

Housing Development Finance Corporation Limited

September 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term/short-term bank facilities	130,000.00	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	130,000.00 (₹ One lakh thirty thousand crore only)		
Issuer rating	0.00	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed
Total instrument	0.00 (₹ only)		
Commercial paper	75,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	75,000.00 (₹ Seventy-five thousand crore only)		

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.

CARE Ratings Limited (CARE Ratings) continues to monitor the developments surrounding the amalgamation and does not expect any negative impact of the announcement on the credit profile of HDFC.

Rating sensitivities

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

- Not applicable

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

- Weakening of the credit profile of HDFC and/or its subsidiaries/associates.
- Material deterioration in the asset quality of HDFC.

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

- Increase in the gearing (debt/net worth) above 9x times.

Detailed description of the key rating drivers

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 675 outlets. HDFC sources nearly 82% of its individual loans directly as well as through the company's associates (HDFC sales: 52%, HBL: 28%) while the remaining 18% is from third-party direct selling agents (DSAs). HDFC's outstanding gross loan portfolio grew by around 14% (net of loans sold) y-o-y to ₹568,363 crore as on March 31, 2022 (March 31, 2021: ₹498,298 crore), led by healthy growth in individual loans by 17% (FY21: 12%). The corporation continues to focus on financing granular individual loans mainly in the salaried segment, which accounts for 78%, and the rest 22% to the self-employed class. The individual loan book comprises 79% of the assets under management (AUM) while 21% accounts for non-individuals. The total AUM stood at ₹653,902 crore, including loans sold outstanding worth ₹85,539 crore, as on March 31, 2022. Of the total loans on an AUM basis, individual loans constituted around 79% (March 31, 2021: 77%), while construction finance constituted 9% (10%), corporate finance 5% (6%), with the remaining being lease rental discounting (LRD) 7% (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, six 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 22.8% as on March 31, 2022 (March 31, 2021: 22.2%), with Tier-I CAR being 22.2% (21.5%). As on March 31, 2022, HDFC's gearing levels stood at a comfortable 4.22x (March 31, 2021: 4.13x). Furthermore, the company has unrealised gains worth ₹2.38 lakh crore on listed subsidiaries and associates, as on August 31, 2022.

In August 2020, the company raised around ₹307 crore through share warrants, with a right to exchange one warrant with one equity share at any time on or before August 2023, at a warrant exercise price of ₹2,165 per warrant. Upon the exercise of such a right, HDFC will receive additional equity capital of around ₹3,693 crore.

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 2.10% 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) hence not comparable with FY21) of the individual loan portfolio stood at 0.99% (FY21: 0.99%) and the gross NPA for the non-individual portfolio stood at 4.76% (FY21: 4.77%).

HDFC has continued to hike the provisioning coverage across stage 2 and stage 3 assets as fortify buffers. As on June 30, 2022, the company's expected credit loss (ECL) coverage on stage 2 and 3 assets increased to 22.88% (June 30, 2021: 17.55%) and 52.75% (June 30, 2021: 48.31%), 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 March 31, 2022, market borrowings constituted 40% of the total borrowings (March 31, 2021: 42%), public deposits constituted 32% (March 31, 2021: 34%), term loans constituted 18% (March 31, 2021: 24%), and external commercial borrowings (ECBs) constituted 10% (March 31, 2021: 13%). As on June 30, 2022, the company had banking relationships with lenders.

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 reduced from 6.65% during FY21 to 5.68% during FY22, in line with the reduction in market interest rates. However, with the hardening of interest rates in the current financial year, the average cost of funding for the company increased to 5.94% for Q1FY23.

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. Led by the traction in disbursement growth and stable margins, the ROTA improved to 2.11% during Q1FY23.

As the operating environment returns to normalcy, CARE Ratings expects healthy profitability metrics, driven by healthy credit demand, stable opex and recoveries in the non-individual portfolio.

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 March 31, 2022, the non-individual segment accounted for 21% of the AUM (March 31, 2021: 23%), 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 March 31, 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, 2022, cash and cash equivalents (including ₹2,330 crore of investments in liquid mutual funds, ₹36,906 crore investments in government securities and cash and bank balances of ₹565 crore) comprised roughly 6% of total assets. Moreover, the unaccounted gains of listed equity, including the subsidiary and associate companies, stood at ₹2.34 lakh crore as on March 31, 2022.

Analytical approach: Standalone

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 HDFC:

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 675 outlets (including 211 offices of its distribution subsidiary – HDFC Sales Private Limited (HDFC Sales)), as on March 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	Q1FY23
Particulars (₹ crore)	A	A	A	UA
Total income	58,763	48,176	47,990	13,249
PAT	17,770	12,027	13,742	3,669
Tangible net worth	84,227	106,758	118,331	118,341
Total assets	522,162	565,574	638,943	667,205
Net NPA (%)	1.21	1.14	1.05	1.00
ROTA (%)	3.63	2.21	2.28	2.25

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term loan-LT/ST	-	-	-	Up to 14 years/up to one year	105,000.00	CARE AAA; Stable/CARE A1+
Term loan-LT/ST	-	-	-	Up to 14 years/up to one year	25,000.00	CARE AAA; Stable/CARE A1+
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AAA (Is); Stable
Commercial paper-Commercial paper (standalone)	-	-	-	-	75,000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating History			
		Type	Amount	Rating	Date(s)	Date(s)	Date(s)	Date(s)

	Facilities		Outstanding (₹ crore)		and Rating(s) assigned in 2022-2023	and Rating(s) assigned in 2021-2022	and Rating(s) assigned in 2020-2021	and Rating(s) assigned in 2019-2020
1.	Issuer rating- Issuer ratings	Issuer rating	0.00	CARE AAA (Is); Stable	1)CARE AAA (Is); Stable (April 07, 2022)	1)CARE AAA (Is); Stable (September 22, 2021)	1)CARE AAA (Is); Stable (October 08, 2020)	1)CARE AAA (Is); Stable (September 09, 2019)
2.	Term loan- LT/ST	LT/ST*	105,000.00	CARE AAA; Stable/CAR E A1+	1)CARE AAA; Stable/ CARE A1+ (April 07, 2022)	1)CARE AAA; Stable/ CARE A1+ (February 14, 2022) 2)CARE A1+ (September 22, 2021) 3)CARE A1+ (April 09, 2021)	1)CARE A1+ (February 16, 2021) 2)CARE A1+ (October 08, 2020) 3)CARE A1+ (June 18, 2020)	1)CARE A1+ (February 21, 2020) 2)CARE A1+ (November 29, 2019) 3)CARE A1+ (September 09, 2019) 4)CARE A1+ (June 07, 2019)
3.	Term loan- LT/ST	LT/ST*	25,000.00	CARE AAA; Stable/CAR E A1+	1)CARE AAA; Stable/ CARE A1+ (April 07, 2022)	1)CARE AAA; Stable/CARE A1+ (February 14, 2022) 2)CARE AAA; Stable (September 22, 2021) 3)CARE AAA; Stable (April 09, 2021)	1)CARE AAA; Stable (February 16, 2021) 2)CARE AAA; Stable (October 08, 2020) 3)CARE AAA; Stable (June 18, 2020)	1)CARE AAA; Stable (February 21, 2020) 2)CARE AAA; Stable (November 29, 2019) 3)CARE AAA; Stable (September 09, 2019) 4)CARE AAA; Stable (June 07, 2019)
4.	Commercial paper- Commercial paper (standalone)	ST	75,000.00	CARE A1+	1)CARE A1+ (April 07, 2022)	1)CARE A1+ (September 22, 2021)	1)CARE A1+ (October 08, 2020) 2)CARE A1+ (September 01, 2020)	1)CARE A1+ (September 09, 2019)

*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 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.

Disclaimer:

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