HDFC Credila Financial Services Pvt Ltd

August 27, 2018

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Issuer rating	-	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed
Non- Convertible Debenture	500 (Rs. Five hundred crore only)	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Non- Convertible Debenture*	-	-	Withdrawn
Subordinate Debt	100 (Rs. One hundred crore only)	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Perpetual Debt	275 (Rs. Two hundred and seventy-five crore only)	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

*Non-Convertible Debenture of Rs.200 crore has matured hence rating has been withdrawn.

Detailed Rationale & Key Rating Drivers

The rating factors in the strength that HDFC Credila Financial Services Pvt. Ltd. (HDFC Credila) derives from its parent, Housing Development Finance Corporation Ltd. (HDFC; rated 'CARE AAA; Stable', 'CARE A1+') which holds 90.4% shareholding as on March 31, 2018 on a fully diluted basis. The rating also draws comfort from brand linkage through presence of 'HDFC' name in HDFC Credila's name & logo along with financial, managerial and operational support from HDFC. The rating is also supported by experienced management team, strong management information system and prudent underwriting norms, good asset quality, and comfortable liquidity profile. The rating further takes into consideration the significant growth in loan book post acquisition by HDFC with improved profitability. The rating also takes into account exposure to single asset class and high gearing levels.

Continued support and credit profile of HDFC, capital adequacy, gearing, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, operational and financial support and brand linkage

HDFC Credila has strong parentage with Housing Development Finance Corporation Ltd. (HDFC), one of the leading Housing Finance Companies, holding 82.22% stake in the company (as on March 31, 2018). The fully diluted shareholding of HDFC in HDFC Credila (considering the conversion of compulsorily convertible preference shares) stood at 90.4% as March 31, 2018. By virtue of being a subsidiary, the company enjoys managerial, operational as well as financial support from HDFC. Being subsidiary of HDFC, it has also been able to raise funds at very competitive rates. HDFC Credila also derives operational support by the way of distribution of its loan products through HDFC's widespread branch network. Furthermore, HDFC Credila's board is chaired by the Executive Director of HDFC along with two nominee directors from HDFC and three distinguished Independent Directors.

Growth in business volumes

HDFC Credila's disbursements and loan book size has witnessed significant growth post acquisition of its stake by HDFC. In addition to periodic capital infusions, strong brand linkage associated with HDFC as well as operational support has enabled HDFC Credila to significantly grow its asset book. The total loan book increased to Rs.4,047 crore as on March 31, 2018 registering a growth of 27% Y-o-Y. During FY18, HDFC Credila has sanctioned Rs.3,328 crore of education loans with disbursement of Rs.1,642 crore. The disbursements in FY18 were majorly in universities situated in the USA (66%), followed by countries such as Canada, Australia, Ireland, New Zealand etc. (26%) and remaining to India (9%). The disbursements to countries other than the USA has increased since FY17 and in India has reduced comparatively.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Comfortable liquidity profile
There are positive cumulative mismatches upto 5 year time buckets. Company also has unutilized overdraft facilities of Rs. 436 crore, undrawn term loans of Rs.631 crore as on March 31, 2018 and strong parentage support from HDFC which shall enable the company to plug its future liquidity mismatches.

Profitability
In line with portfolio growth, interest income grew by 26% Y-o-Y in FY18. Total disbursements in FY18 grew by 23%. The Net Interest Margin (NIM) increased to 4.65% for FY18 in comparison to 4.39% in FY17. With increase in business and profitability, the company has been able to better streamline its operating expenses as indicated by lower cost-to-income ratio of 31.24% in FY18 compared to 32.63% in FY17. Thus, ROTA has shown improvement from 2.25% in FY17 to 2.28% in FY18.

Strong systems and prudent lending norms
HDFC Credila has strong domain knowledge and experience management team in education loan business. HDFC Credila has developed in-house software where all data is stored. The systems are very robust and monitor the loan application from login till final disbursement is made along with the schedule for repayment. At present all the tele calling and operational work is carried out from Nashik branch. The critical credit related processes and underwriting is done by in house teams in HDFC Credila though they outsource some of the basic checks to outsourced agencies. Collateral and security is not mandatory for domestic/foreign education loans, collateral is subjective based on cases.

Good asset quality with moderate seasoning and performance track record
Considering that a significant loan book growth has occurred in the past 6 years and only a moderate proportion of loans have been fully repaid, Credila's loan book remains moderately unseasoned in nature. Though the asset quality continues to remain good with Gross and Net NPA at 0.04% and 0.02% respectively as on March 31, 2018 (FY17: GNPA – 0.05%, NNPA – 0.02%), however it needs to be observed over a longer duration.

Resource profile
Parentage of HDFC strengthens the resource profile of HDFC Credila. The company has raised debt by issue of non-convertible debentures of Rs.400 crore, Perpetual Debt of Rs 50 crore and Subordinate Debt of Rs 100 crore for FY18. Major borrowing comes from Bank and FI loans and NCD, while other sources like Commercial paper, Perpetual debt, etc. constitute the remaining sources.

Key Rating Weaknesses
Exposure to single asset class
HDFC Credila is into a single asset class of educational loans. This brings in concentration risk as any fall in demand for educational loan may severely impact the operations and profitability of the company. In the past and currently, high delinquencies are faced by the Indian banking sector in the education loan segment. However, HDFC Credila with its specialised focus has been able to maintain its asset quality so far.

High gearing levels
Due to capital infusion of Rs.50 crore in FY18, the company's gearing level is reduced to 8.36 times in FY18 in comparison to 9.38 times in FY17. However, it remains high and the infusion is being done by the HDFC Ltd on a regular basis to maintain capitalization levels at adequate levels. The total CAR stood at 18.02% (FY17- 17.56%) and Tier-I CAR at 10.32% (FY17-10.48% as on March 31, 2018 as against the regulatory prescribed Total CAR of 15% and Tier-I CAR at 10%. Tier II capital consists of Subordinate debt of Rs.200 crore and a part of the Perpetual debt of Rs.200 crore.
Furthermore, by virtue of being a HDFC subsidiary, HDFC Credila enjoys high capital raising ability and financial flexibility to fund future business expansion.

Industry Prospects
Higher education in India is seen as a key contributor towards social mobility, reducing economic disparities and achieving sustainable economic growth. During FY17, the total education loan market size grew by 16.4% to $116.4 billion as against $100 billion in FY16 (Source: https://www.ibef.org/industry/education-sector-india.aspx). The number of students aspiring for higher education in India and abroad is increasing with institutes offering a variety of educational courses. With the increase in the cost of higher education, the ability of students to finance their education through their own funds or with funds from their families is reducing. Therefore, there is tremendous growth opportunity for education loan providers.

Analytical approach: Standalone assessment along with factoring in strong linkages with the parent, HDFC

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Non Banking Financial Companies](#)
[Financial ratios – Financial Sector](#)
[Factor Linkages in Ratings](#)

About the Company
HDFC Credila Financial Services Pvt Ltd. (Credila), RBI registered NBFC engaged in education loans, was established in February 2006. Mr. Ajay Bohora is the co-founder and CEO along with Mr. Anil Bohora as the founder and COO of Credila. HDFC Ltd (rated CARE AAA) currently holds 82.22% as on March 31, 2018 and Mr. V. S. Rangan, Executive Director of HDFC Ltd, is the chairman of board of Credila. Considering the conversion of compulsorily convertible preference shares (CCPS), total diluted shareholding of HDFC stands at 90.4% as on March 31, 2018. Credila distributes education loan products through its network at 11 locations, i.e., Mumbai, Pune, Hyderabad, Nagpur, Gurgaon, Noida, Kolkata, Ahmedabad, Chennai, Bangalore and Delhi. In addition to the 11 hubs and a registered office, the company has 7 HDFC's branches and 6 small branches spread across mentioned locations for business sourcing. HDFC Credila uses various channels for sourcing and marketing, which include the internet, branch network of HDFC and a few private sector banks, partnering with colleges, education consultants, and test preparation centers, advertising, and direct marketing.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	391.24	488.3
PAT	65.48	87.07
Interest coverage (times)	1.42	1.48
Total Assets	3,340.07	4285.34
Net NPA (%)	0.02	0.02
ROTA (%)	2.25	2.28

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer rating	-	-	-	-	CARE AAA (Is); Stable
Non-Convertible Debenture	27-Oct-16	8.25%	25-Nov-21	300	CARE AAA; Stable
Non-Convertible Debenture	27-Feb-17	8.00%	25-Feb-22	200	CARE AAA; Stable
Subordinate Debt	9-Oct-15	9.30%	9-Oct-25	100	CARE AAA; Stable
Perpetual Debt	9-Jul-14	11.75%	9-Jul-24*	50	CARE AA+; Stable
Perpetual Debt	27-Jan-15	10.50%	27-Jan-25*	50	CARE AA+; Stable
Perpetual Debt	17-Jun-15	10.50%	17-Jun-25*	50	CARE AA+; Stable
Perpetual Debt	8-Dec-17	8.75%	8-Dec-27	50	CARE AA+; Stable
Perpetual Debt	6-Jun-18	9.35%	6-Jun-28	75	CARE AA+; Stable

*call option dates

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (10-Jul-17)	1)CARE AA+ (Is); Stable (23-Feb-17) 2)CARE AA+ (Is) (21-Sep-16)	1)CARE AA+ (Is) (22-Dec-15)
2.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Jul-17)	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)	1)CARE AA (22-Dec-15)
3.	Debentures-Non Convertible Debentures	LT	0.00	Withdrawn	-	1)CARE AAA; Stable (10-Jul-17)	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (21-Sep-16)	1)CARE AA+ (22-Dec-15)
4.	Debt-Perpetual Debt	LT	50.00	CARE AA+;	-	1)CARE AA+;	1)CARE AA;	1)CARE AA

				Stable		Stable (10-Jul-17)	Stable (23-Feb-17) 2)CARE AA (21-Sep-16)	(22-Dec-15)
5.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (10-Jul-17)	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)	1)CARE AA (22-Dec-15) 2)CARE AA (10-Jun-15)
6.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Jul-17)	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (21-Sep-16)	1)CARE AA+ (22-Dec-15) 2)CARE AA+ (19-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Jul-17)	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (26-Oct-16)	-
8.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (10-Jul-17)	1)CARE AA+; Stable (23-Feb-17)	-
9.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Dec-17)	-	-
10.	Debt-Perpetual Debt	LT	75.00	CARE AA+; Stable	1) CARE AA+; Stable (01-Jun-18)	-	-	-

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