

September 14, 2021

HDFC Credila Financial Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Non-convertible debenture programme	1,300.00	1,300.00	[ICRA]AAA(Stable); reaffirmed
Bank lines programme	4,000.00	4,000.00	[ICRA]AAA(Stable); reaffirmed
Non-convertible subordinated debenture programme	250.00	250.00	[ICRA]AAA(Stable); reaffirmed
Perpetual debt programme	275.00	275.00	[ICRA]AA+(Stable); reaffirmed
Total	6,825.00	6,825.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in HDFC Credila Financial Services Limited's (HCFSL) ownership in the form of Housing Development Finance Corporation Limited (HDFC; rated [ICRA]AAA(Stable)/[ICRA]A1+). ICRA also factors in the shared brand name, indicating HDFC's strong commitment towards supporting HCFSL. The company continues to benefit from the operational and financial support from the parent in the form of a shared branch network, board representation, manpower and regular capital infusions.

The ratings factor in the company's strong domain knowledge and experienced core management team, its strong monitoring systems and prudent lending norms, resulting in healthy asset quality and profitability indicators. ICRA takes note of HCFSL's adequate capitalisation profile with a gearing of 4.4x as on June 30, 2021 supported by regular equity infusions from the parent, healthy internal accruals and subdued loan book growth in FY2021 due to the impact of Covid-19.

ICRA, however, takes note of HCFSL's relatively moderate scale and monoline nature of operations. ICRA also takes note of the risk associated with education loans, given their long tenures and moratorium periods, low collateral cover, and the high delinquencies faced by the Indian banking sector in the education lending segment. While the parent has been regularly infusing capital into the company (the most recent being Rs. 200 crore in March 2020), the continued support from the parent and the company's ability to increase its portfolio profitably while maintaining moderate capitalisation and asset quality will remain important from a credit perspective going forward.

Key rating drivers and their description

Credit strengths

Strong financial and operational support from the parent – The ratings factor in HCFSL's ownership in the form of HDFC. HDFC had acquired a stake from HCFSL's founders in December 2019 (9% stake acquired on a diluted basis, resulting in 100% ownership). The ratings also take into consideration the shared brand name, indicating the strong commitment of HDFC to support HCFSL. The company continues to benefit from the parent's operational and financial support in the form of a shared branch network as well as manpower, and fund-raising support. HDFC has also regularly infused equity capital into HCFSL with the most recent being Rs. 200 crore in March 2020. During the last five years, HDFC had infused capital of Rs. 435 crore into HCFSL. ICRA expects support from the parent to be forthcoming if needed.

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, who are on the company’s board. HCFSL’s management information system (MIS) is strong, enabling it to track the sourcing, appraisal, verification, disbursement and monitoring of clients across geographies. The company also has a large database of universities and placement details across the world, which helps in risk assessment and appraisal. The underwriting strength is evident, given the good asset quality indicators with a gross Stage 2 ratio of 0.66% (of which 0.40% on account of restructuring as per the Resolution Framework for Covid-19 related stress) as of June 30, 2021 (0.12% as of March 31, 2020).

Diversified borrowing profile – By virtue of 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. HCFSL’s borrowings included bank loans (36%), debentures (46%), external commercial borrowings (14%) and commercial papers (2%) as on June 30, 2021.

Adequate capitalisation – The company’s capitalisation profile remains adequate with a reported capital adequacy ratio (CAR) of 24.02% (Tier I ratio – 17.67%) and a gearing of 4.7x as on March 31, 2021 supported by healthy internal accruals and regular equity infusions by the promoters. While HCFSL had a relatively higher leverage (7.7x in FY2019 and 8.3x in FY2018) historically, ICRA notes that the gearing improved to 4.4x, as on June 30, 2021, on the back of capital infusion (Rs. 250 crore in FY2020) and slower growth in the loan book in FY2021 due to the impact of Covid-19. ICRA takes note of the management’s guidance of maintaining the steady state gearing at 6x. Also, ICRA expects support from the parent to be forthcoming if needed.

Healthy profitability – The company reported a net profit of Rs. 155.23 crore in FY2021 (profit after tax (PAT) as a percentage of average total assets (ATA) – 2.28%) compared to Rs. 123.10 crore in FY2020 (1.97%) supported by an improvement in the net interest margin (NIM) and lower credit costs. HCFSL’s NIM improved in FY2021 as the decline in the cost of funds was higher than the decline in yields, thereby resulting in an improvement in the operating profitability. The operating expenses were largely stable at 1.15% of ATA in FY2021. The credit costs were lower in FY2021 compared to the previous year. In FY2020, the company had created a management overlay in provisions of ~Rs. 20 crore in light of the Covid-19 pandemic, leading to higher credit costs of 0.36% in FY2020 compared to 0.13% in FY2021. The management overlay for Covid-19 related stress stood at ~Rs. 18 crore as on March 31, 2021.

For Q1 FY2022, the company reported a net profit of Rs. 44.21 crore (2.68% of ATA) supported by higher. The company’s ability to grow its portfolio while maintaining the asset quality would remain critical for maintaining the profitability.

Credit challenges

Moderate scale and monoline nature of operations – With the pandemic, disbursements were lower in FY2021 while prepayments increased, thereby resulting in a largely stable loan book of Rs. 6,627 crore as on March 31, 2021. While the loan book is expected to grow supported by robust demand in FY2022, the scale of operations remains modest with a portfolio of ~Rs. 6,385 crore as on June 30, 2021. The company has been focussed on education loans from inception and does not plan to diversify its portfolio, going forward.

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 a high share of the book under principal moratorium. ICRA also has considered the specific product feature whereby 58% of the total loan book is unsecured. However, large portion of the total loan portfolio was for post-graduate courses as on June 30, 2021. Applicants in these courses have higher chances of gaining employment compared to undergraduates, thereby mitigating concerns regarding their repayment ability, to some extent. The collection of interest, even during the moratorium period, provides comfort. Further, HCFSL’s strong underwriting and risk mitigation processes with a focus on relatively premium segments and its track record in this segment provide comfort.

The company's gross stage 3 as on June 30, 2021 remained low at 0.66% (Rs. 42.34 crore) as on June 30, 2021 though higher than 0.12% (Rs. 7.57 crore) as on March 31, 2020. The company had a total restructured book of Rs. 47.76 crore as on June 30, 2021, restructured as per the RBI's Resolution Framework for Covid-19 related stress. Of this Rs. 25.23 crore has been classified as Stage 3 on a conservative basis under the ECL Model of the company. The ability to maintain the asset quality through business cycles will remain a monitorable.

Liquidity position: Adequate

The company had positive cumulative mismatches as per the structural liquidity statement as on March 31, 2021. As on August 19, 2021, HCFSL held Rs. 79 crore of cash and liquid investments along with Rs. 625 crore of drawable unutilised bank lines against total debt of Rs. 936 crore scheduled to mature in the next six months (i.e. up to January 2022). The liquidity is supported by the monthly repayments from its loan portfolio. Historically, the company has had no difficulty in refinancing its loans. Access to funds from diverse sources and the ability to secure funding at competitive rates provide good financial flexibility to HCFSL.

Rating sensitivities

Positive factors – NA

Negative factors – ICRA could downgrade the ratings of HCFSL in case of a change in the parent's ratings or a change in the ownership. Pressure on the ratings could also arise in the event of a sustained deterioration in the asset quality or a material increase in the gearing on a sustained basis.

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	ICRA expects HDFC to provide financial, managerial and operational support, when required, given the parentage and shared brand name
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

HDFC Credila Financial Services Limited (HCFSL) was founded by Mr. Ajay Bohora and Mr. Anil Bohora in 2006. HCFSL, which received a non-banking financial company (NBFC) licence in 2007, is the first financial services company established as a specialised institution for originating, holding and servicing education loans. On December 12, 2019, HDFC bought 9.12% of the equity share capital of the company on a fully-diluted basis from the other shareholders, Mr. Ajay Bohora and Mr. Anil Bohora, making HCFSL its wholly-owned subsidiary. The Company has been converted to a Public Limited Company with effect from October 8, 2020. HCFSL, 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. 155 crore in FY2021 with total assets of Rs. 6,603 crore compared a net profit of Rs. 123 crore in FY2020 with total assets of Rs. 7,001 crore. The company reported a net profit of Rs. 44 crore in Q1 FY2022 with total assets of Rs. 6,611 crore compared a net profit of Rs. 37 crore in Q1 FY2021 with total assets of Rs. 6,652 crore.

Key financial indicators (audited)

HDFC Credila Financial Services Limited	FY2020	FY2021	Q1 FY2022*
Total income (Rs. crore)	727	713	176
Profit after tax (Rs. crore)	123	155	44
Net worth (Rs. crore)	986	1,144	1,188
Loan book (Rs. crore)	6,257	6,267	6,385
Total assets (Rs. crore)	7,001	6,603	6,611
Return on assets (%)	1.97%	2.28%	2.68%
Return on net worth (%)	15.23%**	14.57%	15.16%
Gross gearing (times)	6.0	4.7	4.4
Gross stage 3 (%)	0.12%	0.60%	0.66%
Net stage 3 (%)	0.10%	0.40%	0.45%
Solvency (Net stage 3/Net worth)	0.64%	2.20%	2.43%
CRAR (%)	22.27%	24.02%	NA

Source: Company, ICRA Research; All ratios as per ICRA calculations

* Provisional numbers; ** This is derived after considering capital infusion of Rs. 200 crore on March 30, 2020. Excluding this infusion, the ROE would be 17.38% in FY 2020.

Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 27, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020					Date & Rating in FY2019		
							Sep-14-21	Sep-18-20	Feb-05-20	Jul-02-19	Jun-17-19	Jun-04-19	Apr-22-19	Sep-06-18
1	Non-convertible debenture programme	Long term	400	400	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-	-	-
2	Non-convertible debenture programme	Long term	400	400	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-	-
3	Non-convertible debenture programme	Long term	400	400	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-
4	Non-convertible debenture programme	Long term	100	100	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 27, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020					Date & Rating in FY2019		
							Sep-14-21	Sep-18-20	Feb-05-20	Jul-02-19	Jun-17-19	Jun-04-19	Apr-22-19	Sep-06-18
5	Non-convertible subordinated debenture programme	Long term	150	150	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-
6	Non-convertible subordinated debenture programme	Long term	50	50	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
7	Perpetual debt programme	Long term	150	150	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
8	Commercial paper programme	Short term	1,000	600	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 27, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020					Date & Rating in FY2019		
							Sep-14-21	Sep-18-20	Feb-05-20	Jul-02-19	Jun-17-19	Jun-04-19	Apr-22-19	Sep-06-18
9	Non-convertible subordinated debenture programme	Long term	50	50	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
10	Perpetual debt programme	Long term	50	50	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
11	Perpetual debt programme	Long term	75	75	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
12	Bank lines	Long term	4,000	2,320 [^]	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

[^]Rs. 3,205 crore including undrawn lines

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank Lines	Simple
Non-convertible Debenture Programme	Very Simple
Non-convertible Subordinated Debt Programme	Simple
Perpetual Debt Programme	Moderately Complex
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/ Banker Name	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-Jul-17	8.20%	23-Jul-27	50	[ICRA]AAA(stable)
INE539K08195	Non-convertible Subordinated Debenture Programme	6-Jun-19	9.12%	6-Jun-29	150	[ICRA]AAA(stable)
INE539K08161	Non-convertible Subordinated Debenture Programme	16-Nov-17	8.10%	16-Nov-27	50	[ICRA]AAA(stable)
INE539K08179	Perpetual Debt Programme	8-Dec-17	8.75%	NA (Call option – 10 years from date of issuance)	50	[ICRA]AA+(stable)
INE539K08187	Perpetual Debt Programme	6-Jun-18	9.35%	NA (Call option – 10 years from date of issuance)	75	[ICRA]AA+(stable)
INE539K08112	Perpetual Debt Programme	9-Jul-14	11.75%	NA (Call option – 10 years from date of issuance)	50	[ICRA]AA+(stable)
INE539K08120	Perpetual Debt Programme	27-Jan-15	10.50%	NA (Call option – 10 years from date of issuance)	50	[ICRA]AA+(stable)
INE539K08138	Perpetual Debt Programme	17-Jun-15	10.50%	NA (Call option – 10 years from date of issuance)	50	[ICRA]AA+(stable)
INE539K07114	Non-convertible Debenture Programme	17-Jun-19	8.62%	17-Jun-24	100	[ICRA]AAA(stable)
INE539K07122	Non-convertible Debenture Programme	8-Jul-19	8.85%	6-Jul-29	200	[ICRA]AAA(stable)
INE539K07130	Non-convertible Debenture Programme	1-Aug-19	8.70%	1-Aug-29	200	[ICRA]AAA(stable)
INE539K07148	Non-convertible Debenture Programme	31-Jan-20	8.00%	31-Jan-25	200	[ICRA]AAA(stable)
INE539K07155	Non-convertible Debenture Programme	25-Feb-20	7.10%	25-Feb-22	200	[ICRA]AAA(stable)
INE539K07163	Non-convertible Debenture Programme	24-Sep-20	5.99%	2-Aug-23	200	[ICRA]AAA(stable)
INE539K07171	Non-convertible Debenture Programme	13-Nov-20	7.00%	12-Nov-27	200	[ICRA]AAA(stable)
INE539K14A18	Commercial Paper Programme	28-Jun-21	3.70%	27-Sep-21	200	[ICRA]A1+
INE539K14AM6	Commercial Paper Programme	29-Jul-21	3.75%	25-Oct-21	100	[ICRA]A1+
INE539K14AM6	Commercial Paper Programme	18-Aug-21	3.70%	25-Oct-21	100	[ICRA]A1+
INE539K14AM6	Commercial Paper Programme	25-Aug-21	3.65%	25-Oct-21	100	[ICRA]A1+
INE539K14AN4	Commercial Paper Programme	31-Aug-21	4.40%	30-Aug-22	100	[ICRA]A1+
NA	Commercial Paper Programme^	-	-	7-365 days	400	[ICRA]A1+
-	Term Loans	2012-2021	-	2021-2029	2,970	[ICRA]AAA(stable)

ISIN/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Overdraft Facility	NA	NA	NA	235	[ICRA]AAA(stable)
-	Unallocated Bank Lines	NA	NA	NA	795	[ICRA]AAA(stable)

Source: Company

^Unutilised

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sahil Udani
+91 22 6114 3429
sahil.udani@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Jui Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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