HDB Financial Services Limited

July 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible Debentures	7,500.0 (Rs. Seven Thousand Five Hundred Crore Only)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Assigned**
Non-Convertible Debentures	32,235.00 (reduced from 47,843.80) (Rs. Thirty Two Thousand Two Hundred & Thirty Five Crore Only)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Bank Loan Ratings	30,000 (enhanced from 25,000) (Rs. Thirty Thousand Crore Only)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Market Linked Debentures	3,000 (Rs. Three Thousand Crore Only)	**CARE PP-MLD AAA; Stable (PP-MLD Triple A; Outlook: Stable)**	**Reaffirmed**
Subordinate Debt	3,500 (Rs. Three Thousand Five Hundred Crore Only)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Perpetual Debt	1,000 (Rs. One Thousand Crore Only)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Commercial Paper	12,500 (Rs. Twelve Thousand Five Hundred Crore Only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1
**At the company's request, CARE has reduced the NCD rated amount to Rs.32,235 crore on account of maturities/ redemptions. Also, on its request, CARE has enhanced the rated amount for Bank Facilities to Rs. 30,000 crore.*

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 sound financial performance as well as comfortable albeit weakening asset quality and adequate 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.*
CARE ratings would closely monitor the asset quality and collection efficiency of HDBFS going forward owing to the nationwide lockdown due to COVID-19 outbreak and moratorium extended by the company.

Rating Sensitivities: Factors that could lead to negative rating action/downgrade

- *Any reduction of the depth and scope of support from HBL*
- *Deterioration in credit profile of HBL*
- *Moderation in capital buffers with considerable fall in Capital Adequacy Ratio*
- *Deterioration in asset quality parameters on a sustained basis*

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 significant majority of shareholding (95.30% as on March 31, 2020) 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 albeit some moderation in FY20
Portfolio of HDBFS has shown strong growth over the last five years, registering a CAGR of 25%. In FY20, the AUM increased by 6% to Rs.58,833 crore as on March 2020. With an increase in AUM, the total income for FY20 also increased by 23% to

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

Rs.10,757 crore. The company's PAT declined 12.85% y-o-y to Rs.1,005 crore in FY20, due to higher provisioning in FY20. The company made higher provisions/credit costs of Rs 1,442 crore in FY20 from Rs.637 crore in FY19. Given the uncertainties and its potential impact on the macro and micro factors, the company has made provisions mainly to account for increased slippages owing to the adverse effects of lockdown due to the COVID-19 pandemic. The company's profitability metrics moderated in FY20 with ROTA of 1.73% in FY20 as compared to 2.28% in FY19 and RONW declined to 13.98% in FY20 from 18.42% in FY19. Operating expenses to average total assets has increased to 6.29% in FY20 from 5.89% in FY19.

Sound asset quality impacted by change in regulations

The company's asset quality parameters took a one time hit in FY20 due to change in the regulations related to non-performing assets classification, which contributed towards increase in Gross and Net NPA to 3.87% and 3.19% respectively as on March 31, 2020 from GNPA of 1.83% and NNPA of 1.26% as on March 31, 2019. Moreover, poor economic conditions and higher delinquencies across sectors also contributed to additional slippages. Net NPA to tangible net-worth increased to 24% as on March 31, 2020 as against 10% as on March 31, 2019. The company's provision coverage ratio as on March 31, 2020 stood at 19.41% down from 39.24% as on March 31, 2019.

Comfortable capitalization

The company has been maintaining comfortable capitalization levels and reported tangible net worth of Rs.7,594 crore as on March 31, 2020. Regular capital infusion by HBL in the past and internal accruals has helped HDBFS to maintain comfortable capital adequacy ratio (CAR) which stood at 19.36% with Tier-I CAR at 13.96% as on March 31, 2020 (FY19: CAR – 17.91%, Tier-I CAR – 12.78%). Moreover, the company's gearing levels improved to 6.86% at end-FY20 from 7.04% at end-FY19.

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 76.44% of total portfolio as on March 31, 2020 (FY19- 79.75%). Broadly, the company's loan portfolio is diversified with ~40% of the portfolio into SME, another ~40% is Asset Financing (which includes Tractors / Used CVs / New CVs / CEs) and the remaining ~20% in to Personal unsecured loans. Moreover, the lending book is granular in nature with average ticket size between 7-8 Lakhs and the 20 largest borrowers accounting for 0.36% of the book as on March 31, 2020 (FY19: 0.46%).

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 adequate collection efficiency which ensures regular cash inflows from its loan portfolio. The overall liquidity profile of the company remains sound with positive cumulative mismatch in the one-year time bucket as per ALM statement on March 30, 2020. Additionally, the company draws comfort from unutilized bank lines and liquid investments of Rs. 6,179 crore as on April 30, 2020. 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 95.30% as on March 31, 2020. 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 lending 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 1,468 operational branches (as on March 31, 2020), located in 1,070 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)	FY19 (A)	FY20 (A)
Total operating income	6,712	8,234
PAT	1,153	1,005
Interest coverage (times)	1.52	1.36
Total Assets	55,707	60,714
Net NPA (%)	1.26	3.19
ROTA (%)	2.28	1.73

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	Maturity Date	Size of issue (Rs. Cr.)	Rating assigned along with Rating Outlook
Bank Facilities				30,000.00	CARE AAA; Stable
NCD	INE756I07BC3	26 Apr 17	26 May 20	135	CARE AAA; Stable
NCD	INE756I07BE9	11 May 17	11 Jun 20	100	CARE AAA; Stable
NCD	INE756I07BF6	11 May 17	8 Jul 20	125	CARE AAA; Stable
NCD	INE756I07BG4	18 May 17	18 Jun 20	100	CARE AAA; Stable
NCD	INE756I07BH2	29 May 17	29 Jun 20	300	CARE AAA; Stable
NCD	INE756I07BJ8	13 Jun 17	12 Jun 20	200	CARE AAA; Stable
NCD	INE756I07BK6	19 Jun 17	19 Jun 20	375	CARE AAA; Stable
NCD	INE756I07BL4	18 Jul 17	17 Aug 20	500	CARE AAA; Stable
NCD	INE756I07BM2	27 Jul 17	28 Sep 20	400	CARE AAA; Stable
NCD	INE756I07BP5	8 Sep 17	8 Sep 20	400	CARE AAA; Stable
NCD	INE756I07BQ3	20 Sep 17	20 Oct 20	400	CARE AAA; Stable
NCD	INE756I07BR1	18 Oct 17	18 Nov 20	500	CARE AAA; Stable
NCD	INE756I07BT7	6 Dec 17	7 Dec 20	800	CARE AAA; Stable
NCD	INE756I07BU5	15 Jan 18	15 Apr 21	145	CARE AAA; Stable
NCD	INE756I07BV3	16 Mar 18	10 May 21	373	CARE AAA; Stable
NCD	INE756I07BW1	16 Mar 18	6 Apr 21	299	CARE AAA; Stable
NCD	INE756I07BX9	1 Jun 18	8 Jun 21	663	CARE AAA; Stable
NCD	INE756I07BY7	27 Jun 18	7 Jul 21	215	CARE AAA; Stable
NCD	INE756I07CA5	11 Jul 18	12 Jul 21	575	CARE AAA; Stable
NCD	INE756I07CB3	16 Aug 18	14 Aug 20	360	CARE AAA; Stable
NCD	INE756I07CC1	31 Aug 18	9 Sep 21	552	CARE AAA; Stable
NCD	INE756I07CD9	17 Oct 18	29 Oct 21	701	CARE AAA; Stable
NCD	INE756I07CE7	26 Oct 18	25 Mar 22	449.5	CARE AAA; Stable
NCD	INE756I07CF4	2 Nov 18	15 Jun 20	385	CARE AAA; Stable
NCD	INE756I07CI8	3 Dec 18	5 Apr 22	500	CARE AAA; Stable
NCD	INE756I07CI8	21 Dec 18	5 Apr 22	361.2	CARE AAA; Stable
NCD	INE756I07BF6	28 Dec 18	8 Jul 20	125	CARE AAA; Stable
NCD	INE756I07BK6	28 Dec 18	19 Jun 20	285	CARE AAA; Stable
NCD	INE756I07BF6	10 Jan 19	8 Jul 20	200	CARE AAA; Stable
NCD	INE756I07CJ6	10 Jan 19	10 Aug 20	245	CARE AAA; Stable
NCD	INE756I07BQ3	23 Jan 19	20 Oct 20	200	CARE AAA; Stable

Type of Instrument	ISIN	Date of issuance	Maturity Date	Size of issue (Rs. Cr.)	Rating assigned along with Rating Outlook
NCD	INE756I07BT7	23 Jan 19	7 Dec 20	300	CARE AAA; Stable
NCD	INE756I07CI8	23 Jan 19	5 Apr 22	57.5	CARE AAA; Stable
NCD	INE756I07CK4	23 Jan 19	4 May 22	386.9	CARE AAA; Stable
NCD	INE756I07CI8	21 Feb 19	5 Apr 22	111	CARE AAA; Stable
NCD	INE756I07CM0	21 Feb 19	18 Feb 21	250	CARE AAA; Stable
NCD	INE756I07CI8	14 Mar 19	5 Apr 22	290	CARE AAA; Stable
NCD	INE756I07CM0	14 Mar 19	18 Feb 21	500	CARE AAA; Stable
NCD	INE756I07CO6	14 Mar 19	14 Mar 22	290	CARE AAA; Stable
NCD	INE756I07CP3	3 May 19	17 Jun 22	225	CARE AAA; Stable
NCD	INE756I07BX9	17 May 19	8 Jun 21	97	CARE AAA; Stable
NCD	INE756I07CQ1	17 May 19	17 May 21	365	CARE AAA; Stable
NCD	INE756I07CQ1	30 May 19	17 May 21	300	CARE AAA; Stable
NCD	INE756I07CP3	21 Jun 19	17 Jun 22	305	CARE AAA; Stable
NCD	INE756I07CS7	25 Jul 19	25 Aug 22	117	CARE AAA; Stable
NCD	INE756I07CT5	8 Aug 19	8 Aug 29	1500	CARE AAA; Stable
NCD	INE756I07BY7	22 Aug 19	7 Jul 21	325	CARE AAA; Stable
NCD	INE756I07CP3	22 Aug 19	17 Jun 22	275	CARE AAA; Stable
NCD	INE756I07CU3	28 Aug 19	28 Aug 24	280	CARE AAA; Stable
NCD	INE756I07CW9	19 Nov 19	19 Nov 22	255	CARE AAA; Stable
NCD	INE756I07CV1	13 Sep 19	18 Nov 21	700	CARE AAA; Stable
NCD	INE756I07CS7	24 Sep 19	25 Aug 22	200	CARE AAA; Stable
NCD	INE756I07CS7	24 Oct 19	25 Aug 22	220	CARE AAA; Stable
NCD	INE756I07CV1	25 Nov 19	18 Nov 21	300	CARE AAA; Stable
NCD	INE756I07CX7	25 Nov 19	23 Dec 22	260	CARE AAA; Stable
NCD	INE756I07CW9	26 Dec 19	19 Nov 22	240	CARE AAA; Stable
NCD	INE756I07CX7	26 Dec 19	23 Dec 22	260	CARE AAA; Stable
NCD	INE756I07CY5	16 Jan 20	16 Feb 23	257	CARE AAA; Stable
NCD	INE756I07BY7	30 Jan 20	7 Jul 21	250	CARE AAA; Stable
NCD	INE756I07CZ2	30 Jan 20	20 Jan 23	800	CARE AAA; Stable
NCD	INE756I07DA3	17 Feb 20	17 Apr 23	380	CARE AAA; Stable
NCD	INE756I07DA3	3 Mar 20	17 Apr 23	50	CARE AAA; Stable
NCD	INE756I07DB1	3 Mar 20	20 Oct 22	510	CARE AAA; Stable
NCD (Proposed)				18,109.90	CARE AAA; Stable
Commercial Paper		---	7 days to 1 year	12,500.00	CARE A1+
Market Linked Debenture	INE756I07CL2	8 Feb 19	31 Jul 20	300.00	CARE PP MLD AAA; Stable
Market Linked Debenture	INE756I07CN8	1 Mar 19	4 Feb 21	338.90	CARE PP MLD AAA; Stable
Market Linked Debenture	INE756I07CR9	13 Jun 19	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	INE756I08157	6-Aug-18	--	200.00	CARE AAA; Stable
Debt- Perpetual Debt	INE756I08165	7-Sep-18	--	100.00	CARE AAA; Stable
Debt- Perpetual Debt	INE756I08199	16-Aug-19	--	100.00	CARE AAA; Stable
Debt- Perpetual Debt	INE756I08207	29-Nov-19	--	100.00	CARE AAA; Stable
Debt- Perpetual Debt				500.00	CARE AAA; Stable

Type of Instrument	ISIN	Date of issuance	Maturity Date	Size of issue (Rs. Cr.)	Rating assigned along with Rating Outlook
(Proposed)					
Subordinate Bond	INE756I08017	9-Aug-12	9-Aug-22	250.00	CARE AAA; Stable
Subordinate Bond	INE756I08025	30-Nov-12	30-Nov-22	150.00	CARE AAA; Stable
Subordinate Bond	INE756I08033	22-Mar-13	22-Mar-23	200.00	CARE AAA; Stable
Subordinate Bond	INE756I08041	18-Oct-13	17-Oct-23	100.00	CARE AAA; Stable
Subordinate Bond	INE756I08058	20-Dec-13	20-Dec-23	50.00	CARE AAA; Stable
Subordinate Bond	INE756I08066	18-Mar-14	18-Mar-24	80.00	CARE AAA; Stable
Subordinate Bond	INE756I08074	20-Jun-14	20-Jun-24	200.00	CARE AAA; Stable
Subordinate Bond	INE756I08082	13-Nov-14	13-Nov-24	100.00	CARE AAA; Stable
Subordinate Bond	INE756I08090	17-Nov-14	15-Nov-24	200.00	CARE AAA; Stable
Subordinate Bond	INE756I08116	6-Dec-16	4-Dec-26	170.00	CARE AAA; Stable
Subordinate Bond	INE756I08108	22-Jul-16	22-Jul-26	220.00	CARE AAA; Stable
Subordinate Bond	INE756I08124	1-Feb-18	1-Feb-28	150.00	CARE AAA; Stable
Subordinate Bond	INE756I08132	21-Feb-18	21-Feb-28	130.00	CARE AAA; Stable
Subordinate Bond	INE756I08140	27-Jul-18	27-Jul-28	250.00	CARE AAA; Stable
Subordinate Bond	INE756I08173	15-Nov-18	15-Nov-28	350.00	CARE AAA; Stable
Subordinate Bond	INE756I08181	7-Jun-19	7-Jun-29	315.00	CARE AAA; Stable
Subordinate Bond	INE756I08181	24-Jan-20	7-Jun-29	228.50	CARE AAA; Stable
Subordinate Bond (Proposed)		---	---	356.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1	Commercial Paper	ST	12,500	CARE A1+	-	1)CARE A1+ (08-Jan-20) 2)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)
2	Fund-based - LT-Term Loan	LT	30,000 (enhanced from 25,000)	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20) 2) 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)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (11-Jul-17)
4	Debt-Subordinate Debt	LT	2750	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17)
5	Debentures-Non Convertible Debentures	LT	735	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20)	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)
6	Debt-Subordinate Debt	LT	750	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	1)CARE AAA; Stable (12-Sep-17)
7	Debt-Perpetual Debt	LT	1000	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20) 2)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 (08-Jan-20)	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)
9	Debentures-Non Convertible Debentures	LT	7500	-	-	-	-	-

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating history			
	Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
10	Debentures-Non Convertible Debentures	LT	9000	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20)	1) CARE AAA; Stable (15-Nov-18) 2)CARE AAA; Stable (28-Sep-18) 3)CARE AAA; Stable (15-Jun-18)	-
11	Debentures-Market Linked Debentures	LT	1000	CARE PP-MLD AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20)	1)CARE PP-MLD AAA; Stable (15-Nov-18)	-
12	Debentures-Non Convertible Debentures	LT	15000	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20) 2)CARE AAA; Stable (28-Jun-19)		
13	Debentures-Market Linked Debentures	LT	2000	CARE PP-MLD AAA; Stable	-	1)CARE AAA; Stable (08-Jan-20) 2)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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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