Hiranandani Financial Services Private Limited

August 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,000.00 (Enhanced from 500.00)	CARE A+; Stable	Revised from CARE A; Stable
Short-term bank facilities	50.00	CARE A1+	Revised from CARE A1
Non-convertible debentures	100.00	CARE A+; Stable	Revised from CARE A; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has upgraded ratings assigned to the long-term bank facilities/instruments and short-term bank facilities of Hiranandani Financial Services Private Limited (HFS) at 'CARE A+; Stable / CARE A1+' due to increase in scale of operations supported by sustained profitability, comfortable capitalisation metrics, secured nature of the loan portfolio, comfortable asset quality metrics coupled with expansion in the resource profile. The ratings of HFS also derive strength from the strong support of the promoter group, i.e., House of Hiranandani (HOH) group both financial and operational. The ratings, however, remain constrained on account of its nascent stage of operations with limited seasoning of portfolio and geographical concentration.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in the scale of operations with improvement in profitability while maintaining resilience in asset quality on a sustained basis.
- Improvement in credit profile of HOH group

Negative factors

- Weakening of linkages with the HOH group and/or deterioration in the credit risk profile of the HOH group.
- Increase in leverage above 4x
- Weakening of asset quality parameters with gross non-performing assets (GNPA) of above 3%.

Analytical approach:

CARE Ratings has analysed HFS' standalone business factoring linkages with the promoter group (HoH group).

Outlook: Stable

CARE Ratings has assigned a Stable outlook, which reflects continued support from the promoters, comfortable capitalisation levels, improving liability profile, and profitability.

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

Detailed description of key rating drivers:

Key strengths

Strong support from promoters /HOH group

HFS is promoted by Harsh Hiranandani (son of Surendra Hiranandani) and Neha Hiranandani (daughter of Surendra Hiranandani) and is a part of the HOH group owned by Surendra Hiranandani and family. The company is the group's first diversification outside of its real estate business. HFS has a high level of integration with the HOH group in terms of shared brand name, common promoters, and directors.

Since inception the promoters have infused ~₹700 crore until FY24. They have also provided funding support to the company in the form of unsecured interest free loans. The promoters are actively involved in the company's operations, key strategy and decision-making processes, with representation on most of the key committees of HFS, including audit, risk management, finance, and investment. Benefiting from the shared brand name with the HOH group, HFS has been able to raise funds from various banks and non-banking finance companies (NBFCs).

Experienced board and management team

HFS has strong board with representation from the HOH Group and experienced financial services professionals as independent directors. Harsh Hiranandani, who is on the board of both group companies and HFS, has majored in economics from the University of Chicago and heads the business development team of the group across multiple asset classes. The company's operations are headed by Uday Suvarna, the Chief Executive Officer of HFS. He has over two and half decades of experience in the retail and MSME lending domain. The leadership team across other key functions is also well qualified with extensive experience in retail lending businesses including MSME lending space across geographies of India. Most of the senior management team has been with the company since inception. CARE Ratings believes that HFS will benefit from long track record of the management to scale up the business while managing the asset quality.

Increase in scale of operations driven by secured loans

HFS is an MSME-focused NBFC which is primarily in the business of providing business loans backed by residential or commercial property. The target customers include traders, retail outlets, dairy, kirana stores medical or provisional stores, among others. The secured business loans are secured against residential or commercial property. Around 90% of secured loans are secured against self-occupied residential property as on March 31, 2024.

There has been increase in scale of operations with AUM increased from ₹1,015.60 crore in FY23 to ₹1,903.23 crore in FY24 registering a growth of ~87%. About 98% of the outstanding portfolio as on March 31, 2024, comprises secured business loans. Also, 99% of the total disbursements done in FY24, were secured loans. The company had launched the unsecured business loans - christened as Digital Udhyam loans in FY22, which contributes around 2% of the outstanding portfolio as on March 31, 2024. Since January 2024, the company has not disbursed unsecured business loans and is currently only focusing on the secured lending business.

Comfortable capitalisation metrics with adequate resource raising ability

As on March 31, 2024, capitalisation levels of HFS remain comfortable supported with capital adequacy ratio (CAR) at 38.07% (March 31, 2023: 49.64%) and Tier-I capital at 37.70% (March 31, 2023: 49.20%). The CAR was supported with equity capital infusion of ~₹700 crore by the promoter group till FY24. As on March 31, 2024, tangible net worth (TNW) stood at ₹731.57 crore with gearing of 1.96x compared to a TNW of ₹507.67 crore and gearing of 1.37x as on March 31, 2023. The increase in gearing is on the back of increase in borrowings to fund the growth in the loan book. CARE Ratings expects the company to maintain comfortable capitalisation levels with overall gearing under 4x in the medium term as the company grows its lending book.

Moreover, until FY22, HFS funded its loan book through equity and unsecured interest free loans from promoters and had a high reliance on promoters. Since FY23, to fund the portfolio growth, HFS resorted to external borrowings from various private sector banks, public sector banks, small finance banks, and NBFCs. The company with its stable profitability and sound asset quality has been able to raise funds from various lenders for a longer tenure and at competitive rates. HFS now has 30 lenders in its resource profile. The company's ability to raise resources at competitive rates and diversify its liability profile continues to remain a key monitorable.

Key weakness

Moderate seasoning along with Geographical and product concentration

HFSPL's loan portfolio is concentrated with secured MSME financing constituting majority chunk at around 98% as on March 31,2024.

Given HFSPL's moderate track record and scale of operations, its portfolio has witnessed limited seasoning across business cycles. As on March 31, 2024, HFS' AUM stood at ₹1,903.23 crore. Since inception, the company has disbursed loans aggregating to ₹2,500 crore, of which approximately 73% have been disbursed over the last two years. Given that HFS' loans have a tenor of 96-120 months, its portfolio is moderately seasoned.

In terms of asset quality, Gross stage-III assets stood comfortable at 0.83% as on March 31, 2024, as against 0.58 % as on March 31, 2023. Net NPA (NNPA) stood at 0.50% in FY24 against 0.32% in FY23. The restructured assets (%) stood at 0.07% (FY23: 0.21%) for the same period. Stage-III provision coverage has improved to 42.91% as on March 31, 2024, from 34.90% as on March 31, 2023. The provision was increased due to a portion of a previously acquired book has gone delinquent. Slippage ratio (new additions to NPA/opening loan portfolio) increased to 1.16% in FY24 from 0.76% in FY23. Delinquency in the softer buckets (<90 DPD) is 99.17% in FY24, and y-o-y, 0+ moderated to 4.08% in FY24 from 1.5% in FY23.

CARE Ratings believes that HFS' asset quality shall continue to remain anchored on the income profile of the underlying borrowers, as majority of them are self-employed borrowers and their cash flows remain vulnerable to economic shocks. However, the management team's knowledge on this target customer segment provides comfort and the risk is mitigated to an extent as AUM is of secured loans which are majorly backed by mortgage of self-occupied residential property. As portfolio is moderately seasoned, asset quality performance over various economic cycles is yet to be established and hence remains to be a key rating sensitivity going forward.

Geographically, HFS started its operations in Maharashtra and Gujarat and then as the company's operations grew it forayed its way into different states. With increasing AUM levels, overall scale of operations also increased with the company having its presence across nine states and 103 branches. As on March 31, 2024, HFS' portfolio remained concentrated in Andhra Pradesh and Telangana, which comprised ~35% and ~32% of the AUM, respectively. Going forward, the company intends to geographically diversify.

CARE Ratings observes, the company's ability to manage its growing scale of operations as it opens new branches and enters new geographies, while maintaining good asset quality remains critical for its growth prospects.

Liquidity: Adequate

HFS' liquidity as on March 31, 2024, has remained comfortable, marked by liquidity of ₹268.87 crore in the form of free cash and bank balance. This is further supported by inflows from advances to the tune of ₹341.01 crore in the next one year. Against the same, the company has debt repayments of ₹394.75 crore for the next one year. The company also has an undrawn/unutilised sanction line of ₹118 crore which provides additional comfort.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Short Term Instruments
Non Banking Financial Companies
Factoring in linkages with Parent Sub JV Group

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

Hiranandani Financial Services Private Limited (HFS) was incorporated on February 10, 2017, HFS received the Certificate of Registration (COR) dated June 7, 2018, from the_Reserve Bank of India (RBI) to carry on non-banking financial institution. The company is presently categorised as systemically important non-deposit taking NBFC (NBFC-ND-SI) in accordance with RBI guidelines. The company is a part of the HOH Group, founded by Surendra Hiranandani and is managed by his son, Harsh Hiranandani. The HOH Group is a pioneer in developing upscale real estate projects. The company is engaged in providing secured loans to micro, small and medium enterprises (MSME) and operates in nine states as on March 31, 2024. HFS' AUM stood at ₹1,903.23 crore.

Standalone financials of HFS

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	50.79	131.10	264.74
PAT	-6.53	23.33	31.30
Total assets*	481.10	1,223.33	2252.40
Net NPA (%)	0.84	0.32	0.50
ROTA (%)	-1.87	2.74	1.80

A: Audited ; Note: these are latest available financial results
*Total assets are excluding intangible assets and deferred tax assets.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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
Fund-based/Non-fund-based-Long term	-	-	-	26-06-2028	483.28	CARE A+; Stable
Fund-based/Non-fund-based-Long term (Proposed)	-	-	-	-	516.72	CARE A+; Stable
Fund-based/Non-fund-based-Short term	-	-	-	-	2.00	CARE A1+
Fund-based/Non-fund-based-Short term (Proposed)	-	-	-	-	48.00	CARE A1+
Non-convertible debentures (Proposed)	-	-	-	-	100.00	CARE A+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-Short term	ST	50.00	CARE A1+	-	1)CARE A1 (09-Jan-24) 2)CARE A1 (06-Dec-23) 3)CARE A1 (31-May-23)	1)CARE A1 (09-Jan-23)	1)CARE A2+ (17-Mar-22)
2	Fund-based/Non-fund-based-Long term	LT	1000.00	CARE A+; Stable	-	1)CARE A; Stable (09-Jan-24) 2)CARE A; Stable (06-Dec-23) 3)CARE A; Stable (31-May-23)	1)CARE A; Stable (09-Jan-23)	1)CARE A-; Stable (17-Mar-22)
3	Debentures-Non-convertible debentures	LT	100.00	CARE A+; Stable	-	1)CARE A; Stable (09-Jan-24) 2)CARE A; Stable (06-Dec-23) 3)CARE A; Stable (31-May-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based/Non-fund-based-Long term	Simple
3	Fund-based/Non-fund-based-Short term	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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 clarifications.

Contact us

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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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