HDB Financial Services Limited

November 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed Non-convertible Debentures	9,000.0 (Reduced from 10,000.0)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Proposed Market Linked Debentures	1,000.0	**CARE PP-MLD AAA; Stable (PP-MLD Triple A; Outlook: Stable)**	**Assigned**
Total	**10,000.0 (Rupees Ten Thousand 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 (95.87% as on March 31, 2018) 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 nearly 30% to Rs.44,469 crore as on March 2018 as against Rs.34,277 crore as on March 2017. With an increase in AUM, the total income for FY18 increased by 23.6% to Rs.7,062 crore. Despite higher provisioning in FY18 (increase of 52.8% over FY17), PAT in FY18 was Rs.952 crore, registering a growth of 39.1% over FY17. This was mainly due to improvement in Net Interest Margin which was 7.16% in FY18 (FY17: 6.98%). Return on total assets thus improved by 10 bps in FY18 to 2.44% (FY17: 2.34%).

Comfortable asset quality

Asset quality remains at comfortable level with Gross and Net NPA at 1.58% and 0.98% respectively as on March 31, 2018 (FY17: GNPA 1.45%, NNPA 0.84%). Net NPA to tangible net-worth increased to 6.93% as on March 31, 2018 as against 5.17% as on March 31, 2017. Despite increase in provisioning, Provision Coverage Ratio as on March 31, 2018 stood at 39.71% (FY17: 42.43%).

Comfortable capitalization

Regular capital infusion by HBL, coupled with internal accruals has helped HDBFS to maintain comfortable capital adequacy ratio (CAR) at 17.94% with Tier-I CAR at 13.22% as on March 31, 2018 (FY17: CAR – 20.79%, Tier-I CAR – 15.26%).

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 78.1% of total portfolio as on March 31, 2018 (FY17- 79.6%). Loan against Property (LAP) constituted 41.98% of outstanding portfolio as on March 31, 2018, asset finance accounted for 32% of loan book at the end of FY18.

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.

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

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]

About the Company
HDB Financial Services Ltd (HDBFS) is a subsidiary of HDFC Bank (HBL) with shareholding of 95.87% as on March 31, 2018. 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 1165 operational branches (as on March 31, 2018), located in 831 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)	FY17 (A)	FY18 (A)
Total operating income	5,711.35	7,059.91
PAT	684	952
Interest coverage (times)	1.52	1.62
Total Net Assets	33,312	44,561
Net NPA (%)	0.84	0.98
ROTA (%)	2.34	2.44

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

CARE Ratings
Professional Risk Opinion

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Proposed Debentures-Non Convertible Debentures	-	-	-	9000.00	CARE AAA; Stable
Proposed Debentures-Market Linked Debentures	-	-	-	1000.00	CARE PP-MLD AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	10000.00	CARE A1+	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)	1)CARE A1+ (25-Jun-15)
2.	Fund-based - LT-Term Loan	LT	20000.00	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)	1)CARE AAA (25-Jun-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (11-Jul-17)	1)CARE AAA; Stable (19-Dec-16) 2)CARE AAA (20-Jul-16)	1)CARE AAA (25-Jun-15)
4.	Debt-Subordinate Debt	LT	2750.00	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)	1)CARE AAA (25-Jun-15)
5.	Debentures-Non Convertible Debentures	LT	16343.80	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)	1)CARE AAA (25-Jun-15)

6.	Debt-Subordinate Debt	LT	750.00	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)	1)CARE AAA (25-Jun-15)
7.	Debt-Perpetual Debt	LT	500.00	CARE AAA; Stable	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	7500.00	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)	-	-
9.	Debentures-Non Convertible Debentures	LT	9000.00	CARE AAA; Stable	1)CARE AAA; Stable (28-Sep-18) 2)CARE AAA; Stable (15-Jun-18)	-	-	-
10.	Debentures-Market Linked Debentures	LT	1000.00	CARE PP-MLD AAA; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691