HDB Financial Services Limited

January 08, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
NCDs	47,843.80	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Market Linked Debentures	3,000.00	**CARE PP-MLD AAA; Stable (PP-MLD Triple A; Outlook: Stable)**	**Reaffirmed**
Bank Loan Ratings	25,000	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Perpetual Debt	1,000	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Subordinate Debt	3,500	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Commercial Paper	12,500	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**92,843.80 (Rupees Ninety Two Thousand Eight Forty Three Crores and Eighty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

*The ratings factor in the strength that HDB Financial Services Ltd (HDBFS) derives from its parent, HDFC Bank Ltd (HBL; rated '**CARE AAA; Stable', 'CARE A1+'**), in the form of financial and operational support. The ratings are also supported by good financial performance as well as comfortable asset quality & capitalization of HDBFS. The ratings also take into consideration HDBFS's diversified resource profile, experienced management and its strong liquidity position. Continued support from HBL, credit profile of HBL, asset quality, capital adequacy and profitability of HDBFS are key rating sensitivities.*

Rating Sensitivities: Negative Factors

- *Any reduction of the depth and scope of support from HBL*
- *Deterioration in credit profile of HBL*
- *Moderation in capital buffers with Capital Adequacy Ratio reaching 15%*

Detailed description of the key rating drivers

Key Rating Strengths

Financial & managerial support and operational linkages with HDFC Bank

HDBFS has strong financial and operational linkage from HBL (rated '**CARE AAA; Stable', 'CARE A1+'**). HBL owns majority of shareholding (95.53% as on March 31, 2019) in HDBFS. Senior personnel from HBL have representation on Board of Directors of HDBFS as well as various Board level committees. HDBFS has strong brand linkages with the group. HDBFS also supports HBL for sourcing and collection of latter's retail loan portfolio.

Good financial performance

Portfolio of HDBFS has shown strong growth over the years with AUM increasing by 25% to Rs.55,425 crore as on March 2019 as against Rs. 44,469 crore as on March 2018. With an increase in AUM, the total income for FY19 increased by 24% to Rs.8,725 crore. Despite higher provisioning in FY19 (increase of ~22% over FY18) and a significant increase of ~36% in interest outflow, PAT in FY19 was Rs.1,153 crore, registering a growth of 23.60% over FY18. This was mainly due to increased operational leverage, which is evident from reduction in operational expenses as a percentage of average assets, which stood at 5.85% for FY19 (FY18:6.85%). It was further augmented by reduction in provisions and write offs, which, as a percentage of average total assets came down to 1.25%, from 1.33%, for FY18.
Return on total assets has reduced by 11 bps in FY19to 2.26% (FY18: 2.37%).

Comfortable asset quality

Asset quality remains at comfortable level with Gross and Net NPA at 1.78% and 1.12% respectively as on March 31, 2019 (FY18: GNPA 1.58%, NNPA 0.96%). Net NPA to tangible net-worth increased to 9.20% as on March 31, 2019 as against

[1] *Complete definition of the rating assigned are available at www.careratings.com and other CARE publications.*

7.41% as on March 31, 2018. Due to increase in provisioning, Provision Coverage Ratio as on March 31, 2019 stood at 37.08% (FY18: 39.24%).

Comfortable capitalization

Regular capital infusion by HBL, coupled with internal accruals has helped HDBFS to maintain comfortable capital adequacy ratio (CAR) at 17.91% with Tier-I CAR at 12.78% as on March 31, 2019 (FY18: CAR – 18.01%, Tier-I CAR – 12.79%).

Healthy share of secured loan portfolio

HDBFS offers secured loans - loan against property (LAP), commercial vehicle & construction equipment financing (CV & CE), gold loans, loan against securities and unsecured loan – personal loan. Secured loan portfolio stood at 75.41% of total portfolio as on March 31, 2018 (FY18- 78.1%). Loan against Property (LAP) constituted 34.53% of outstanding portfolio as on March 31, 2019, asset finance accounted for 40.75% of loan book at the end of FY19.

Analytical approach: CARE has analyzed the standalone credit profile of HDBFS along with its strong operational and managerial linkages with its parent, HDFC Bank Ltd.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE Policy on Default Recognition
Non Banking Financial Companies
Financial ratios - Financial Sector
Factor Linkages in Ratings
CARE's criteria on Short Term Instruments

Liquidity Position - Strong

HDBFS has been able to manage its liquidity profile by maintaining adequate liquid investments and back up lines of credit. Further, the company has been able to maintain good asset quality which ensures regular cash inflows from its loan portfolio. The overall liquidity profile of the company faces some negative cumulative mismatches in up-to one year time bucket as per ALM statement on June 30, 2019. However, the company draws comfort from unutilized bank lines and liquid investments of Rs. 7,000 crore. It also enjoys strong financial flexibility being subsidiary of HBL.

About the Company

HDB Financial Services Ltd (HDBFS) is a subsidiary of HDFC Bank (HBL) with shareholding of 95.53% as on March 31, 2019. HDBFS was incorporated in June 2007 and commenced its lending operations in March 2008. HDBFS continues to benefit from HBLs experience in the financial sector. The operations of the company are handled by Mr. G Ramesh, Managing Director, who is assisted by a team of qualified and experienced professionals. In addition, HDBFS has the advantage of leveraging on the expertise of senior management of HBL which has representation on the board of HDBFS.
HDBFS is a loan company which offers various retail loans like Loan against property (LAP), Commercial Vehicle (CV) and Construction Equipment (CE) financing, gold loan, personal loans, etc. The company operates through network of 1350 operational branches (as on March 31, 2019), located in 961 cities. The company is a corporate agent for HDFC Standard Life Insurance Company and HDFC Ergo General Insurance to distribute their insurance products.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	7,025	6,712
PAT	933	1,153
Interest coverage (times)	1.59	1.52
Total Net Assets	45,447	56,540
Net NPA (%)	0.96	1.12
ROTA (%)	2.37	2.26

A: Audited (Figures as per Ind AS)

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Type of Instrument	ISIN	Date of issuance	Coupon Rate (%)	Maturity Date	Size of issue (Rs. Cr.)	Rating assigned along with Rating Outlook
Commercial Paper		---	---	7 days to 1 year	12,500.00	CARE A1+
Market Linked Debenture	INE756I07CL2	8 Feb 19	Market linked	31 Jul 20	300.00	CARE PP MLD AAA; Stable
Market Linked Debenture	INE756I07CN8	1 Mar 19	Market linked	4 Feb 21	338.90	CARE PP MLD AAA; Stable
Market Linked Debenture	INE756I07CR9	13 Jun 19	Market linked	4 Jun 21	125.00	CARE PP MLD AAA; Stable
Market Linked Debenture (Proposed)		---	---	---	2,236.10	CARE PP MLD AAA; Stable
Debt- Perpetual Debt		6 Aug 18	9.40%		200.00	CARE AAA; Stable
Debt- Perpetual Debt		7 Sep 17	9.15%		100.00	CARE AAA; Stable
Debt- Perpetual Debt (Proposed)					700.00	CARE AAA; Stable
Subordinate Bond	INE756I08017	9-Aug-12	10.20%	9-Aug-22	250.00	CARE AAA; Stable
Subordinate Bond	INE756I08025	30-Nov-12	9.70%	30-Nov-22	150.00	CARE AAA; Stable
Subordinate Bond	INE756I08033	22-Mar-13	9.60%	22-Mar-23	200.00	CARE AAA; Stable
Subordinate Bond	INE756I08041	18-Oct-13	10.20%	17-Oct-23	100.00	CARE AAA; Stable
Subordinate Bond	INE756I08058	20-Dec-13	10.05%	20-Dec-23	50.00	CARE AAA; Stable
Subordinate Bond	INE756I08066	18-Mar-14	10.19%	18-Mar-24	80.00	CARE AAA; Stable
Subordinate Bond	INE756I08074	20-Jun-14	9.70%	20-Jun-24	200.00	CARE AAA; Stable
Subordinate Bond	INE756I08082	13-Nov-14	9.55%	13-Nov-24	100.00	CARE AAA; Stable
Subordinate Bond	INE756I08090	17-Nov-14	9.55%	15-Nov-24	200.00	CARE AAA; Stable
Subordinate Bond	INE756I08108	22-Jul-16	8.79%	22-Jul-26	220.00	CARE AAA; Stable
Subordinate Bond	INE756I08116	6-Dec-16	8.05%	4-Dec-26	170.00	CARE AAA; Stable
Subordinate Bond	INE756I08124	1-Feb-18	8.42%	1-Feb-28	150.00	CARE AAA; Stable
Subordinate Bond	INE756I08132	21-Feb-18	8.45%	21-Feb-28	130.00	CARE AAA; Stable
Subordinate Bond	INE756I08140	27-Jul-18	9.05%	27-Jul-28	250.00	CARE AAA; Stable
Subordinate Bond	INE756I08173	15-Nov-18	9.70%	15-Nov-28	350.00	CARE AAA; Stable
Subordinate Bond	INE756I08181	7-Jun-19	8.85%	7-Jun-29	315.00	CARE AAA; Stable
Subordinate Bond (Proposed)		---	---	---	585.00	CARE AAA; Stable
Bank Facilities					25,000.00	CARE AAA; Stable
NCD	INE756I07944	14 Jun 16	8.6580%	13 Mar 20	100.00	CARE AAA; Stable
NCD	INE756I07AD3	1 Sep 16	8.0550%	2 Mar 20	260.00	CARE AAA; Stable
NCD	INE756I07AS1	17 Jan 17	7.6800%	27 Jan 20	110.00	CARE AAA; Stable
NCD	INE756I07AU7	17 Jan 17	7.6735%	17 Feb 20	100.00	CARE AAA; Stable
NCD	INE756I07AW3	25 Jan 17	Zero Coupon	20 Mar 20	300.00	CARE AAA; Stable
NCD	INE756I07AZ6	31 Jan 17	7.7100%	24 Feb 20	200.00	CARE AAA; Stable
NCD	INE756I07BB5	22 Feb 17	7.8200%	24 Feb 20	260.00	CARE AAA; Stable
NCD	INE756I07BC3	26 Apr 17	7.7600%	26 May 20	135.00	CARE AAA; Stable
NCD	INE756I07BE9	11 May 17	7.8300%	11 Jun 20	100.00	CARE AAA; Stable
NCD	INE756I07BF6	11 May 17	Zero Coupon	8 Jul 20	125.00	CARE AAA; Stable
NCD	INE756I07BG4	18 May 17	7.8000%	18 Jun 20	100.00	CARE AAA; Stable
NCD	INE756I07BH2	29 May 17	7.8000%	29 Jun 20	300.00	CARE AAA; Stable
NCD	INE756I07BJ8	13 Jun 17	7.7000%	12 Jun 20	200.00	CARE AAA; Stable
NCD	INE756I07BK6	19 Jun 17	7.5500%	19 Jun 20	375.00	CARE AAA; Stable
NCD	INE756I07BL4	18 Jul 17	7.5200%	17 Aug 20	500.00	CARE AAA; Stable

Type of Instrument	ISIN	Date of issuance	Coupon Rate (%)	Maturity Date	Size of issue (Rs. Cr.)	Rating assigned along with Rating Outlook
NCD	INE756I07BM2	27 Jul 17	7.4300%	28 Sep 20	400.00	CARE AAA; Stable
NCD	INE756I07BP5	8 Sep 17	7.3000%	8 Sep 20	400.00	CARE AAA; Stable
NCD	INE756I07BQ3	20 Sep 17	Zero Coupon	20 Oct 20	400.00	CARE AAA; Stable
NCD	INE756I07BR1	18 Oct 17	7.5000%	18 Nov 20	500.00	CARE AAA; Stable
NCD	INE756I07BT7	6 Dec 17	7.6300%	7 Dec 20	800.00	CARE AAA; Stable
NCD	INE756I07BU5	15 Jan 18	7.9407%	15 Apr 21	145.00	CARE AAA; Stable
NCD	INE756I07BV3	16 Mar 18	Zero Coupon	10 May 21	373.00	CARE AAA; Stable
NCD	INE756I07BW1	16 Mar 18	Zero Coupon	6 Apr 21	299.00	CARE AAA; Stable
NCD	INE756I07BX9	1 Jun 18	Zero Coupon	8 Jun 21	663.00	CARE AAA; Stable
NCD	INE756I07BY7	27 Jun 18	8.8100%	7 Jul 21	215.00	CARE AAA; Stable
NCD	INE756I07CA5	11 Jul 18	8.52% (Linked to 91 days T-bill Benchmark Rate)	12 Jul 21	575.00	CARE AAA; Stable
NCD	INE756I07CB3	16 Aug 18	8.7000%	14 Aug 20	360.00	CARE AAA; Stable
NCD	INE756I07CC1	31 Aug 18	8.8217%	9 Sep 21	552.00	CARE AAA; Stable
NCD	INE756I07CD9	17 Oct 18	Zero Coupon	29 Oct 21	701.00	CARE AAA; Stable
NCD	INE756I07CE7	26 Oct 18	9.3533%	25 Mar 22	449.50	CARE AAA; Stable
NCD	INE756I07CF4	2 Nov 18	9.3808%	15 Jun 20	385.00	CARE AAA; Stable
NCD	INE756I07CG2	22 Nov 18	9.2556%	24 Feb 20	500.00	CARE AAA; Stable
NCD	INE756I07CI8	3 Dec 18	Zero Coupon	5 Apr 22	500.00	CARE AAA; Stable
NCD	INE756I07CI8	21 Dec 18	Zero Coupon	5 Apr 22	361.20	CARE AAA; Stable
NCD	INE756I07BF6	28 Dec 18	Zero Coupon	8 Jul 20	125.00	CARE AAA; Stable
NCD	INE756I07BK6	28 Dec 18	7.5500%	19 Jun 20	285.00	CARE AAA; Stable
NCD	INE756I07BF6	10 Jan 19	Zero Coupon	8 Jul 20	200.00	CARE AAA; Stable
NCD	INE756I07CJ6	10 Jan 19	8.8044%	10 Aug 20	245.00	CARE AAA; Stable
NCD	INE756I07BQ3	23 Jan 19	Zero Coupon	20 Oct 20	200.00	CARE AAA; Stable
NCD	INE756I07BT7	23 Jan 19	7.6300%	7 Dec 20	300.00	CARE AAA; Stable
NCD	INE756I07CI8	23 Jan 19	Zero Coupon	5 Apr 22	57.50	CARE AAA; Stable
NCD	INE756I07CK4	23 Jan 19	8.8317%	4 May 22	386.90	CARE AAA; Stable
NCD	INE756I07CI8	21 Feb 19	Zero Coupon	5 Apr 22	111.00	CARE AAA; Stable
NCD	INE756I07CM0	21 Feb 19	8.7110%	18 Feb 21	250.00	CARE AAA; Stable
NCD	INE756I07CI8	14 Mar 19	Zero Coupon	5 Apr 22	290.00	CARE AAA; Stable
NCD	INE756I07CM0	14 Mar 19	8.7110%	18 Feb 21	500.00	CARE AAA; Stable
NCD	INE756I07CO6	14 Mar 19	8.8000%	14 Mar 22	290.00	CARE AAA; Stable
NCD	INE756I07CP3	3 May 19	8.5450%	17 Jun 22	225.00	CARE AAA; Stable
NCD	INE756I07BX9	17 May 19	Zero Coupon	8 Jun 21	97.00	CARE AAA; Stable
NCD	INE756I07CQ1	17 May 19	8.7100%	17 May 21	365.00	CARE AAA; Stable
NCD	INE756I07CQ1	30 May 19	8.7100%	17 May 21	300.00	CARE AAA; Stable
NCD	INE756I07CP3	21 Jun 19	8.5450%	17 Jun 22	305.00	CARE AAA; Stable
NCD (Proposed)					31,567.70	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating history			
	Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1	Commercial Paper	ST	12500	CARE A1+	1)CARE A1+ (28-Jun-19)	1)CARE A1+ (28-Sep-18) 2)CARE A1+ (15-Jun-18)	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (11-Jul-17)	1)CARE A1+ (19-Dec-16) 2)CARE A1+ (20-Jul-16)
2	Fund-based - LT-Term Loan	LT	25000	CARE AAA; Stable	1) CARE AAA; Stable (28-Jun-19)	1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17)	1)CARE AAA; Stable (19-Dec-16) 2)CARE AAA (20-Jul-16)
3	Debentures-Non Convertible Debentures	LT	-	-		-	1)Withdrawn (11-Jul-17)	1)CARE AAA; Stable (19-Dec-16) 2)CARE AAA (20-Jul-16)
4	Debt-Subordinate Debt	LT	2750	CARE AAA; Stable		1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17)	1)CARE AAA; Stable (19-Dec-16) 2)CARE AAA (20-Jul-16)

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating history			
	Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
5	Debentures-Non Convertible Debentures	LT	16343.8	CARE AAA; Stable		1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17) 2)CARE AAA; Stable (11-Jul-17)	1)CARE AAA; Stable (19-Dec-16) 2)CARE AAA (20-Jul-16)
6	Debt-Subordinate Debt	LT	750	CARE AAA; Stable		1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17)	1)CARE AAA; Stable (19-Dec-16) 2)CARE AAA (20-Jul-16)
7	Debt-Perpetual Debt	LT	1000	CARE AAA; Stable	1)CARE AAA; Stable (28-Jun-19)	1)CARE AAA; Stable (28-Sep-18)	1)CARE AAA; Stable (12-Sep-17) 2)CARE AAA; Stable (11-Jul-17)	-
8	Debentures-Non Convertible Debentures	LT	7500	CARE AAA; Stable		1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17) 2)CARE AAA; Stable (11-Jul-17)	-

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating history			
	Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
9	Debentures-Non Convertible Debentures	LT	9000	CARE AAA; Stable		1) CARE AAA; Stable (15-Nov-18) 2)CARE AAA; Stable (28-Sep-18) 3)CARE AAA; Stable (15-Jun-18)	-	-
10	Debentures-Market Linked Debentures	LT	1000	CARE PP-MLD AAA; Stable		1)CARE PP-MLD AAA; Stable (15-Nov-18)	-	-
11	Debentures-Non Convertible Debentures	LT	15000	CARE AAA; Stable	1)CARE AAA; Stable (28-Jun-19)			
12	Debentures-Market Linked Debentures	LT	2000	CARE PP-MLD AAA; Stable	1)CARE PP-MLD AAA; Stable (28-Jun-19)	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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