Housing Development Finance Corporation Ltd

October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Commercial Paper Issue	75,000	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long Term Bank Facilities	22,997.58	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	49,822.95	**CARE A1+ (A One Plus)**	**Reaffirmed**
Issuer rating	-	**CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]**	**Reaffirmed**
Total	**1,47,820.53 (Rs. One lakh forty seven thousand and eight hundred twenty crore and fifty three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the market leadership of Housing Development Finance Corporation Ltd. (HDFC) in the Indian housing finance industry, long-standing track record of operations, adequate capitalisation levels & strong resource raising ability, strict underwriting standards and risk management procedures and healthy asset quality albeit with some moderation in FY20. The ratings also consider HDFC's vast marketing as well as distribution network and its ability to raise resources at competitive rates. The ratings also take into account HDFC's strong business franchise of subsidiaries/ associates in Banking, Asset Management, Life Insurance, General Insurance, Educational loans and property funds. The ratings draw comfort from underlying potential value in some of its investments. These strengths are partially offset by exposure to comparatively riskier non-individual loan segment and increasing competition in prime home loan segment.

The lockdown imposed in most parts of the country due to Covid-19 pandemic, will have near term impact on disbursements and collections of HFCs/NBFCs. Any delay in return to normalcy and/or any change in behavior of borrowers with regards to payment discipline can affect the asset quality and profitability of HFCs/NBFCs in FY21. However, the collections of HDFC are less likely to be impacted due to lockdown as significant portion of the AUM is contributed by the prime borrower segment, which is expected to remain relatively resilient amidst lockdown. As on July 30, 2020, 22% of HDFC's AUM was under Moratorium 2.0, which reduced from 27% in Moratorium 1.0. Further, the company also maintained adequate liquidity of over Rs.45,400 crore as on June 30, 2020, in the form of bank balances, liquid mutual funds, deposits with banks, and investments in Government securities. The liquidity profile also derives comfort from the ability of HDFC to raise funds through capital markets, deposits, banks and refinance facilities during the period of lockdown.

Rating sensitivities

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

- Weakening of the credit profile of HDFC Ltd and/or its subsidiaries/associates.
- Material deterioration in asset quality of HDFC Ltd.
- Increase in gearing (Debt/Net-worth) beyond 9x levels.

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 housing finance industry in India. The company has a strong distribution network comprising 585 outlets. In addition, HDFC covers several locations in the country through outreach programmes. HDFC has an international presence, which primarily caters to the non-resident Indians. HDFC's outstanding loan portfolio (net of loans sold) stood at Rs.4,50,903 crore as on March 31, 2020. The average size of individual loans stood at Rs.27 lakh during the year. During FY20, 82% of individual loans approved in value terms were from salaried category, whereas remaining 18% were from self-employed category. Further Middle Income Group (MIG) accounts 46% of value of individual loans approved, followed by High Income Group (HIG), Low Income Group (LIG) and Economically Weaker Section (EWS) with 36%, 16% and 2% respectively.

Strong track record with the experienced management
Established in 1977, the company has a strong track record in the housing finance sector with a stable and experienced management. The average tenure of the senior management in HDFC is over 26 years. Mr. Deepak Parekh is the Chairman of HDFC Ltd. The day to day affairs are handled by Mr. Keki Mistry, (Vice Chairman & CEO), Ms. Renu Sud Karnad (Managing Director) and Mr. V. Srinivasa Rangan (Executive Director) who are assisted by an experienced team.

Healthy capitalization levels
HDFC continues to maintain healthy capitalization levels supported by its strong capital raising ability. Corporation reported Capital Adequacy Ratio (CAR) of 17.6% as on March 31, 2020 [P.Y.: 19.2%] with Tier I CAR being 16.5% [P.Y.: 17.6%]. Total CAR and Tier I CAR continue to well above regulatory requirement of 13% and 10% respectively. As on March 31, 2020, HDFC's gearing levels also remained stable at 4.70x [P.Y.: 4.72x]. As on June 30, 2020, HDFC reported Total CAR and Tier I CAR of 17.3% and 16.2% respectively. Further during August'20, the Corporation also raised Rs.14,000 crore through its Qualified Institutions Placement of equity shares and non-convertible debentures simultaneously with warrants, which will further support the capitalization of the company.

Strict underwriting standards and risk management procedures help maintain asset quality
A long track record and experience has helped HDFC build strict underwriting standards and risk management procedures. The quality of standards and risk management system help the company to maintain a healthy asset quality, thereby, leading to lower credit costs for the company over the years. HDFC continues to have one of the most stable asset quality parameters in the housing finance industry though there was some moderation in asset quality in FY20. As on March 31, 2020, it reported Gross NPA ratio of 1.99% [P.Y.: 1.18%]. GNPAs in individual and non-individual loan book stood at 0.95% [P.Y.: 0.70%] and 4.71% [P.Y.: 2.34%] of the respective portfolios as on March 31, 2020. Moderation in asset quality in FY20 was primarily contributed by non-individual loan book. As at June 30, 2020, the GNPAs stood at 1.87%. GNPAs in individual and non-individual loan book stood at 0.92%% and 4.10% of the respective portfolios as on June 30, 2020.

Strong resources profile
HDFC has a strong and well-diversified resource profile. As on March 31, 2020, market borrowings by way of debentures and securities constituted 43% [P.Y.: 50%] of the total borrowings, deposits constituted 32% [P.Y.: 29%] and term loans constituted 25% [P.Y.:21%].

Consistent healthy financial metrics
HDFC's outstanding loan portfolio grew by around 11% (net of loans sold) (y-o-y) during FY20 to Rs.4,50,903 crore as on March 31, 2020. Of the total loans on an AUM basis, individuals constituted around 76% [P.Y.:74%] with the rest mainly comprising loans to the corporate bodies/ developers.
HDFC registered growth of 84% in PAT in FY20, largely contributed by fair value gain of Rs.9,020 crore on the amalgamation of Gruh Finance with Bandhan Bank. As a result, HDFC Ltd's ROTA also improved to 3.62% during FY20 (including the impact of profit on sale of investments) [P.Y: 2.25%]. During Q1FY21, corporation reported PAT of Rs.3,052 crore [P.Y: Rs.3,203 crore] on the total income of Rs.13,019 crore [P.Y: Rs.12,996 crore].

Strong business franchise of subsidiaries/associates
HDFC's subsidiaries/associates are important players in the banking industry, Asset Management business, Life & General Insurance sector. HDFC bank 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 amongst the leading insurers in life and general insurance segment, respectively.

Key Rating Weaknesses
Non-individual segment is comparatively risky
As on March 31, 2020, non-individual segment accounts 24% of AUM, which exposes company to some concentration risk. As on March 31, 2020, Top 10 group exposures account 15% of loan book and 77% of net worth. However company has strong systems and processes to manage non-individual exposures. Further, top group exposures of company consist of groups with strong credit profile and these group exposures are spread across multiple projects, which bring in diversification of risk.

Increasing competition in prime home loan segment
HDFC is exposed to intense competition in prime home loan segment as banks are aggressively targeting prime home loan segment.

Analytical approach: Standalone

Applicable Criteria
Rating Outlook and Credit Watch
CARE Policy on Default Recognition
Rating Methodology- Housing Finance Companies
Financial ratios - Financial Sector
Short Term Instruments

Liquidity profile: Strong
Overall liquidity profile of HDFC is comfortable as the company has proven ability to raise resources both, in domestic and international markets. As a part of liquidity management, HDFC has been carrying overnight liquidity in the form of bank balances, liquid fund schemes of mutual funds, deposits with banks, and investments in Government Securities. As on June 30, 2020, the total outstanding is approximately Rs.45,406 crore. The corporation routinely taps into debt market issuances across tenors, which are subscribed by various investor classes. These borrowings are further supplemented by loan from banks, NHB refinance and deposits programme, ECB and Masala bond issuances. The corporation also raises funds through the loan assignment route. The unaccounted gains of listed equity including the corporation's subsidiary and associate companies stood at Rs.1.92 lakh crore as on June 30, 2020.

About the Company
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 like loans to individuals, loans to corporates, construction finance, and lease rental discounting. 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 585 outlets (including 206 offices of its distribution subsidiary – HDFC Sales Private Limited) as on March 31, 2020. In addition, HDFC covers several locations through outreach programmes. Distribution channels form an integral part of the distribution network with home loans being distributed through HSPL, HDFC Bank Ltd. and third party DSAs.

Brief Financials As per Ind AS (Rs. crore)	FY19 (A)	FY20 (A)
Revenue from Operations	43,348	58,739
Reported PAT	9,633	17,770
Total Assets	4,58,778	5,24,094
GNPA (%)	1.18	1.99
ROTA (%)	2.25	3.62

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

Annexure-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
NA	Term Loan-Short Term	-	-	Upto 1 one year	49822.95	CARE A1+
NA	Term Loan-Long Term	-	-	Upto 14 years	22997.58	CARE AAA; Stable
NA	Issuer Rating-Issuer Ratings	-	-	-	-	CARE AAA (Is); Stable
NA	Commercial Paper-(Standalone)	-	-	7 days to 1 year	75000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount (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.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (09-Sep-19)	1)CARE AAA (Is); Stable (31-Aug-18)	1)CARE AAA (Is); Stable (29-Sep-17)
2.	Term Loan-Short Term	ST	49822.95	CARE A1+	1)CARE A1+ (18-Jun-20)	1)CARE A1+ (21-Feb-20) 2)CARE A1+ (29-Nov-19) 3)CARE A1+ (09-Sep-19) 4)CARE A1+ (07-Jun-19)	1)CARE A1+ (28-Feb-19) 2)CARE A1+ (05-Dec-18) 3)CARE A1+ (31-Aug-18) 4)CARE A1+ (29-May-18)	1)CARE A1+ (15-Feb-18) 2)CARE A1+ (06-Dec-17) 3)CARE A1+ (29-Sep-17) 4)CARE A1+ (10-Jul-17) 5)CARE A1+ (04-May-17)
3.	Term Loan-Long Term	LT	22997.58	CARE AAA; Stable	1)CARE AAA; Stable (18-Jun-20)	1)CARE AAA; Stable (21-Feb-20) 2)CARE AAA; Stable (29-Nov-19) 3)CARE AAA; Stable (09-Sep-19) 4)CARE AAA; Stable (07-Jun-19)	1)CARE AAA; Stable (28-Feb-19) 2)CARE AAA; Stable (05-Dec-18) 3)CARE AAA; Stable (31-Aug-18) 4)CARE AAA; Stable (29-May-18)	1)CARE AAA; Stable (15-Feb-18) 2)CARE AAA; Stable (06-Dec-17) 3)CARE AAA; Stable (29-Sep-17) 4)CARE AAA; Stable (10-Jul-17) 5)CARE AAA; Stable (04-May-17)
4.	Commercial Paper (Standalone)	ST	75000.00	CARE A1+	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (09-Sep-19)	1)CARE A1+ (31-Aug-18)	1)CARE A1+ (29-Sep-17)

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper (Standalone)	Simple
2.	Issuer Rating-Issuer Ratings	Simple
3.	Term Loan-Long Term	Simple
4.	Term Loan-Short Term	Simple

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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