	75,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.
^The rating is subject to the company maintaining an overall gearing below 9x.

Detailed rationale and key rating drivers

The ratings continue to factor in the long track record and the market leadership of the Housing Development Finance Corporation Limited (HDFC) in the Indian mortgage finance industry, its extensive distribution network, healthy capitalisation levels, and strong resource-raising ability at competitive rates. The ratings further take into account HDFC's exposure to the prime customer segment, strict underwriting standards, and risk management procedures, all of which are reflected in the corporation's healthy asset quality and provisioning buffers.
Furthermore, the ratings also consider HDFC's strong business franchise of subsidiaries and associates in banking, asset management, life insurance, general insurance, educational loans, and property funds as well as the potential value of its investments. These strengths are partially offset by the exposure to the relatively riskier non-individual loan segment and the increasing competition in the prime home loan segment.
HDFC Bank Limited (HBL; rated 'CARE AAA; Stable') and HDFC, vide its announcement to the stock exchanges on April 04, 2022, have informed that their respective Boards of Directors have approved a 'composite scheme of amalgamation' for the amalgamation of: (i) HDFC Investments Limited and HDFC Holdings Limited with and into HDFC; and (ii) HDFC into HBL; and their respective shareholders and creditors. The scheme has received approvals from Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Pension Fund Regulatory and Development Authority (PFRDA), India's Stock Exchanges – BSE and NSE, National Company Law Tribunal (NCLT) and shareholders.
CARE Ratings Limited (CARE Ratings) continues to monitor the developments surrounding the amalgamation including the recent updates by HDFC Bank Ltd. regarding certain requests made to RBI in relation with amalgamation and does not expect any negative impact of the announcement on the credit profile of HDFC. HDFC shall carry on its business operations in the normal course until the Effective Date of Amalgamation.

Rating sensitivities

Positive factors – Factors that could individually/collectively lead to positive rating action:

- Not applicable

Negative factors – Factors that could individually/collectively lead to negative rating action:

- Weakening of the credit profile of HDFC and/or its subsidiaries/associates.
- Material deterioration in the asset quality of HDFC.
- Increase in the gearing (debt/net worth) above 9x times.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects HDFC's market leadership in mortgage finance industry complemented by healthy asset quality and a strong financial risk profile.

Detailed description of the key rating drivers

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key rating strengths

Market leadership in the housing finance industry complemented by strong domestic franchise: HDFC is the market leader in the mortgage finance industry in India. The company's portfolio growth is complemented by its strong distribution network comprising 724 outlets as on December 31, 2022 (including 213 outlets of HDFC Sales Limited). During 9MFY23, HDFC sourced nearly 83% of its individual loans directly as well as through the company's associates (HDFC sales: 51%, 2% from direct walk-ins, HBL: 30%) while the remaining 17% was sourced from third-party direct selling agents (DSAs).
HDFC's outstanding gross loan portfolio grew by around 13% (net of loans sold) y-o-y during 9MFY23 to ₹ 6,02,355 crore as on December 31, 2022 (March 31, 2022: ₹568,363 crore), led by healthy growth in individual loans by 18% (FY22: 17%). The corporation continues to focus on financing granular individual loans which constituted around 82% as on December 31, 2022 (March 31, 2022: 79%), while construction finance constituted 8% (9%), corporate finance 4% (5%), with the remaining being lease rental discounting (LRD) 6% (7%).

Strong track record with experienced management: Established in 1977, the company has a strong track record in the housing finance sector with stable and experienced management. Deepak Parekh is the Chairman of HDFC. The day-to-day affairs are handled by Keki Mistry, Vice Chairman & CEO; Renu Sud Karnad, Managing Director; and V Srinivasa Rangan, Executive Director, who are assisted by an experienced team. The board comprises three executive directors, five non-executive independent directors, and two non-executive non-independent directors.

Healthy capitalisation levels: HDFC continues to maintain healthy capitalisation levels, supported by its strong capital raising ability and internal accruals. The corporation reported a capital adequacy ratio (CAR) of 23.7% as on December 31, 2022 (March 31, 2022: 22.8%), with Tier-I CAR being 23.2% (22.2%). As on December 31, 2022, HDFC's gearing levels stood at a comfortable 4.21x (March 31, 2022: 4.22x). Furthermore, the company has unaccounted gains worth ₹2.56 lakh crore on listed subsidiaries and associates, as on December 31, 2022.

Strict underwriting standards and risk management procedures help maintain asset quality: A long track record and portfolio vintage across credit cycles have helped HDFC in building strict underwriting standards and prudent risk management procedures. The quality of standards and risk management systems are reflected in the healthy asset quality indicators and provisioning buffers of the company.
Given the COVID-19 impact on the household incomes of customers, the asset quality parameters for the entire housing finance industry were impacted. As on June 30, 2021, HDFC's gross stage 3 increased to 2.60% vis-à-vis 2.34% as on March 31, 2021. However, given the tighter monitoring and continued recoveries, the gross stage 3 decreased to 2.27% as on March 31, 2022, and further to 2.1% as on June 30, 2022.
The cumulative collection efficiency in Q42022 improved to 99%. As on March 31, 2022, the gross non-performing assets (NPA) (based on the revised Income Recognition and Asset classification Norms i.e. November 12, 2021 notification of RBI (IRAC norms) of the individual loan portfolio stood at 0.99% and the gross NPA for the non-individual portfolio stood at 4.76%.
HDFC has continued to hike the provisioning coverage across stage 2 and stage 3 assets so as to fortify buffers. As on December 31, 2022, the company's expected credit loss (ECL) coverage on stage 2 and 3 assets increased to 24.98% (December 31, 2021: 17.05%) and 55.96% (December 31, 2021: 48.93%), respectively.
While NPAs in both, the individual and non-individual categories are declining, the movements in asset quality continue to be a key monitorable.

Strong resources profile: HDFC has a strong resource-raising ability at competitive rates and across diversified lender profiles. As on December 31, 2022, market borrowings constituted 43% of the total borrowings (December 31, 2021: 41%), public deposits constituted 30% (December 31, 2021: 32%), term loans constituted 22% (December 31, 2021: 24%), and external commercial borrowings (ECBs) constituted 5% (December 31, 2021: 3%).
The company's ability to raise borrowings at competitive rates enables it to compete in the highly competitive prime housing segment. The company's average cost of borrowing increased from 5.73% during 9MFY22 to 6.67% during 9MFY23 on account of general hardening of interest rates.

Consistently healthy profitability:
During FY22, HDFC's net interest margin (NIM; basis average AUM) improved by 8 bps to 2.56%, driven by a reduction in the cost of borrowings in an overall benign interest rate environment. Individual loan approvals and disbursements during FY22 grew by 38% and 37%, respectively, thereby resulting in a 14.7% y-o-y rise in the AUM to ₹ 653,902 crore as on March 31, 2022. The opex/ATA broadly remained stable, at 0.3% (PY: 0.29%). Driven by high recoveries, the credit costs/ATA declined to 0.28% during FY22 (PY: 0.48%).

During FY22, HDFC reported a profit-after-tax (PAT) of ₹13,742 crore as against a PAT of ₹12,027 crore during FY21. The return on total assets (ROTA) for FY22 stood at 2.02% as against 1.96% during FY21.
During 9MFY23, individual loan approvals and disbursements grew by 21% and 23%, respectively, thereby resulting in a 13% y-o-y rise in the AUM to ₹7,01,485 crore. As a result, the share of individual loans in the overall lending book increased to 82% as on December 31, 2022 [March 31, 2022: 79%]. The company has continued to report stable profitability parameters. During 9MFY23, NIM and ROTA stood at 2.86% and 2.38% respectively.

Strong business franchise of subsidiaries and associates: HDFC's subsidiaries and associates are important players in the banking industry, asset management business, life and general insurance sector. HBL is the largest private sector bank. HDFC Asset Management is one of the largest mutual fund managers. HDFC Life Insurance and HDFC Ergo General Insurance are among the leading insurers in the life and general insurance segments, respectively.

Key rating weaknesses
Exposure to the relatively risky non-individual segment: As on December 31, 2022, the non-individual segment accounted for 18% of the AUM (March 31, 2022: 21%), which exposes the company to some concentration risk. As on March 31, 2022, the top 20 exposures accounted for 9.5% of the total advances (PY: 12.45%) and 52.2% of the net worth (PY: 64%).
While the non-individual segment poses concentration risks, strong underwriting standards provide comfort.

Increasing competition in the prime home loan segment: HDFC is exposed to intense competition in the prime home loan segment. Furthermore, given the resilient nature of housing finance as an asset class, banks are aggressively targeting this segment. CARE Ratings takes comfort from the company's ability to raise resources at competitive rates, which helps it to compete with the banks in the current competitive environment for the prime home loan segment.

Liquidity: Strong
As on September 30, 2022, the liquidity profile (excl contingent inflows & outflows) of the company is comfortable. HDFC's liquidity profile is supported by longer tenure of borrowings, high quality liquid assets, as well as the demonstrated ability to raise and roll over borrowings.
As on March 31, 2023, the company has comfortable liquidity position with positive liquidity mismatches for the next three months. The company has been carrying liquidity in the form of bank balances, liquid fund schemes of mutual funds, deposits with banks and investments in government securities which stood at approx.. ₹ 65,788 crore. Additionally, the unaccounted gains of listed equity, including the subsidiary and associate companies, stood at ₹ 2.40 lakh crore as on March 31, 2023.

Environment, social and governance (ESG) risks:
HDFC has an ongoing focus on strengthening various aspects of its ESG profile. As on March 31, 2022, the company has cumulatively financed ₹27,889 crore of individual home loans, where properties were certified as green building projects. In FY22, the company launched green and sustainable deposits for retail depositors, wherein the funds would be used towards green housing and other sustainability initiatives in accordance with sustainable development goals. Company installed solar panel in owned offices premises and other initiatives to reduce carbon footprint.
Company emphasizes strongly on increasing women homeownership. As on March 31, 2022, women employees constituted 26% of total employee strength. In terms of new recruits, the share of women employees stood at 30%. Company plans to increase the percentage of women by at least 2% within the medium-term. 91% of new loan applications were digitally on boarded.

Applicable criteria
Policy on default recognition
Financial Ratios - Financial Sector
Issuer Rating
Rating Outlook and Credit Watch
Short Term Instruments
Housing Finance Companies
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

HDFC was incorporated in 1977 as the first mortgage finance company in India. With over four decades of successful operations, HDFC offers a whole gamut of products, such as loans to individuals, loans to corporates, construction finance, and LRD. The financial conglomerate has subsidiaries and associates in insurance (general and life), asset management, education finance, venture funds, and banking services. The company had presence through 724 outlets (including 213 offices of its distribution subsidiary – HDFC Sales Private Limited (HDFC Sales)), as on December 31, 2022. In addition, HDFC covers several locations through outreach programmes. The distribution channels form an integral part of the distribution network, with home loans being distributed through HDFC Sales, HBL, and third-party DSAs.
CARE continues to monitor the developments surrounding the amalgamation and does not expect any negative impact of the announcement on the credit profile of HDFC Ltd. Till the time the merger is effected, HDFC Ltd shall continue its business operations as per normal course.

HDFC Limited	FY20	FY21	FY22	Q3FY23
Particulars (₹ crore)	**A**	**A**	**A**	**UA**
Total income	58,763	48,176	47,990	43,532
PAT	17,770	12,027	13,742	11,814
Tangible net worth	84,227	106,758	118,331	1,29,239
Total assets	522,162	565,574	638,943	6,97,547
Net NPA (%)	1.21	1.14	1.05	0.80
ROTA (%)	3.63	2.21	2.28	2.38

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	75000.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	-	-	CARE AAA; Stable
Term Loan-LT/ST	-	-	-	Upto14 years / Upto1 year	150000.00	CARE AAA; Stable / CARE

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
						A1+

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 2023-2024	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
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (21-Sep-22) 3)CARE AAA (Is); Stable (07-Apr-22)	1)CARE AAA (Is); Stable (22-Sep-21)	1)CARE AAA (Is); Stable (08-Oct-20)
2	Term Loan-LT/ST	LT/ST*	150000.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (21-Sep-22) 2)CARE AAA; Stable / CARE A1+ (07-Apr-22)	1)CARE AAA; Stable / CARE A1+ (14-Feb-22) 2)CARE A1+ (22-Sep-21) CARE AAA; Stable (22-Sep-21) 3)CARE A1+ (09-Apr-21) CARE AAA; Stable (09-Apr-	1)CARE A1+ (16-Feb-21) CARE AAA; Stable (16-Feb-21) 2)CARE A1+ (08-Oct-20) CARE AAA; Stable (08-Oct-20) 3)CARE A1+ (18-Jun-20) CARE AAA;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							21)	Stable (18-Jun-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	75000.00	CARE A1+	-	1)CARE A1+ (21-Sep-22) 2)CARE A1+ (07-Apr-22)	1)CARE A1+ (22-Sep-21)	1)CARE A1+ (08-Oct-20) 2)CARE A1+ (01-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Issuer Rating-Issuer Ratings	Simple
3	Term Loan-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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 for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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