Hinduja Housing Finance Limited

October 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10,826.65	CARE AA+; Stable	Upgraded from CARE AA; Stable
Long-term / Short-term bank facilities	470.00	CARE AA+; Stable / CARE A1+	LT rating upgraded from CARE AA; Stable and ST rating reaffirmed
Subordinated debt – I	300.00	CARE AA+; Stable	Upgraded from CARE AA; Stable
Subordinated debt – II	500.00	CARE AA+; Stable	Upgraded from CARE AA; Stable
Non-convertible debentures - I	500.00	CARE AA+; Stable	Upgraded from CARE AA; Stable
Commercial paper	250.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in long-term ratings assigned to bank facilities and debt instruments of Hinduja Housing Finance Limited (HHFL) follows revision in ratings of the parent, Hinduja Leyland Finance Limited (HLF), from 'CARE AA; Stable' to 'CARE AA+; Stable'. Ratings continue to factor in its strong support from the parent, Hinduja Leyland Finance Limited (HLF). CARE Ratings Limited (CARE Ratings) expects the parent, HLF, to continue supporting HHFL with regular equity infusion to support growth.

Ratings also factor well-managed in-house appraisal, origination and collection team, good management information system (MIS), adequate capitalisation levels, good fund-raising ability, and healthy profitability indicators. Ratings take note of increase in asset under management (AUM) from ₹6,667 crore as on March 31, 2023, to ₹10,550 crore as on March 31, 2024, and further to ₹11,466 crore as on June 30, 2024. However, ratings are constrained by limited track record and low seasoning of the portfolio with significant growth in loan portfolio in the past four years ended March 31, 2024. Ratings are also constrained by moderate asset quality and inherent risks associated with its borrower profile mostly being self-employed in the informal segment.

Rating sensitivities: Factors likely to lead to rating actions

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

- Improving credit risk profile of the parent, HLF.

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

- Weakening credit risk profile of the parent, HLF.
- Materially diluting shareholding of HLF to below 51%.
- Significantly deteriorating asset quality resulting in reporting return on total assets (ROTA) of less than 1% on a sustained basis.

Analytical approach:

Standalone assessment, factoring linkages with parent, HLF.

HHFL is a wholly owned subsidiary of HLF, through which, it has presence in the housing loan segment. In addition to funding support, HLF and HHFL share a common brand name and share resources at the top management level.

Outlook: Stable

The stable outlook reflects the expectation of continued strong support from the parent which will aid the company to grow loan portfolio and stable financial metrics.

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

Detailed description of key rating drivers:

Key strengths

Part of the Hinduja group

Hinduja group was established in Mumbai in 1918 and has a global presence across 30 countries. The group has a presence in various industries, including automotive, banking and finance, IT/ITES, energy and chemicals. HHFL is a wholly owned subsidiary of HLF (rated 'CARE AA+; Stable/CARE A1+'). Being part of the Hinduja group, HHFL enjoys significant financial flexibility, in terms of mobilising funds from sources at competitive rates.

Strong support from HLF

Being a wholly owned subsidiary of HLF, parentage is a major strength for HHFL. It is of strategic importance to HLF and receives its support in the form of capital, management support, operational support, in terms of usage of HLF's established branch network, terrain knowledge, market trends, and shared brand name. Until FY24 (refers to April 01 to March 31), HLF infused capital of ₹493 crore in HHFL.

Currently, HHFL has a presence in 18 states/union territories, majorly in Tier-II and Tier-III cities. Each branch covers 6-8 locations, with each location having a sales officer. Access to HLF's strong branch network will enable HHFL to scale up its operations. HHFL also receives operational support in the form of sourcing of clients and shared infrastructure from HLF in most branches. CARE Ratings expects support from the parent, HLF to continue, going forward.

HHFL's Board of Directors consists of a well-defined mix of representatives from the Hinduja group and independent directors. The board has five independent directors with varied experience across banking, financial services and law. Key strategic decisions are taken by the board, whereas day-to-day operational and functional aspects are managed by a professional setup led by the Managing Director and a well-organised structure consisting of skilled personnel at different levels, who have been hired from housing finance companies.

Adequate capitalisation levels and good resource-raising ability

Capital adequacy continued to be adequate, with a capital adequacy ratio (CAR) of 20.11% (PY: 20.29%) as on March 31, 2024, against the regulatory requirement of 15%. Tier-I capital stood at 16.38% (PY: 20.19%) as on March 31, 2024. HLF infused capital to the tune of ₹40 crore in FY24 to support the growth. HHFL also raised sub-debt of ₹217 crore in FY24. CAR and Tier-I CAR stood at 19.17% and 15.74%, respectively, as on June 30, 2024. With strong support from the parent, HLF, CARE Ratings expects capitalisation level to remain adequate going forward.

As on June 30, 2024, 94% borrowings are from banks. The company raised ₹217 crore of sub-debt in FY24. Being a wholly owned subsidiary of HLF, HHFL has access to an HLF's established lender base and is able to raise funds at competitive rates for a relatively longer tenure.

Well-managed in-house appraisal, origination, and collection team and a good MIS system

The company has a strong MIS developed in-house. The system can generate all kinds of real-time reports and is highly integrated. HHFL's core strength is its in-house team covering facets – starting from business sourcing, recovery and collection, technical and legal teams. HHFL has a centralised credit appraisal and monitoring system. Apart from sourcing and collections, all activities, including disbursements are centralised. Selection of customers runs through several levels of checks, including KYC norms, risk assessment, personal discussion, and verification of business and bank statements and references from existing customers. Next, the technical team consisting of civil engineers and legal team, verifies value and ownership of the asset that is given as collateral. Processes are end-to-end digitised. Sales officers are provided with a hand-held device to upload information about customers. Thereafter, technical team and legal team approve the asset and give their inputs in MIS. The application then goes to the Cluster Manager and then to the Regional Credit Manager (RCM). Final approval for loan sanctioning is done by the National Credit Manager (NCM). The company also has a dedicated collection and recovery team.

Significant growth in AUM in FY24

HHFL's AUM grew by 58% (PY: 67%) from ₹6,667 crore as on March 31, 2023, to ₹10,550 crore as on March 31, 2024. Disbursements increased from ₹3,717 crore in FY23 to ₹5,733 crore in FY24. AUM further increased to ₹11,466 crore as on June 30, 2024, with disbursements of ₹1,489 crore in Q1FY25. Significant growth is majorly supported by increase in the number of branches from 235 as on March 31, 2023, to 360 as on March 31, 2024.

Healthy profitability

HHFL has been profitable since its inception. Net interest margin (NIM) reduced to 4.66% in FY24 against 5.97% in FY23 considering increase in cost of borrowings. Gain on derecognition of financial assets (DA income) stood at ₹199 crore in FY24 against ₹72 crore in FY23. Opex/average total assets stood at 2.62% in FY24 against 1.99% in FY23 due to branch expansion. Pre-provision operating profit (PPOP) increased from ₹326 crore in FY23 to ₹453 crore in FY24. Credit costs decreased from 0.82% in FY23 to 0.76% in FY24. With decline in NIM and increase in opex, ROTA stood at 3.74% in FY24 against 4.33% in FY23. In Q1FY25, the company reported a profit after tax (PAT) of ₹66 crore on a total income of ₹374 crore. ROTA stood at 2.59% in Q1FY25. CARE Ratings expects profitability to remain healthy in the medium term.

Key weaknesses

Limited track record, low seasoning of portfolio, and exposure to an under-banked segment of borrowers

The company commenced operations in September 2015, and hence, there is a limited track record of operations and low seasoning of loan portfolio, as loans are of longer tenure. Loan portfolio growth rates were higher since inception. The company's asset quality and performance through different economic cycles are yet to be seen. AUM has grown at a compounded annual growth rate (CAGR) of 60% in the last four years ended March 31, 2024. The company extends housing loans to self-employed customers with limited access to banking channels and is new to the habit of financial discipline, with a relatively riskier credit profile. CARE Ratings notes that the profile of customers in HHFL is similar to the profile of HLF's customers, and HLF's established track record in lending to this segment offers comfort.

Moderate asset quality

Gross non-performing assets (GNPA) and net NPA (NNPA) stood at 2.39% and 1.39%, respectively, as on March 31, 2024, as against 2.57% and 1.41%, respectively, as on March 31, 2023. GNPA and NNPA stood at 2.37% and 1.39%, respectively, as on June 30, 2024. The 30+ days past due (DPD) as a percentage of AUM stood at 9.76% as on March 31, 2024, against 15.87% as on March 31, 2023. As on June 30, 2024, 30+ DPD stood at 10.19%. The company's ability to manage its asset quality would remain critical. CARE Ratings expects the asset quality to remain moderate given relatively riskier credit profile of customers.

Liquidity: Adequate

There are no cumulative negative mismatches in time buckets up one-year time bucket, per asset liability maturity (ALM) dated June 30, 2024. Typically for housing finance companies (HFCs), loans extended to clients have longer tenures against comparatively shorter tenure of liabilities. The company has cash and cash equivalent of ₹254 crore and un-availed credit lines of ₹745 crore, as on June 30, 2024. Being part of the Hinduja group, the company is expected to be able to manage its liquidity requirements.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Housing Finance Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Housing finance company

HHFL is a housing finance company registered with National Housing Bank (NHB). The company was incorporated on April 15, 2015, and commenced business operations from 2015. HHFL is a wholly owned subsidiary of HLF (rated 'CARE AA+; Stable /CARE A1+').

HHFL operates in the affordable housing segment essentially catering to housing finance needs of self-employed, informal segment of customers, belonging to middle/low-income group, primarily from semi-urban and rural markets. HHFL offers products such as home loans, plot loans, construction loans, home extension loans, home improvement loans and loan against property. Average ticket size is in the range of ₹10-20 lakh. As on March 31, 2024, the company is present in 18 states, majorly in Tier-II and Tier-III cities and collocated with HLF.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	30-06-2024 (UA)
Total income	748	1209	374
PAT	217	300	66
Interest coverage (times)	1.88	1.72	1.48
Total assets	6,211	9,851	10,658
Net NPA (%)	1.41	1.39	1.39
ROTA (%)	4.33	3.74	2.59

A: Audited UA: Unaudited; Note: these are latest available financial results

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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	250.00	CARE A1+
Debentures-Nonconvertible debentures - I	INE401Y07019	01-02-2024	8.85%	01-01-2027	125.00	CARE AA+; Stable
Debentures-Nonconvertible debentures - I	INE401Y07027	01-02-2024	8.85%	01-02-2027	125.00	CARE AA+; Stable
Debentures-Nonconvertible debentures - I	Proposed	-	-	-	250.00	CARE AA+; Stable

Debt-Subordinate debt -I	INE401Y08017	12-06-2023	9.75%	12-06-2030	100.00	CARE AA+; Stable
Debt-Subordinate debt -I	INE401Y08025	29-12-2023	9.65%	29-12-2038	80.00	CARE AA+; Stable
Debt-Subordinate debt -I	INE401Y08025	04-03-2024	9.65%	29-12-2038	37.00	CARE AA+; Stable
Debt-Subordinate debt -I & II	INE401Y08033	11-10-2024	9.50%	11-10-2039	210.00	CARE AA+; Stable
Debt-Subordinate debt -II	Proposed	-	-	-	373.00	CARE AA+; Stable
Fund-based - LT-Term Loan	-	-	-	June 2032	10826.65	CARE AA+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	470.00	CARE AA+; Stable / CARE A1+

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 - LT-Term Loan	LT	10826.65	CARE AA+; Stable	1)CARE AA; Stable (28-Aug-24)	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (13-Sep-23) 3)CARE AA; Stable (18-Apr-23)	1)CARE AA; Stable (29-Dec-22) 2)CARE AA-; Stable (04-Apr-22)	1)CARE AA-; Stable (25-Mar-22) 2)CARE AA-; Stable (30-Sep-21)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	470.00	CARE AA+; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (28-Aug-24)	1)CARE AA; Stable / CARE A1+ (05-Jan-24) 2)CARE AA; Stable	1)CARE AA; Stable / CARE A1+ (29-Dec-22) 2)CARE AA-;	1)CARE AA-; Stable / CARE A1+ (25-Mar-22) 2)CARE AA-;

						/ CARE A1+ (13-Sep-23) 3)CARE AA; Stable / CARE A1+ (18-Apr-23)	Stable / CARE A1+ (04-Apr-22)	Stable / CARE A1+ (30-Sep-21)
3	Commercial Paper-Commercial Paper (Standalone)	ST	250.00	CARE A1+	1)CARE A1+ (28-Aug-24)	1)CARE A1+ (05-Jan-24) 2)CARE A1+ (13-Sep-23) 3)CARE A1+ (18-Apr-23)	1)CARE A1+ (29-Dec-22)	1)CARE A1+ (25-Mar-22) 2)CARE A1+ (30-Sep-21)
4	Debt-Subordinate Debt	LT	300.00	CARE AA+; Stable	1)CARE AA; Stable (28-Aug-24)	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (13-Sep-23) 3)CARE AA; Stable (18-Apr-23)	-	-
5	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)CARE AA; Stable (28-Aug-24)	1)CARE AA; Stable (05-Jan-24) 2)CARE AA; Stable (13-Sep-23) 3)CARE AA; Stable (18-Apr-23)	-	-
6	Debt-Subordinate Debt	LT	500.00	CARE AA+; Stable	1)CARE AA; Stable	-	-	-

					(28-Aug-24)			

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	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Debt-Subordinate Debt	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based - LT/ ST-Working Capital Limits	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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