

July 16, 2012

**CARE ASSIGNS 'CARE MLD AA' RATING TO THE PROPOSED BONDS ISSUE OF HOUSING DEVELOPMENT FINANCE CORPORATION PLC**

**Rating**

<b>Instrument/Facilities</b>	<b>Amount (MRF mn)</b>	<b>Ratings<sup>1</sup></b>	<b>Remarks</b>
Long-term Bonds Issue	150	<b>CARE MLD AA (Double A)</b>	Assigned

**Rating Rationale**

The rating factors in the strong institutional and government ownership of HDFC Plc as well as managerial, technical and financial support from its shareholders. The rating also factors in the guarantee extended by Government of Maldives for the loans granted under the Housing Development Finance Loan Scheme (HDFL Scheme) strategic role of HDFC Plc as the sole housing finance institution in Maldives, its experienced management, robust capitalization levels, comfortable financial parameters and liquidity profile.

As intimated by the company, the proceeds of the CARE-rated bond issue of MRF 150 mn will be utilized towards disbursements under the HDFL Scheme, which is covered by a Government of Maldives sovereign guarantee aggregating to MRF 500 mn. Before a facility provided under the HDFL scheme becomes non-performing as per guidelines issued by Maldives Monetary Authority, Ministry of Finance & Treasury (MOFT) shall pay under the sovereign guarantee scheme, when interest and capital is due and on demand from HDFC Plc; all interest and capital arrears together with a penalty for late payment, due to HDFC Plc from such loans as agreed with the customers at the time of entering into their individual loan agreements, and in accordance with HDFC Plc policies of debt recovery.

The rating is constrained by limited track record of operations post privatization, limited portfolio seasoning, lack of an active resale market outside Male' region which could hinder the ability of the company to re-possess and sell the properties in case of delinquencies. Furthermore, given that the risk management systems of the company are in its early stages, all systems regarding credit appraisal, monitoring and recovery are handled manually which exposes the company to higher operational risks. Continued parent support, asset quality, growth momentum in business and profitability as well as comfortable liquidity are the key rating sensitivities.

**Company Profile**

Incorporated on January 28, 2004, HDFC Plc is the only specialized housing finance company in Maldives. The commercial operations of the company commenced on March 29, 2004. Initially, HDFC Plc was incorporated with technical assistance from the World Bank and wholly owned by the Government of Maldives (GoM). However, due to lack of locally available long-term finance to sustain business expansion, the company underwent capital restructuring exercise during 2009. Under the restructuring exercise, the company was privatized and new shareholders namely, International Finance Corporation (IFC), Asian Development Bank (ADB) and HDFC Investments (India) collectively acquired 51% stake in the company with the balance 49% stake being held by Government of Maldives. As on December 31, 2011, the company had a balance sheet size of MRF 665 mn with loan portfolio of MRF 568 mn.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

Total loan portfolio of HDFC Plc increased more than three-folds from MRF 170 mn as on December 31, 2009 to MRF 568 mn as on December 31, 2011. The company has healthy spreads primarily on account of the low-cost borrowings from IFC and ADB. ROTA stood comfortable at over 8.58% for year ended December 2011. On the whole, healthy earnings profile coupled with robust spreads have resulted into healthy financial performance. During FY11 (refers to the period January 1, 2011 to December 31, 2011), the company reported a PAT of MRF 49.5 mn [FY10: MRF 23.5 mn] on a total income of MRF 76.3 mn [FY10: MRF 39.5 mn].

HDFC Plc. reported robust capitalization levels with capital adequacy ratio (as per Basel I norms) at over 103% (comprising entirely of Tier I CAR) as of December 31, 2011. Although the asset quality parameters of the company are comfortable with GNPA and NNPA being 1.54% and 0.78% respectively as on December 31, 2011, the quality of the recently originated portfolio (post privatization), remains to be seen. Net NPA/Networth stood at comfortable 1.22% as of December 31, 2011. The agreement with the Government of Maldives with respect to the HDFL scheme is expected to have a positive impact on the company since the guarantee is expected to help the company in maintaining the asset quality and mitigate the risk of limited portfolio seasoning to an extent. It also indicates the strategic importance of HDFC Plc to GoM for furthering the development of housing in Maldives.

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