HDFC Credila Financial Services Limited

August 25, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Non-Convertible Debentures	500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Total instruments	**500.00 (Rs. Five Hundred crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed NCD issue of HDFC Credila Financial Services Limited (HDFC Credila) derives strength from the strong parentage of Housing Development Finance Corporation Limited (HDFC, rated 'CARE AAA; Stable', 'CARE A1+'), benefits derived from being part of the HDFC group including a common brand name, managerial and operational support from HDFC, an experienced management team, strong asset quality supported by prudent credit underwriting norms and a strong liquidity profile. The rating also takes note of HDFC Credila's exposure to single asset class and moderate gearing levels albeit improvement in FY21.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Weakening of the parent's credit profile and/or any major dilution in the shareholding
- Material deterioration in asset quality
- Increase in the gearing level beyond 8x on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and benefits derived from being part of the HDFC group: HDFC Credila is a wholly-owned subsidiary of HDFC, a leading housing finance company in India (HDFC, rated 'CARE AAA; Stable / CARE A1+'). HDFC shares its brand name with the subsidiary and the company is an integral part of the group's business providing diversification in the form of education loans. Consequently, the propensity of the parent to provide support remains high. The strong involvement of the parent company is exhibited in the resultant management oversight - HDFC Credila's board is chaired by the Executive Director of HDFC along with two nominee directors from HDFC, and the Managing Director and CEO, Mr Arijit Sanyal was appointed by HDFC. The company also benefits from HDFC's widespread branch network which supports its lending operations. HDFC Credila received regular capital support from the parent as reflected over the years – FY18: Rs.80 crore; FY19: Rs.50 crore; FY20: Rs.250 crore.

Experienced Management Team; Established Systems and Credit Underwriting Processes: The company benefits from the experience of its senior management team. The Chief Executive Officer, Mr. Arijit Sanyal was earlier the head of Strategic Planning & New Initiatives for HDFC. Mr. Arijit Sanyal is supported by an experienced management team of CFO, CTO, CRO, NCM and NSM, the veterans from the banking and financial services industry. Mr. Manjeet Bijlani has been appointed as the Chief Financial Officer with effect from May 2020 and Mr. Shashank Agrawal has been appointed as the Chief Technology Officer with effect from June 2020. The management is focused on building strong systems and processes that help mitigate asset quality and other operational risks of this segment. Also, HDFC Credila has established systems and risk controls in place which support its underwriting standards. Going forward, the company is expected to further ramp-up its IT systems, CRM and LMS which will improve its operational efficiencies.

Superior asset quality; albeit loan portfolio has moderate seasoning: Gross Stage III Assets continue to remain low at 0.60% (includes assets restructured under the RBI Resolution Framework for COVID-19-related stress) although FY21 has seen a slight uptick from 0.12% in FY20 (refers to the period April 1 to March 31). As on March 31, 2021, 41.5% of portfolio was secured. 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, HDFC Credila's loan book remains moderately unseasoned in nature. Asset quality metrics will remain a key monitorable as the loan book matures in the medium term.

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

Resource Profile: The parentage of HDFC strengthens the resource profile of HDFC Credila. As on June 30, 2021, the company's borrowings stood at Rs.5,187 crores. Major borrowing comes from bank loans (36%), followed by NCD (34%), External Commercial Borrowing (14%), Subordinate Debt & perpetual debt (12%) and Commercial paper (4%). In FY21, the company was able to bring down the cost of funds by renegotiating its variable interest loans and linking them to external benchmarks leading to faster transmission of changes in the interest rates in line with industry trends. The company's resource raising ability from diversified sources at competitive rate adequately supported by its linkage to the parent provides more comfort.

Key Rating Weaknesses

Exposure to a Single Asset Class: HDFC Credila provides education loans which exposes it to product concentration risk as any fall in demand for educational loans or increase in competition from other players may severely impact the operations and profitability of the company. The distribution of loan portfolio across India was evenly spread out with no cities forming above 20% with major share from the cities of Mumbai (16.7%), Hyderabad (13.6%), Pune (13.1%), Delhi NCR (13.0%), Bangalore (10.8%) and others as on June 30, 2021. Going forward, CARE expects the company to diversify its lending within the education loan segment.

Moderate Gearing Which Has Shown Improvement in FY21: Aided by retention of profits and moderate loan book growth during FY21, the overall gearing has improved from 6.05 times as on March 31, 2020 to 4.68 times as on March 31, 2021. Company's Total CAR and Tier-I CAR witnessed an improvement and stood at 24.02% and 17.67% as on March 31, 2021 as against 22.27% and 14.70% as on March 31, 2020 which has further improved to 24.44% and 18.32% respectively as on June 30, 2021. Owing to the parent-subsidiary linkage, the company enjoys high capital raising ability and financial flexibility which is expected to support its capital levels and also fund future business expansions going forward.

Modest Profitability: The company's interest income has witnessed marginal decline at Rs. 693.9 crore in FY21 as against Rs. 702.8 crore in FY20 and the yield on advances has witnessed decline to 11.08% in FY21 compared to 12.13% during FY20 partly on account of 62.5% of disbursements made during H2FY21. Consequently, the interest yielding assets were lower in FY21 compared to FY20 explaining the lower interest income. However, aided by improvement in gearing levels and decline in cost of funds during FY21, the company reported improvement in NIM. Additionally, the company made excess provisions during FY20 for potential impact of Covid-19 which led to lower provisioning requirement during the year FY21. Consequently, ROTA improved to 2.28% during FY21 (FY20:1.97%). The company reported total income and PAT of Rs.175.9 crore and Rs.44.2 crore respectively during Q1FY22 as against Rs.180.1 crore and Rs.36.9 crore during Q1FY21.

Liquidity: Strong

The company has a well-matched asset-liability maturity (ALM) profile up to one year. As on June 30, 2021, the company had cash and bank balances of Rs. 27 crore and mutual fund investments of Rs.100 crore as against the debt obligation of Rs.737 crores for next six months up to December 2021 based on actual maturities. The company also has unutilized facilities of Rs. 1,085 crore, including over-draft facility of Rs. 235 crores as on June 30, 2021. CARE expects the liquidity profile to be adequately supported by the parentage of HDFC which will help to plug any future liquidity mismatches, if required.

Analytical approach: CARE has analyzed the standalone credit profile of HDFC Credila while also factoring the linkages with its
parent, HDFC in the form of ownership, management and financial support.

Applicable Criteria

CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings
Policy of Default Recognition
Rating Methodology- NBFC
Financial ratios – Financial Sector
Factoring Linkages-Parent

About the Company

HDFC Credila Financial Services Limited (Formerly known as HDFC Credila Financial Services Private Limited) (HDFC Credila), RBI registered NBFC engaged in education loans, was established in February 2006. The Company provides education loan to Indian students to pursue higher education in India and abroad. HDFC Credila is registered as a Non-Deposit taking Non Banking Financial Institution (NBFI-ND) with the Reserve Bank of India (RBI). The Company is classified as a Systemically Important Non-Deposit taking Non-Banking Financial Institution (NBFC-ND-SI) as per RBI regulations. Mr. Ajay Bohora was the co-founder and CEO along with Mr. Anil Bohora as the founder and COO of HDFC Credila. Until FY19, Mr. Anil Bohora and Mr. Ajay Bohora held 8.31% stake each in the company and HDFC Ltd held 83.38% stake. On 12th December 2019, HDFC Ltd

bought the balance stakes from the company's other shareholders, Mr. Ajay and Mr. Anil Bohora making it a wholly-owned subsidiary of HDFC. Mr. Arijit Sanyal has been appointed as the MD & CEO of the Company. The Company has been converted to a Public Limited Company with effect from October 8, 2020.
HDFC Credila provides education loans pan India through its network at 8 locations, i.e., Mumbai, Pune, Hyderabad, Kolkata, Ahmedabad, Chennai, Bangalore and Delhi. The company has its registered office in Mumbai along with a Back-end office in Nashik which carries out tele calling and other operational work. In addition to the 8 hubs and a registered office, the company has presence in 7 HDFC's branches and 5 small branches spread across mentioned locations for business sourcing. The company also 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 centres, advertising, and direct marketing.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	726.58	713.47
PAT	123.10	155.23
Interest coverage (times)	1.37	1.50
Total Assets	7001.14	6603.05
Net Stage III assets	0.10	0.40
ROTA (%)	1.97	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
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures- Proposed	Proposed	Proposed	Proposed	Proposed	500.00	CARE AAA; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	-	1)Withdrawn (06-Jan-20)	1)CARE AAA (Is); Stable (17-Sep-18) 2)CARE AAA (Is); Stable (27-Aug-18)
2.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)	1)CARE AA+; Stable (27-Aug-18)
3.	Debentures-Non Convertible	LT	-	-	-	-	-	1)Withdrawn (27-Aug-18)

	Debentures							
4.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)	1)CARE AA+; Stable (27-Aug-18)
5.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)	1)CARE AA+; Stable (27-Aug-18)
6.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (27-Aug-18)
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (27-Aug-18)
8.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (27-Aug-18)
9.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)	1)CARE AA+; Stable (27-Aug-18)
10.	Debt-Perpetual Debt	LT	75.00	CARE AA+; Stable	-	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)	1)CARE AA+; Stable (27-Aug-18) 2)CARE AA+; Stable (01-Jun-18)
11.	Debentures-Non Convertible Debentures	LT	250.00	CARE AAA; Stable	1)CARE AAA; Stable (16-Jul-21)	-	-	-
12.	Debentures-Non Convertible Debentures	LT	500.00	CARE AAA; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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