HDB Financial Services Limited

June 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed Non-convertible Debentures	15,000	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Assigned**
Proposed Market Linked Debentures	2,000	**CARE PP-MLD AAA; Stable (PP-MLD Triple A; Outlook: Stable)**	**Assigned**
Bank Loan Ratings	25,000 (enhanced from 20,000	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Perpetual Debt	1000 (enhanced from 500)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Commercial Paper	12,500 (enhanced from 10000)	**CARE A1+**	**Reaffirmed**
Total	**55,500.0 (Rupees Fifty Five Thousand and Five hundred Crores 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 comfortable liquidity position, diversified resource profile, and experienced management. Continued support from HBL, credit profile of HBL, asset quality, capital adequacy and profitability of HDBFS are key rating sensitivities.*

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 support 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 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%).

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

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

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. As on March 31, 2019, the company's ALM profile showed cumulative positive mismatches up to 1 year bucket considering the contractual maturity of the inflows and outflows on account of CP redemptions. Along with that, HDBFS has a strong resource raising ability which further provides comfort. As March 31, 2019, HDBFS had cash and liquid investments of Rs.1082.4 crore.

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	--	--	7 days to 1 year	12,500	CARE A1+
Proposed Debentures-Non Convertible Debentures	-	-	-	15,000.00	CARE AAA; Stable
Proposed Debentures-Market Linked Debentures	-	-	-	2,000.00	CARE PP-MLD AAA; Stable
Bank Facilities - Fund Based - Long Term	--	--	--	15,368.47	CARE AAA; Stable
Bank Facilities - Fund Based - Long Term (Proposed)	--	--	--	9,631.53	CARE AAA; Stable
Debt- Perpetual Debt	6 August, 2018	9..40%	--	200	CARE AAA; Stable
Debt- Perpetual Debt	7 September, 2017	9.15%	--	100	CARE AAA; Stable
Debt- Perpetual Debt (Proposed)	--	--	--	700	CARE AAA; Stable

Annexure-2: Rating History of last three years

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	--	--	7 days - 1 year	12,500	CARE A1+
Debentures-Market Linked Debentures(Proposed)	--	--	--	2,236.10	CARE PP MLD AAA; Stable
Debentures-Market Linked Debentures	08-02-2019	Market Linked	31-07-2020	300	CARE PP MLD AAA; Stable
Debentures-Market Linked Debentures	01-03-2019	Market Linked	04-02-2021	338.90	CARE PP MLD AAA; Stable
Debentures-Market Linked Debentures	13-06-2019	Market Linked	04-06-2021	125	CARE PP MLD AAA; Stable
Debentures-Non Convertible Debentures(Proposed)	--	--	--	27,910	CARE AAA; Stable
Bank Facilities - Fund Based - Long Term	--	--	31-01-2024	15368.47	CARE AAA; Stable
Bank Facilities - Fund Based - Long Term (Proposed)	--	--	--	9631.53	CARE AAA; Stable
Debt- Perpetual Debt	06-08-2018	9..40%	--	200	CARE AAA; Stable
Debt- Perpetual Debt	07-09-2017	9.15%	--	100	CARE AAA; Stable
Debt- Perpetual Debt (Proposed)	--	--	--	700	CARE AAA; Stable

Debentures Sub debt (Proposed)	--	--	--	585	CARE AAA; Stable
Debentures-Non Convertible Debentures	31-07-2014	9.56%	31-07-2019	150	CARE AAA; Stable
Debentures-Non Convertible Debentures	03-06-2016	8.69%	03-07-2019	130	CARE AAA; Stable
Debentures-Non Convertible Debentures	14-06-2016	8.66%	13-03-2020	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	14-06-2016	8.65%	13-09-2019	200.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	27-07-2016	8.40%	29-07-2019	175	CARE AAA; Stable
Debentures-Non Convertible Debentures	03-08-2016	Zero Coupon	12-09-2019	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	10-08-2016	8.30%	09-08-2019	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	01-09-2016	8.06%	02-03-2020	260	CARE AAA; Stable
Debentures-Non Convertible Debentures	15-09-2016	7.95%	17-09-2019	102	CARE AAA; Stable
Debentures-Non Convertible Debentures	15-09-2016	Zero Coupon	16-12-2019	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	28-09-2016	Zero Coupon	27-09-2019	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	28-09-2016	7.90%	27-09-2019	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	27-10-2016	7.78%	25-10-2019	135	CARE AAA; Stable
Debentures-Non Convertible Debentures	08-11-2016	7.97%	06-12-2019	300	CARE AAA; Stable
Debentures-Non Convertible Debentures	01-12-2016	7.50%	03-01-2020	215	CARE AAA; Stable
Debentures-Non Convertible Debentures	17-01-2017	7.68%	27-01-2020	110	CARE AAA; Stable
Debentures-Non Convertible Debentures	17-01-2017	7.67%	17-02-2020	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	25-01-2017	Zero Coupon	20-03-2020	300	CARE AAA; Stable
Debentures-Non Convertible	31-01-2017	7.71%	24-02-2020	200	CARE AAA; Stable

Debentures					
Debentures-Non Convertible Debentures	22-02-2017	7.82%	24-02-2020	260	CARE AAA; Stable
Debentures-Non Convertible Debentures	26-04-2017	7.76%	26-05-2020	135	CARE AAA; Stable
Debentures-Non Convertible Debentures	11-05-2017	7.83%	11-06-2020	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	11-05-2017	Zero Coupon	08-07-2020	125	CARE AAA; Stable
Debentures-Non Convertible Debentures	18-05-2017	7.80%	18-06-2020	100	CARE AAA; Stable
Debentures-Non Convertible Debentures	29-05-2017	7.80%	29-06-2020	300	CARE AAA; Stable
Debentures-Non Convertible Debentures	13-06-2017	7.63%	28-06-2019	150	CARE AAA; Stable
Debentures-Non Convertible Debentures	13-06-2017	7.70%	12-06-2020	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	19-06-2017	7.55%	19-06-2020	375	CARE AAA; Stable
Debentures-Non Convertible Debentures	18-07-2017	7.52%	17-08-2020	500	CARE AAA; Stable
Debentures-Non Convertible Debentures	27-07-2017	7.43%	28-09-2020	400	CARE AAA; Stable
Debentures-Non Convertible Debentures	28-08-2017	7.28%	28-08-2019	400	CARE AAA; Stable
Debentures-Non Convertible Debentures	08-09-2017	7.30%	08-09-2020	400	CARE AAA; Stable
Debentures-Non Convertible Debentures	20-09-2017	Zero Coupon	20-10-2020	400	CARE AAA; Stable
Debentures-Non Convertible Debentures	18-10-2017	7.50%	18-11-2020	500	CARE AAA; Stable
Debentures-Non Convertible Debentures	31-10-2017	7.42%	31-10-2019	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	06-12-2017	7.63%	07-12-2020	800	CARE AAA; Stable
Debentures-Non Convertible Debentures	15-01-2018	7.94%	15-04-2021	145	CARE AAA; Stable
Debentures-Non Convertible	16-03-2018	Zero Coupon	10-05-2021	373	CARE AAA; Stable

Debentures					
Debentures-Non Convertible Debentures	16-03-2018	Zero Coupon	06-04-2021	299	CARE AAA; Stable
Debentures-Non Convertible Debentures	01-06-2018	Zero Coupon	08-06-2021	663	CARE AAA; Stable
Debentures-Non Convertible Debentures	27-06-2018	8.81%	07-07-2021	215	CARE AAA; Stable
Debentures-Non Convertible Debentures	27-06-2018	Zero Coupon	27-12-2019	450	CARE AAA; Stable
Debentures-Non Convertible Debentures	11-07-2018	8.52% (Linked to 91 days T-bill Benchmark Rate)	12-07-2021	575	CARE AAA; Stable
Debentures-Non Convertible Debentures	16-08-2018	8.70%	14-08-2020	360	CARE AAA; Stable
Debentures-Non Convertible Debentures	31-08-2018	8.82%	09-09-2021	552	CARE AAA; Stable
Debentures-Non Convertible Debentures	17-10-2018	Zero Coupon	29-10-2021	701	CARE AAA; Stable
Debentures-Non Convertible Debentures	26-10-2018	9.35%	25-03-2022	449.5	CARE AAA; Stable
Debentures-Non Convertible Debentures	02-11-2018	9.38%	15-06-2020	385	CARE AAA; Stable
Debentures-Non Convertible Debentures	22-11-2018	9.26%	24-02-2020	500	CARE AAA; Stable
Debentures-Non Convertible Debentures	22-11-2018	0.091756	13-12-2019	350	CARE AAA; Stable
Debentures-Non Convertible Debentures	03-12-2018	Zero Coupon	05-04-2022	500	CARE AAA; Stable
Debentures-Non Convertible Debentures	21-12-2018	Zero Coupon	05-04-2022	361.2	CARE AAA; Stable
Debentures-Non Convertible Debentures	28-12-2018	Zero Coupon	08-07-2020	125	CARE AAA; Stable
Debentures-Non Convertible Debentures	28-12-2018	7.55%	19-06-2020	285	CARE AAA; Stable
Debentures-Non Convertible Debentures	10-01-2019	Zero Coupon	08-07-2020	200	CARE AAA; Stable
Debentures-Non Convertible Debentures	10-01-2019	8.80%	10-08-2020	245	CARE AAA; Stable
Debentures-Non Convertible	23-01-2019	Zero Coupon	20-10-2020	200	CARE AAA; Stable

Debentures					
Debentures-Non Convertible Debentures	23-01-2019	7.63%	07-12-2020	300	CARE AAA; Stable
Debentures-Non Convertible Debentures	23-01-2019	Zero Coupon	05-04-2022	57.5	CARE AAA; Stable
Debentures-Non Convertible Debentures	23-01-2019	8.83%	04-05-2022	386.9	CARE AAA; Stable
Debentures-Non Convertible Debentures	21-02-2019	Zero Coupon	05-04-2022	111	CARE AAA; Stable
Debentures-Non Convertible Debentures	21-02-2019	8.71%	18-02-2021	250	CARE AAA; Stable
Debentures-Non Convertible Debentures	14-03-2019	Zero Coupon	05-04-2022	290	CARE AAA; Stable
Debentures-Non Convertible Debentures	14-03-2019	8.71%	18-02-2021	500	CARE AAA; Stable
Debentures-Non Convertible Debentures	14-03-2019	8.80%	14-03-2022	290	CARE AAA; Stable
Debentures-Non Convertible Debentures	03-05-2019	8.55%	17-06-2022	225	CARE AAA; Stable
Debentures-Non Convertible Debentures	17-05-2019	Zero Coupon	08-06-2021	97	CARE AAA; Stable
Debentures-Non Convertible Debentures	17-05-2019	8.71%	17-05-2021	365	CARE AAA; Stable
Debentures-Non Convertible Debentures	30-05-2019	8.71%	17-05-2021	300	CARE AAA; Stable
Debentures-Non Convertible Debentures	21-06-2019	8.55%	17-06-2022	305	CARE AAA; Stable
Debentures-Sub Debt	09-08-2012	10.2	09-08-2022	250	CARE AAA; Stable
Debentures-Sub Debt	30-11-2012	9.7	30-11-2022	150	CARE AAA; Stable
Debentures-Sub Debt	22-03-2013	9.6	22-03-2023	200	CARE AAA; Stable
Debentures-Sub Debt	18-10-2013	10.2	17-10-2023	100	CARE AAA; Stable
Debentures-Sub Debt	20-12-2013	10.05	20-12-2023	50	CARE AAA; Stable
Debentures-Sub Debt	18-03-2014	10.19	18-03-2024	80	CARE AAA; Stable
Debentures-Sub Debt	20-06-2014	9.7	20-06-2024	200	CARE AAA; Stable
Debentures-Sub Debt	13-11-2014	9.55	13-11-2024	100	CARE AAA; Stable
Debentures-Sub	17-11-	9.55	15-11-	200	CARE AAA; Stable

Debt	2014		2024		
Debentures-Sub Debt	22-07-2016	8.79	22-07-2026	220	CARE AAA; Stable
Debentures-Sub Debt	06-12-2016	8.05	04-12-2026	170	CARE AAA; Stable
Debentures-Sub Debt	01-02-2018	8.42	01-02-2028	150	CARE AAA; Stable
Debentures-Sub Debt	21-02-2018	8.45	21-02-2028	130	CARE AAA; Stable
Debentures-Sub Debt	27-07-2018	9.05	27-07-2028	250	CARE AAA; Stable
Debentures-Sub Debt	15-11-2018	9.7	15-11-2028	350	CARE AAA; Stable
Debentures-Sub Debt	07-06-2019	8.85	07-06-2029	315	CARE AAA; Stable

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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