

HDFC Credila Financial Services Pvt Ltd

January 06, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Issuer rating*	-	-	Withdrawn
Non- Convertible Debenture	500	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Subordinate Debt	100	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Perpetual Debt	275	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Total	875 (Eight Hundred and seventy five crores only)		

Details of instruments/facilities in Annexure-1

**Issuer Rating has been withdrawn post the completion of time period for 'Notice of Withdrawal'.*

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 100% shareholding as on December 31, 2019. 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 moderate gearing levels.

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

Rating sensitivities

Negative Factors

- Weakening of the parent's credit profile
- Material deterioration in asset quality
- Increase in the gearing levels

Detailed description of the key rating drivers

Key rating strengths

Strong parentage, operating and financial support and brand linkage

HDFC Credila (Credila) has strong parentage with Housing Development Finance Corporation Ltd. (HDFC), one of the leading Housing Finance Companies and rated **CARE AAA; Stable / CARE A1+**, holding 83.38% stake in the company (as on March 31, 2019). By virtue of being a subsidiary, the company enjoys managerial, operational as well as financial support from HDFC. Being subsidiary of HDFC, Credila has been able to raise funds at very competitive rates. Credila also derives operational support by way of distribution of its loan products through HDFC's widespread branch network. Further, Credila's board is chaired by the Executive Director of HDFC along with two nominee directors from HDFC.

In an intimation sent to BSE, Company has informed that HDFC Ltd has bought the shares from Mr. Ajay Bohora and Mr. Anil Bohora for a total consideration of Rs.395 crores on December 12, 2019. Mr. Anil and Ajay Bohora have resigned from the company with effect from 12th December, 2019. Mr. Arijit Sanyal has been appointed as the CEO of the Company. With this acquisition, HDFC Credila becomes a wholly owned subsidiary of HDFC Ltd.

Growth in business volumes

The total gross loan book increased to Rs.5339 crore as on March 31, 2019 registering a growth of 26% Y-o-Y. During FY19, HDFC Credila had disbursed loans of Rs. 2082 crores in FY19 against the disbursement of Rs.1642 crores in FY18 registering a growth of 27% y-o-y.

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

In FY19, the loan portfolio was majorly sourced through Referrals (22%), Partners/Consultants (35%), Bank Partners (20%) and various other means. The distribution of the loan portfolio was across India with major share from the cities of Mumbai (17.2%), Pune (13.6%), Delhi NCR (12.5%), Bangalore (12.4%), Hyderabad (12.0%) and others. The distribution of loan portfolio on the basis of course-wise was mainly for Master of Science (MSc) course which comprised of 73.6% of the total loan outstanding as on 31 March 2019 and MBA/PGDBM courses which comprised of 12.6% and remaining for other courses such as Bachelor courses, Master's Program (other than MSc), Senior Management, etc. The disbursements in FY19 were majorly in universities situated in the USA (62.4%), followed by countries such as Canada, Australia, Ireland, New Zealand etc. (30.9%) and remaining to India (6.7%).

Adequate capitalization levels

Total CAR stood at 18.45% with Tier-I CAR at 11.55% as on March 31, 2019 (FY18: Total CAR – 18.02% Tier-I CAR – 10.32%). Due to capital infusion of Rs.80 crore in FY19 and Rs.50 crores in H1FY20, the overall gearing has improved from 8.4 times as on March 31, 2018 to 7.7 times as on March 31, 2019. As on September 30, 2019, the gearing level stood at 7.4x levels. Further, by virtue of being a HDFC subsidiary, the company enjoys high capital raising ability and financial flexibility to fund future business expansion.

Comfortable liquidity profile

There are positive cumulative mismatches upto 5 year time buckets. Company also has unutilized overdraft facilities of Rs. 101 crore, undrawn term loans of Rs. 324 crore as on March 31, 2019 and strong parentage support from HDFC which shall enable the company to plug its future liquidity mismatches.

Moderate Profitability

PAT in FY19 was Rs. 101.7 crore as against Rs.86.6 crore in FY18, registering growth of 17% on account of rise in the interest income by 25% in FY19. NIM for FY19 stood at 4.44% as against 5.04% for FY18. 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 30.51% for FY19 compared to 31.85% in FY18. This has further declined to 27.44% as on September 30, 2019. ROTA declined to 2.08% for FY19 from 2.28% in FY18. ROTA has declined primarily because of squeezing of yield on advances and rise in borrowing costs.

Strong systems and prudent lending norms

Credila has strong domain knowledge and experience management team in education loan business. Credila has in-house developed software where all the data are 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 are being carried out from Nashik branch. Collateral and security is not mandatory for domestic/foreign education loans, collateral is subjective based on cases. All files are stored centrally at Navi Mumbai.

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 0.08% and 0.06% respectively as on March 31, 2019 (FY18: Gross NPA 0.05% (as per Ind AS) and Net NPA 0.04% (as per Ind AS), however it needs to be observed over a longer duration.

Moderate resource profile

Parentage of HDFC strengthens the resource profile of Credila. During FY19, the company has raised debt by issue of Non-convertible debentures of Rs.600 crore and perpetual debt of Rs. 75 crores. Major borrowing comes from Bank and FI loans (46.74%) followed by NCD (31.46%), Subordinate Debt and perpetual debt (9.95%) and Commercial paper (11.85%).

Key rating weakness

Exposure to single asset class

Credila is into a single asset class of educational loans. This brings in concentration risk as any fall in demand for educational loan or increase in competition from other players may severely impact the operations and profitability of the company.

Moderate Gearing levels

As on March 31, 2019, the borrowings stood at 4764 crores with a gearing level of 7.70x. During FY19, the company has raised debt by issue of Non-convertible debentures of Rs.600 crore and perpetual debt of Rs. 75 crores. Due to capital infusion of Rs.80 crore in FY19, the overall gearing has gone down from 8.36 times as on March 31, 2018 to 7.70 times as on March 31, 2019. As on September 30, 2019, gearing levels stood at 7.4x. Though the gearing levels have shown a declining trend, it continues to remain a key monitorable going forward.

Liquidity Strong: There are positive cumulative mismatches upto 5 year time buckets. Company also has unutilized overdraft facilities of Rs. 101 crore, undrawn term loans of Rs. 324 crore as on March 31, 2019 and strong parentage support from HDFC which shall enable the company to plug its future liquidity mismatches.

Analytical approach: Standalone

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) holds 83.38% as on March 31, 2019 and Mr. V. S. Rangan, Executive Director of HDFC Ltd, is the chairman of board of Credila. HDFC Ltd has bought the shares from Mr. Ajay Bohora and Mr. Anil Bohora for a total consideration of Rs.395 crores on December 12, 2019. Mr. Anil and Ajay Bohora have resigned from the company with effect from 12th December, 2019. Mr. Arijit Sanyal has been appointed as the CEO of the Company. With this acquisition, HDFC Credila becomes a wholly owned subsidiary of HDFC Ltd.

Credila distributes education loan products through its network at 8 locations, i.e., Mumbai, Pune, Hyderabad, Kolkata, Ahmedabad, Chennai, Bangalore and Delhi. In addition to the 8 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)	FY18 (A)	FY19 (A)
Total operating income	484.5	595.8
PAT	86.58	101.7
Interest coverage (times)	1.48	1.42
Total Assets	4265.6	5497.2
Net NPA (%)	0.04	0.06
ROTA (%)	2.28	2.08

A- Audited

Note: All financials for FY18 and FY19 are as per Ind AS

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	-	-	-	-	Withdrawn
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	Withdrawn	-	1)CARE AAA (Is); Stable (27-Aug-18) 2) CARE AAA (Is); Stable (17-Sept-18)	1)CARE AAA (Is); Stable (10-Jul-17)	1)CARE AA+ (Is); Stable (23-Feb-17) 2)CARE AA+ (Is) (21-Sep-16)
2.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (27-Aug-18)	1)CARE AA+; Stable (10-Jul-17)	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)
3.	Debentures-Non Convertible Debentures	LT	0.00	Withdrawn	-	1)Withdrawn (27-Aug-18)	1)CARE AAA; Stable (10-Jul-17)	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (21-Sep-16)
4.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1) CARE AA+; Stable (27-Aug-18)	1)CARE AA+; Stable (10-Jul-17)	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)
5.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1) CARE AA+; Stable (27-Aug-18)	1)CARE AA+; Stable (10-Jul-17)	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)
6.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Aug-18)	1)CARE AAA; Stable (10-Jul-17)	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (21-Sep-16)
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Aug-18)	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 (27-Aug-18)	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 (27-Aug-18)	1)CARE AA+; Stable (07-Dec-17)	-
10.	Debt-Perpetual Debt	LT	75.00	CARE AA+;	-	1)CARE AA+;	-	-

				Stable		Stable (01-Jun-18) 2)CARE AA+; Stable (27-Aug-18)		
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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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