

Hero Housing Finance Limited

November 14, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture	0	50	[ICRA] AA + (Stable); Assigned
Long Term/ Short term bank lines	200	400	[ICRA] AA+ (Stable)/[ICRA]A1+; Assigned
Commercial Paper	0	100	[ICRA] A1+; Assigned
Subordinate Debt Programme	0	200	[ICRA] AA+ (Stable); Assigned
Non-Convertible Debenture	100	100	[ICRA] AA+ (Stable); Outstanding
Total	300	850	

Rating action

ICRA has assigned the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to enhanced Rs. 400.00 crore bank lines (enhanced from Rs. 200 crore) of Hero Housing Finance Limited (HHFL) ¹. ICRA has also assigned the rating of [ICRA]AA+ to Rs. 50.00 crore Non-Convertible Debenture Programme and Rs, 200 crore subordinate debt programme. ICRA has also assigned a rating of [ICRA]A1+ to Rs. 100 crore Commercial Paper of HHFL. ICRA also has rating outstanding of [ICRA]AA+ for the Rs. 100 crore Non-Convertible debenture programme of HHFL. The outlook on the long-term ratings is 'Stable'.

Rationale

For arriving at HHFL's rating, ICRA has taken a consolidated view of the credit profiles of Hero Fincorp Limited (HFCL), and Hero Housing Finance Limited (HHFL) (referred to as HFCL Group) by virtue of HHFL being a wholly owned subsidiary of HFCL and significant operational and business synergies between the two companies in addition to sharing of common brand name.

The ratings factor in the Group's strong parentage with Hero MotoCorp Limited (HMCL, rated [ICRA]AAA (Stable) / [ICRA]A1+) along with its Group investment companies and individual promoters (collectively referred to as Hero Group) holding a 79.9% stake in HFCL as on September 30, 2018 (79.1% on March 31, 2018), and the operational, managerial and financial support derived by the HFCL Group from Hero Group. ICRA expects that the support from the Hero Group would continue, going forward as well, given the strategic importance of the HFCL and HHFL to HMCL. The ratings also factor in the experienced board and the senior management team having adequate amount of experience in the line of business, the healthy financial flexibility by virtue of being a part of 'The HMCL Group' and the adequate capitalisation profile with paid-up capital of Rs. 250 crore as on September 30, 2018.

¹For complete rating scale and definitions, please refer to ICRA website (www.icra.in) or any of the ICRA rating publications

ICRA has further taken note of the relatively new vintage and small scale of operations of the company on standalone basis. ICRA expects that the company would be able to leverage on the group's large distribution network and client database to grow the business volumes. Further given the targeted expansion plans the operating expenses are expected to remain high over the medium term which is expected to keep the profitability indicators muted.

Outlook: Stable

ICRA believes the HFCL Group, collectively will continue to benefit from its strong parentage. The outlook may be revised to 'Negative' if there is any change in the credit profile of the parent or significant deterioration in the company's asset quality. The outlook may be revised to 'Positive' if the company is successfully able to scale up operations while maintaining the asset quality.

Key rating drivers

Credit strengths

Strong parentage² and strategic importance to HMCL- HFCL and HHFL are key companies for the Group HMCL's foray into financial services and is strategically important to the Group. ICRA expects HFCL to continue to benefit from Group synergies in the form of capital support, management guidance, liquidity lines and systems.

Experienced board and senior management team - The Company's management team is experienced and has considerable experience in the relevant line of business.

Healthy financial flexibility by virtue of being a part of HMCL Group- Given the strong parentage, the HFCL Group companies enjoys good financial flexibility with the ability to raise funds from diverse sources. A similar financial flexibility is expected to be available to HHFL by virtue of it being part of the HMCL group.

Adequate capitalisation- The capitalisation profile of the company stood comfortable with a total paid-up capital of around Rs. 250 crore as on September 30, 2018 supported by the recent capital infusion from the parent (HFCL). ICRA expects that the company would be able to leverage this capital to profitably grow the business volumes over the medium term. At the same time, given the growth plans and marginal internal capital generation, the need for capital would remain high HHFL and ICRA expects the support to be forthcoming from the hero group as and when required.

Credit challenges

Nascent stages of operations and limited track record - The company is in nascent stages of operations with a portfolio of around Rs. 207 crore as on October 31, 2018. Going forward the portfolio is expected to constitute majorly of Housing loans with the balance being Loans against property, and builder loans. ICRA expects that the company would be able to leverage on the group's large distribution network and client database to grow the business volumes. Nevertheless, the ability of the company to maintain strict control on underwriting and scale up the systems and processes in line with business growth will be a key rating monitorable.

Profitability indicators expected to be muted in the near term- With the company in nascent stages of operations and in process of setting up the branch network, the operating expenses are expected to remain high over the medium term which in turn would keep the profitability indicators muted.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

²Group HMCL holds ~79% stake in HFCL; HMCL on a standalone basis held around 41% stake as on March 31, 2018

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Housing Finance Companies](#)

About the Company:

Hero Housing was incorporated in June 2016 and is a wholly owned subsidiary of Hero Fincorp Limited. It has been registered with NHB as a non-deposit taking Housing Finance Company. The company had a share capital of Rs. 50 crores as on March 31, 2018 which further increased to Rs. 250 crore as on September 30, 2018. It plans to leverage the experience and network of its parent along with the strong brand recall of the Hero Group to scale up the loan book largely in the Prime and mid housing segment along with some focus on the affordable segment. The company plans to start operations in Delhi NCR, Rajasthan, Gujarat and Maharashtra and rapidly expand portfolio to become a PAN India player in the next three years.

About the Parent (Hero Fincorp Limited):

Hero FinCorp Limited (HFCL) was incorporated in December 1991, under the name Hero Honda FinLease Limited. Subsequent to the change in the ownership of its parent, Hero MotoCorp Limited (formerly Hero Honda Motors Limited), the company changed its name to Hero FinCorp Limited in July 2011.

Until April 2013, HFCL was engaged in extending term loans, machinery loans, and bill discounting facilities primarily to entities within the HMCL ecosystem. Subsequently, the company expanded its operations to entities outside the HMCL ecosystem and started extending loans for HMCL two-wheelers, used car financing, personal loans and loans against portfolio (LAP).

During FY2018, the HFCL reported a profit after tax (PAT) of Rs. 162.5 crore on a total asset base of Rs. 13,747.6 Crore as compared with a PAT of Rs. 130.4 crore on a total asset base of Rs. 10,184.8 crore in FY2017. In H1FY2019 the reported PAT of the company stood at Rs. 83.42 crore (in accordance with Ind AS) on a total asset base of Rs. 17,577.

As on September 30, 2018 HFCL had a net worth of Rs. 2,891 crore (under Ind AS) supported by an equity infusion in August 2018. Further the total credit portfolio of HFCL stood at around Rs. 17,142 crore as on September 30, 2018.

Key financial indicators – Hero Housing Finance Limited (Standalone)

Amounts in Rs. Crores	FY 2017	FY 2018
PAT	-1.21	-5.96
Net Worth	48.79	42.82
Portfolio	N/A	N/A
Total Assets	48.91	44.69
Return on Average Assets	-2.47%	-12.74%
Return on Average Equity	-2.48%	-13.01%
Gearing (times)	0.00	0.00
CRAR	N/A	N/A
Gross NPA%	N/A	N/A
Net NPAs %	N/A	N/A
Net NPA/Net worth (%)	N/A	N/A

Source: HHFL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Nov-18	Aug-18	FY2018	FY2017	FY2016
1 Bank Lines	Short Term/ Long Term	400	400	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable)/A1+	N/A	N/A	N/A
2 Non-Convertible Debenture	Long Term	100	100	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	N/A	N/A	N/A
3 Non-Convertible Debenture	Long Term	50	50	[ICRA]AA+ (Stable)	N/A	N/A	N/A	N/A
4 Sub-Ordinate Debt	Long Term	200	200	[ICRA]AA+ (Stable)	N/A	N/A	N/A	N/A
5 Commercial Paper	Short term	100	100	[ICRA]A1+	N/A	N/A	N/A	N/A

Source: ICRA research

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
N/A	Bank Lines (Proposed)	-	-	N/A	400	[ICRA]AA+ (Stable)/A1+;
N/A	NCD (Proposed)	-	-	N/A	100	[ICRA]AA+(Stable)
N/A	NCD (Proposed)	-	-	N/A	50	[ICRA]AA+(Stable)
N/A	Sub Ordinate Debt (Proposed)	-	-	N/A	200	[ICRA]AA+(Stable)
N/A	Commercial Paper	-	-	7-365 days	100	[ICRA]A1+

Source: HHFL, ICRA research

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