

Ratings

CRISIL

An S&P Global Company

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Rating Rationale

February 20, 2020 | Mumbai

Hero FinCorp Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.4500 Crore
Long Term Rating	CRISIL AA+/Stable

Subordinate Debt Aggregating Rs.700 Crore	CRISIL AA+/Stable
Non-Convertible Debentures Aggregating Rs.2000 Crore	CRISIL AA+/Stable
Rs.6000 Crore Commercial Paper	CRISIL A1+

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities and debt instruments of Hero FinCorp Limited (HFCL) continues to reflect the strong support that HFCL receives from its largest shareholder, Hero Motocorp Ltd (HMCL; rated, 'CRISIL AAA/FAAA/Stable/CRISIL A1+'), and HFCL's adequate capitalisation. These rating strengths are partially offset by the company's limited track record in newer asset classes, and its high, although reducing, dependence on HMCL and its associates for business.

Analytical Approach

For arriving at its rating, CRISIL has factored in the strong support that HFCL receives from its largest shareholder, HMCL.

Key Rating Drivers & Detailed Description

Strengths:

*** Expectation of strong support from HMCL:** HFCL receives operational, financial, and managerial support from HMCL, its largest shareholder; with a 41.2% stake as on September 30, 2019. HMCL, its associate companies, and members of the Munjal family (promoters of the Hero group) together own 79.9% of HFCL's equity as of September 30, 2019. Promoters' have strong reliance on NBFC business and have been regularly infusing equity capital to support the growth. In fiscal 2019, HFCL received Rs 1178 crore (Rs 590.67 crore in August 2018 and Rs 586.97 crore in March 2019) through rights issue, of which Rs 1002.94 Crore was infused by the promoter. Further, HMCL and HFCL have two common directors on their boards. On the operational front, HMCL provides inputs on dealers, vendors, and vendors' suppliers for financing by HFCL. Furthermore, HFCL finances two-wheeler sales of HMCL.

* Adequate capitalisation:

HFCL is well-capitalised, as reflected in its networth of Rs 3778 crore and overall capital adequacy ratio of 17.1% of risk-weighted assets as on September 30, 2019.

Healthy internal accruals and regular capital infusion supports capital profile. Further, the company has received Rs 1177.64 Crore through rights issue in August 2018 (Rs 590.67 Crore) and March-19 (Rs 586.97 Crore). Gearing was comfortable at 4.9 times as on September 30, 2019.

Weaknesses:

*** High, though reducing, dependence on HMCL and its associates for business:** HMCL and its associates accounted for nearly 51% of total business sourced within the HMCL ecosystem. Though the company will remain significantly dependent on HMCL and its associates, an improvement in scale of operations and foray into new businesses should help the company diversify its revenue profile. The two-wheeler financing business (Rs 8168 crore as on September 30, 2019), which constituted 37% of the overall assets under management (AUM), is entirely dependent upon HMCL's network of dealers and suppliers.

*** Limited track record in newer asset classes:** Over the past few years, the company has made conscious efforts to diversify its loan book, from mainly operating as a bill discounting player, to enter two-wheeler financing, loans against property, SME and MME financing, personal loans, and used-car loans. HFCL has started its wholly owned subsidiary Hero Housing to enter into the home loans segment. However, HFCL is yet to demonstrate its ability to manage asset quality in these newer segments. Furthermore, there was some pressure on asset quality during last few quarters, with gross stage 3 assets of 5.5% as on September 30, 2019 (4.5% as on March 31, 2019). The company is in the process of strengthening its credit underwriting standards and processes, with a redefined focus on collection; however, the ability to maintain asset quality will be a key monitorable.

Liquidity Strong

CRISIL's analysis of Hero FinCorp's asset liability maturity profile as of September 30, 2019 shows cumulative positive

mismatch (cumulative inflows over cumulative outflows) in the up to 1 year buckets. As on December 31, 2019, against the total debt of Rs 4292 crore maturing in the next 3 months (till March 31, 2020), HFCL had liquidity of Rs 2050 crore in the form of cash & bank balance of Rs 275 crore, liquid investments of Rs 725 crore and unutilised bank lines of Rs 1050 crore. Further, collections expected during these three months are about Rs 4023 crore, which also supports liquidity. HFCL continues to tap debt capital markets for fresh issuances.

Outlook: Stable

CRISIL believes HFCL will continue to benefit from the operational, financial, and managerial support received from HMCL.

Rating Sensitivity factors

Upward factors

- * Significant improvement in market position and asset quality
- * Improvement in profitability, with return on managed assets (RoMA) beyond 2.5% on a sustained basis.

Downward factors

- * Downward change in the credit risk profile of HMCL by 1 notch and/or material change in the shareholding or support philosophy of HMCL impacting the quantum and timing of support
- * Significant and sustained deterioration in asset quality, coupled with weakening in profitability.

About the Company

HFCL, set up in 1991, undertakes bill discounting for HMCL's vendors and suppliers, apart from retail financing of HMCL two-wheelers, corporate lending to mid-sized clients and small and medium enterprises, LAP, and the operating lease business. It recently also ventured in used car financing and loyalty personal loans (as a cross sell loan given to existing two wheeler customers having excellent track record with no overdue in the nine month period post sanctioning of loan). As on September 30, 2019, the AUM stood at Rs 22360 crore.

HMCL, its associate companies, and members of the Munjal family (promoters of the Hero group) together own 79.9% of HFCL's equity as of September 30, 2019 (41.2% owned by HMCL), while external investors (Otter Ltd and Credit Suisse (Singapore); 13.0%) and HMCL's dealers, employees, and associates (7.1%) own the remainder.

HFCL reported a profit after tax (PAT) of Rs 267.0 crore and total income of Rs 2492.5 Crore for fiscal 2019, as against a PAT of Rs 145.4 and total income of Rs 1691.0 for fiscal 2018. For six months ended September 30, 2019, PAT and total income was Rs 163.6 crore and Rs 1683.2 crore, against Rs 82.4 crore and Rs 1078.2 crore, respectively, over corresponding period previous fiscal.

Key Financial Indicators

As on / for the period ended September 30,		2019	2018
Total assets	Rs crore	22880.5	20651.9
Total income	Rs crore	1683.2	1078.2
Profit after tax	Rs crore	163.6	82.4
Gross stage 3 assets	%	5.5	4.3
Gearing	Times	4.9	5.0
Return on assets	%	1.5	1.0

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.cr)	Rating assigned with outlook
INE957N08011	Subordinated Debt	15-Sep-15	9.35%	15-Sep-25	100.0	CRISIL AA+/Stable
INE957N08029	Subordinated Debt	03-Aug-16	8.98%	03-Aug-26	100.0	CRISIL AA+/Stable
INE957N08037	Subordinated Debt	20-Jun-2017	8.52%	18-Jun-27	100.0	CRISIL AA+/Stable
INE957N08045	Subordinated Debt	06-Dec-2018	9.81%	24-Nov-28	125.00	CRISIL AA+/Stable
NA	Subordinated Debt*	NA	NA	NA	275.00	CRISIL AA+/Stable
INE957N07294	Debenture	11-May-17	7.95%	11-May-20	30.0	CRISIL AA+/Stable
INE957N07302	Debenture	19-May-17	7.95%	19-May-20	260.0	CRISIL AA+/Stable
INE957N07310	Debenture	07-June-17	7.92%	05-June-20	275.0	CRISIL AA+/Stable
INE957N07328	Debenture	12-June-17	7.92%	12-June-20	200.0	CRISIL AA+/Stable
INE957N07419	Debenture	06-Nov-19	9.60%	06-Nov-20	100.0	CRISIL AA+/Stable
INE957N07427	Debenture	30-Nov-18	9.60%	26-Nov-20	50.0	CRISIL AA+/Stable
INE957N07435	Debenture	21-Dec-18	9.25%	07-May-21	25.0	CRISIL AA+/Stable
INE957N07443	Debenture	27-Dec-18	9.55%	27-Dec-28	50.0	CRISIL AA+/Stable
INE957N07450	Debenture	03-Jan-19	9.23%	03-Jan-22	100.0	CRISIL AA+/Stable
NA	Debenture*	NA	NA	NA	910	CRISIL AA+/Stable

NA	Commercial Paper	NA	NA	7-365 days	6000.0	CRISIL A1+
NA	Cash Credit & Working Capital demand loan	NA	NA	NA	2245	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	17-Feb-22	300	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	30-Mar-24	125	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	24-Sep-20	50	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	24-Mar-20	150	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	29-Mar-24	50	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	24-Mar-21	30	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	29-Mar-22	112.5	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	29-Mar-22	75	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	23-Sept-23	230	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	23-Sept-23	230	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	12-Feb-23	250	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	26-Dec-21	67	CRISIL AA+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	585.5	CRISIL AA+/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017		
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating		
Commercial Paper	ST	6000.00	CRISIL A1+			04-10-19	CRISIL A1+	13-11-18	CRISIL A1+	05-12-17	CRISIL A1+	CRISIL A1+		
						02-04-19	CRISIL A1+	12-11-18	CRISIL A1+	29-03-17	CRISIL A1+			
										26-10-18	CRISIL A1+			
										21-09-18	CRISIL A1+			
										09-07-18	CRISIL A1+			
										29-03-18	CRISIL A1+			
Non Convertible Debentures	LT	1090.00 20-02-20	CRISIL AA+/Stable			04-10-19	CRISIL AA+/Stable	13-11-18	CRISIL AA+/Stable	05-12-17	CRISIL AA+/Stable	CRISIL AA+/Stable		
						02-04-19	CRISIL AA+/Stable	12-11-18	CRISIL AA+/Stable	29-03-17	CRISIL AA+/Stable			
										26-10-18	CRISIL AA+/Stable			
										21-09-18	CRISIL AA+/Stable			
										09-07-18	CRISIL AA+/Stable			
										29-03-18	CRISIL AA+/Stable			
Subordinated Debt	LT	425.00 20-02-20	CRISIL AA+/Stable			04-10-19	CRISIL AA+/Stable	13-11-18	CRISIL AA+/Stable	05-12-17	CRISIL AA+/Stable	CRISIL AA+/Stable		
						02-04-19	CRISIL AA+/Stable	12-11-18	CRISIL AA+/Stable	29-03-17	CRISIL AA+/Stable			
										26-10-18	CRISIL AA+/Stable			
										21-09-18	CRISIL AA+/Stable			
										09-07-18	CRISIL AA+/Stable			
										29-03-18	CRISIL AA+/Stable			
Fund-based Bank Facilities	LT/ST	4500.00	CRISIL AA+/Stable			04-10-19	CRISIL AA+/Stable	13-11-18	CRISIL AA+/Stable	05-12-17	CRISIL AA+/Stable	CRISIL AA+/Stable/ CRISIL A1+		
						02-04-19	CRISIL AA+/Stable	12-11-18	CRISIL AA+/Stable	29-03-17	CRISIL AA+/Stable			
										26-10-18	CRISIL AA+/Stable			
										21-09-18	CRISIL AA+/Stable			
										09-07-18	CRISIL AA+/Stable			

29-03-18

CRISIL
AA+/Stable

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit & Working Capital demand loan	2245	CRISIL AA+/Stable	Cash Credit & Working Capital demand loan	2045	CRISIL AA+/Stable
Proposed Long Term Bank Loan Facility	585.5	CRISIL AA+/Stable	Proposed Long Term Bank Loan Facility	741.66	CRISIL AA+/Stable
Term Loan	1669.5	CRISIL AA+/Stable	Term Loan	1713.34	CRISIL AA+/Stable
Total	4500	--	Total	4500	--

Links to related criteria[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[Rating Criteria for Finance Companies](#)[CRISILs Bank Loan Ratings](#)[CRISILs Criteria for rating short term debt](#)[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)**For further information contact:**

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