

HDFC Credila Financial Services Private Limited

April 22, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines programme	4,000.00	4,000.00	[ICRA]AAA(stable); reaffirmed
Non-convertible subordinated debenture programme	100.00	100.00	[ICRA]AAA(stable); reaffirmed
Perpetual debt programme	275.00	275.00	[ICRA]AA+(stable); reaffirmed
Commercial paper programme	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	5,375.00	5,375.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in HDFC Credila Financial Services Private Limited's (HCFSP) ownership by Housing Development Finance Corporation Limited (HDFC, rated [ICRA]AAA(Stable)/[ICRA]A1+/MAAA (Stable), stake of ~91% on a fully-diluted basis, as on December 31, 2018), as well as the shared brand name and logo indicating strong commitment from HDFC towards HCFSP. The company continues to benefit from the operational and financial support from the parent in the form of a shared branch network, manpower, fund-raising support, risk processes, and board oversight. The ratings factor in the company's strong domain knowledge, experienced core management team, strong monitoring systems and prudent lending norms resulting in healthy asset quality, robust profitability indicators and a diversified borrowing profile.

However, ICRA notes HCFSP's relatively moderate scale of operations, high proportion of unsecured loans, the risk associated with education loans, given their long tenures and moratorium periods, and the high delinquencies faced by the Indian banking sector in the education lending segment. ICRA takes note of the company's moderate capitalisation profile with a high gearing.

ICRA, nevertheless, takes cognisance of the company's strong underwriting and risk mitigation processes (which are overseen by HDFC) and its focus on the relatively premium segments (post-graduate courses abroad with the majority of the loans to students in the US) and on collateral security (45% of the portfolio as on December 31, 2018). Going forward, continued support from the parent and HCFSP's ability to expand its portfolio profitably while maintaining adequate capitalisation and asset quality will remain important from a credit perspective.

Outlook: Stable

ICRA believes HCFSP will continue to benefit from the strong parentage, experienced management team and strong risk management systems. The outlook may be revised to Negative if the asset quality deteriorates sharply or if there is any material change in the parent's support or ratings, or if there is a significant stretch in the company's liquidity position.

Key rating drivers

Credit strengths

Strong financial and operational support from the parent – The ratings factor in HCFSP's ownership by HDFC, which held a stake of ~91% (on a fully-diluted basis) as on December 31, 2018. The ratings also take into consideration the shared brand name indicating strong commitment from HDFC to support HCFSP. The company continues to benefit

from the parent's operational and financial support, in the form of a shared branch network and manpower as well as fund-raising support. HDFC has also regularly infused equity capital into HCFSP with the most recent infusion being ~Rs. 80 crore in July 2018. ICRA expects support from the parent to be forthcoming, should the need arise.

Experienced management team with strong domain knowledge; good appraisal and selection criteria – The management team has significant experience in the financial sector and is guided by the HDFC Group's senior management, which is on the company's board. HCFSP's MIS systems are strong, enabling it to track the sourcing, appraisal, verification, and disbursement of loans as well as monitor the clients across geographies. It also has a large database of universities and placement details across the world, which helps in risk assessment and appraisal. The company receives due diligence support from HDFC for the collateralised portfolio. The underwriting strength is evident, given the good asset quality indicators with a gross NPA ratio of 0.07% as of December 31, 2018 (0.04% as of March 31, 2018).

Healthy profitability – The company reported a net profit of Rs. 74.21 crore in 9M FY2019 compared to Rs. 67.90 crore in 9M FY2018. The improvement was mainly driven by an increase in net interest income (NII) to Rs. 156.01 crore from Rs. 127.90 crore. HCFSP reported a yield of 12.06% in 9M FY2019 compared to 12.14% in FY2018. The lower yields were due to the lower interest rate scenario and the selection of prime candidates for funding (where there is pricing pressure due to competition). However, with a higher loan base, the NII improved YoY. With lower yields, the NIMs declined by 27 bps in 9M FY2019 to 4.37%. The operating expenses declined to 1.43% of average total assets (ATA) in 9M FY2019 from 1.68% in FY2018 due to the scaling up of operations and YoY growth of 27% in the portfolio. Credit costs remained low at 0.01% of ATA in 9M FY2019 with comfortable asset quality. The lower credit costs were primarily on account of a shift to ECL (expected credit loss)-based provisioning, which frees up provisions due to the very low historical loss rates on the company's book.

Diversified borrowing profile – Being a part of the HDFC Group, the company has access to diverse funding sources at competitive rates. The borrowing profile remains skewed towards long-term funds to match the tenure of the loans extended. Borrowings included bank loans (45%), debentures (52%) and commercial papers (3%) as on December 31, 2018.

Credit challenges

Moderate scale and monoline nature of operations – HCFSP has been focussed on education loans since inception with a moderate portfolio of Rs. 4,953 crore as on December 31, 2018. It does not plan to diversify its portfolio in the near future. However, the company's strong underwriting and risk mitigation processes, focus on relatively premium segments (post-graduate courses abroad with the majority in the US) and track record in the segment provide comfort, in this regard.

Exposure to relatively risky education loans, given the longer tenures, high moratorium periods and low collateral cover – The entire portfolio is concentrated towards education loans with high principal moratorium. ICRA also notes that 55% of the loan book was unsecured as on December 31, 2018. However, 92% of the total loan portfolio was for post-graduate courses as on September 30, 2018. Applicants for these courses have higher chances of gaining employment compared to undergraduates, thereby mitigating concerns regarding repayment ability, to some extent. The interest being collected, even during moratorium, provides additional comfort. Going forward, continued support from the parent and the company's ability to expand its portfolio profitably while maintaining the asset quality will remain important from a credit perspective.

Moderate capitalisation profile with high gearing – The company's capitalisation profile was moderate with a reported capital adequacy ratio of 18.1% (Tier I – 10.8%) and a high gearing of 8.35 times as on September 30, 2018 and 7.63

times as on December 31, 2018. ICRA notes the gradual decline in gearing with healthy internal accruals and regular equity infusion by HDFC. Nevertheless, the company's ability to maintain adequate capitalisation while scaling up its operations will be important from a credit perspective. ICRA expects support from the parent to be forthcoming, should the need arise.

Liquidity position

The company's liquidity profile remains comfortable, supported by a healthy resource profile, a well-matched asset-liability maturity (ALM) profile and adequate undrawn bank lines. As on March 6, 2019, the company held Rs. 106 crore of cash and liquid investments along with Rs. 553 crore of unutilised bank lines. This is adequate for meeting the debt repayment liabilities of Rs. 465 crore till April 30, 2019. The liquidity profile is also supported by the strong financial flexibility enjoyed by HCFSP on account of its strong parentage.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	We expect HDFC to provide financial, managerial and operational support, when required, given the shared brand name and HDFC's ownership of ~91%
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

HDFC Credila Financial Services Private Limited (HCFSP) was founded by Mr. Ajay Bohora and Mr. Anil Bohora as a joint venture with DSP Merrill Lynch in 2006. The company, which received an NBFC licence in 2007, is the first financial services company established as a specialised institution for originating, holding and servicing education loans. In 2009, HDFC Limited acquired DSP Merrill Lynch's stake and subsequently infused further equity to increase its stake to 83.38% by December 31, 2018. Following the regular infusion of preference capital, HDFC's stake in HCFSP stood at ~91% on a fully-diluted basis as on December 31, 2018. HCFSP, which is a key subsidiary of HDFC, leverages HDFC's brand name and infrastructure in the form of a shared branch network and manpower. The company reported a net profit of Rs. 74.21 crore in 9M FY2018 with total assets of Rs. 5,219.93 crore compared to a net profit of Rs. 87.07 crore in FY2018 with total assets of Rs. 4,292.74 crore.

Key financial indicators

In Rs. Crore	FY2017	FY2018	9M FY2019
Total income	391.81	488.58	436.96
Profit after tax	65.47	87.07	74.21
Net worth	319.26	455.44	602.97
Total managed portfolio	3,194	4,047	4,953
Total assets	3,345.68	4,292.74	5,219.93
Return on average total assets	2.25%	2.28%	2.08%
Return on average net worth	25.23%	22.48%	18.70
Gearing (times)	9.40	8.35	7.63
Gross NPA	0.05%	0.04%	0.07%
Net NPA	0.02%	0.02%	0.06%
Capital adequacy ratio	17.56%	18.02%	18.1%*

* As of September 2018

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No.	Instrument	Type	Current rating (FY2020)		Chronology of rating history for the past 3 years							
			Rated amount (Rs. crore)	Amount outstanding (Rs. crore)	Apr-19	FY2019		FY2018			FY2017	
						Sep-18	Jun-18	Dec-17	Nov-17	Oct-17	Jul-17	Jul-16
1	Non-convertible subordinated debenture programme	Long Term	50.00	50.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-
2	Perpetual debt programme	Long Term	150.00	150.00	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable); Upgraded from [ICRA]AA (stable)	[ICRA]AA (stable)
3	Commercial paper programme	Short Term	1,000.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-convertible subordinated debenture programme	Long Term	50.00	50.00	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-	-
5	Perpetual debt programme	Long Term	50.00	50.00	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	-	-	-	-
6	Perpetual debt programme	Long Term	75.00	75.00	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	-	-	-	-	-
7	Term loans	Long Term	2,863	1,992	[ICRA]AAA(stable)	[ICRA]AAA(stable)	-	-	-	-	-	-

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			Rated amount (Rs. crore)	Amount outstanding (Rs. crore)	Apr-19	FY2019		FY2018			FY2017	
						Sep-18	Jun-18	Dec-17	Nov-17	Oct-17	Jul-17	Jul-16
8	Overdraft Facility	Long Term	335	235	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-	-	-	-	-
9	Unallocated bank lines	Long Term	802	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-	-	-	-	-

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
INE539K08153	Non-convertible Subordinated Debenture Programme	24/07/2017	8.20%	23/07/2027	50.00	[ICRA]AAA(stable)
INE539K08112	Perpetual Debt Programme	09/07/2014	11.75%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
INE539K08120	Perpetual Debt Programme	27/01/2015	10.50%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
INE539K08138	Perpetual Debt Programme	17/06/2015	10.50%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
NA	Commercial Paper Programme	-	-	7-365 days	1,000.00	[ICRA]A1+
INE539K08161	Non-convertible Subordinated Debenture Programme	16/11/2017	8.10%	16/11/2027	50.00	[ICRA]AAA(stable)
INE539K08179	Perpetual Debt Programme	08/12/2017	8.75%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
INE539K08187	Perpetual Debt Programme	06/06/2018	9.35%	NA (Call option – 10 years from date of issuance)	75.00	[ICRA]AA+(stable)
-	Term Loans	2012-2018	-	2020-2027	2,863.00	[ICRA]AAA(stable)
-	Overdraft Facility	NA	NA	NA	335.00	[ICRA]AAA(stable)
-	Unallocated Bank Lines	-	-	-	802.00	[ICRA]AAA(stable)

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