

March 03, 2017

## Hero Corporate Service Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Facilities	5.0 (enhanced from 4.0)	[ICRA]A+ (stable) reaffirmed
Non Fund Based Facilities (Sub-Limit of Fund Based Limits)	1.0	[ICRA]A+ (stable) reaffirmed
Short term Loans	0.0 (reduced from 15.0)	-
Unallocated	50.0 (enhanced from 36.0)	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>55.0</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed a long term rating of [ICRA]A+ (pronounced ICRA A plus) and a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 55.0 crore<sup>1</sup> bank facilities of Hero Corporate Service Private Limited (HCSPL). The long-term rating has a “Stable” outlook<sup>2</sup>.

### Detailed Rationale

The ratings reaffirmation factors in HCSPL’s parentage, being a part of Hero Enterprise, which enjoys significant financial flexibility. Being a part of Hero Enterprise, HCSPL enjoy access to operational and financial support. The promoter group, through holding entity Global Ivy Ventures LLP, has provided an undertaking that earmarks funds for meeting debt servicing and growth funding requirement of Hero Enterprise (companies falling under the ambit of Mr. Sunil Kant Munjal).

The ratings assigned continue to factor in the company’s established relationship with Hero Motocorp Limited (HMCL, rated [ICRA]AAA(Stable)/IrAAA(Stable)/[ICRA]A1+); HCSPL continues to be an insurance intermediary, providing motor insurance for HMCL vehicles and has penetration levels in new vehicle sales of the Original Equipment Manufacturer (OEM). ICRA takes note of the fact that with ~90% of the company’s revenues emanating from the insurance distribution division, HCSPL’s revenue growth continues to remain vulnerable to any slowdown in the two wheeler segment. Nonetheless, significant opportunity available in the policy renewal segment and the company’s recent diversification into four wheeler motor insurance and non-motor insurance segments provides comfort.

While HCSPL at a standalone level maintains adequate financial flexibility reflected in a conservative capital structure, it has extended significant financial and non-fund based support to its investee companies in the real estate, business process outsourcing services and training services business; Hero Realty Private Limited (HRPL, present in real estate business) has Rs.100 crore of borrowing guaranteed by HCSPL and the repayment obligation (including interest) of the same will fall in FY2019. Although weak financial profile of HRPL continues to weigh on consolidated credit metrics of HCSPL, ICRA has factored in demonstrated support from the promoter group in the form of timely infusion of funds while

<sup>1</sup> 100 Lakh = 1 Crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA’s website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

reaffirming the rating. Going forward, ICRA expects Hero Enterprise to continue to extend need based financial support for meeting the investment requirements of HCSPL's investee companies; timely receipt of any such funding support from Hero Enterprise would remain a key rating sensitivity.

The ability of HCSPL to scale up its new business segments – life insurance and four wheeler motor insurance, which would help its diversify the revenue profile of its insurance distribution division would remain critical. Additionally, turning around the operational performance of HRPL would remain critical for improvement in consolidated credit profile of the group. ICRA notes, HCSPL remains vulnerable to single client exposure due to its high dependence on business from HMCL.

## **Key rating drivers**

### **Credit Strengths**

- Access to financial support available from promoter group to meet the debt servicing obligations and funding requirements of various businesses/group companies
- HCSPL has penetrated ~90% of Hero MotoCorp Limited (HMCL) dealerships for insurance of new motorcycle sales; significant opportunity available in business of renewal of insurance policies of existing vehicle population
- Comfortable financial profile on a standalone basis; however debt levels of HRPL (HCSPL has extended a corporate guarantee for Rs. 100 crore) remain high; promoter group is expected to continue to provide funding support to HRPL over medium term

### **Credit Weakness**

- High single client concentration, with HMCL accounting for a major part of its business
- Two wheeler Insurance distribution continues to contribute ~90% of standalone revenues; as such the company remains vulnerable to a slowdown in two wheeler segment, however, diversification into four wheeler motor insurance and non-motor insurance segment may help mitigate risk to an extent
- Support provided to Hero Reality in form of corporate guarantee for borrowings
- Scale of operations of HMSPL and HMIPL remains low

### **Detailed description of key rating drivers highlighted above:**

The standalone business of HCSPL comprises the insurance distribution division, strategic advisory division and windmill energy. The insurance distribution is the key revenue driver for the company contributing to nearly 90-95% of the standalone revenues. The insurance distribution division sells both motor insurance and non motor insurance, with motor insurance contributing over ~90% of the total distribution revenue. In spite of the company's efforts to diversify its revenue profile, HCSPL's revenues continue to be dependent on performance of two wheeler industry with motor insurance constituting a majority of insurance distribution revenues. ICRA notes, HCSPL remains vulnerable to single client exposure due to its high dependence on business from HMCL.

The company continues to maintain a strong financial risk profile on a standalone basis, with external debt being limited to working capital borrowings. While accretion to reserves has been relatively low over the last two years, HCSPL has received consistent funding support from its parent company over the last two years. The financial risk profile at a consolidated level is weighted down by the debt on the books of HRPL. Since HRPL continues to incur operational losses due to subdued realizations, cost escalations and large overhead expenses; it is expected to require consistent financial support to fund such losses in the

near term. Such support to HRPL is likely to be funded by incremental funding support from the promoters, thereby limiting funding requirements of HCSPL going forward.

**Analytical approach:**

**Links to applicable Criteria**

- Corporate Credit Rating –A Note on Methodology

**About the Company:**

Incorporated in 1995, Hero Corporate Service Private Limited (HCSPL) is engaged in providing strategic advisory services and insurance distribution business via tie-ups with general insurance companies. The company was originally set-up to provide services to Hero Motocorp Limited and its ancillaries. Subsequent to business realignment among members of Late Brijmohan Lall Munjal family in August 2016, HCSPL is now a part of Hero Enterprise. Currently, HCSPL is held 99.99% by Global Ivy Ventures LLP, where Mr. Sunil Kant Munjal has 99.99% share.

HCSPL's key investee companies include Hero Management Service Private Limited (HMSPL, Business Process Outsourcing), Hero Mindmine Institute Private Limited (HMIPL, training services) and Hero Realty Private Limited (HRPL, Real Estate).

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				<b>March 2017</b>	<b>May 2016</b>	<b>April 2015</b>	<b>June 2014</b>
1	Fund Based Facilities	Long Term	5.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non Fund Based Facilities*	Long Term	1.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Short Term Loans	Short Term	0.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short Term	50.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

\*(Sublimit of fund based limits)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Fund Based Facilities	-	-	-	5.00	[ICRA]A+ (Stable)
Non Fund Based Facilities (Sub-Limit of Fund Based Limits)	-	-	-	1.00	[ICRA]A+ (Stable)
Unallocated	-	-	-	50.00	[ICRA]A1+

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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