

HDFC Credila Financial Services Limited

January 10, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Perpetual debt	375.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Subordinate debt	475.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debentures	1900.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Perpetual debt	200.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Non-convertible debentures	2000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Total long-term instruments	4,950.00 (₹ Four thousand nine hundred fifty crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the various debt instruments of HDFC Credila Financial Services Limited (HDFC Credila) continue to derive strength from its strong parentage of the Housing Development Finance Corporation Limited (HDFC; rated 'CARE AAA; Stable/CARE A1+'), benefits derived from it being part of the HDFC group, including the common brand name, managerial and operational support, HDFC Credila's experienced management team, the relatively stable profitability, the strong asset quality supported by prudent credit underwriting norms, and a strong liquidity profile.

The ratings strengths are, however, partially offset by the exposure to a single asset class and the moderate gearing levels.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

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 the asset quality on a sustained basis.
- Increase in the gearing level beyond 8x on a 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 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, VS Rangan, along with key personnel from HDFC, namely, Madhumita Ganguli. The Managing Director (MD) and Chief Executive Officer (CEO) of HDFC Credila, Arijit Sanyal, was appointed by HDFC in December 2019. The company also benefits from HDFC's widespread branch network, which supports HDFC Credila's lending operations. HDFC Credila has been receiving capital support from the parent, as reflected over the years. HDFC has infused ₹680 crore in HDFC Credila over the past six years, with the last infusion of ₹300 crore being in November 2022. CARE Ratings Limited (CARE Ratings) expects HDFC to support the capital requirements of HDFC Credila in case needed.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced management team along with robust systems and credit underwriting processes: The company benefits from the experience of its senior management team. The MD & CEO, Arijit Sanyal, was earlier the Head of Strategic Planning & New Initiatives for HDFC. He is supported by an experienced management team of the CFO, CTO, CRO, National Credit Manager, and National Business Head, the veterans of the banking and financial services industry. 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, CARE Ratings expects the company to further ramp-up its information technology (IT) systems, CRM, and LMS, and digitise many of its underwriting systems along with the continuous monitoring of its portfolio in terms of risk.

Strong asset quality, albeit the loan portfolio has moderate seasoning: The company's Gross Stage-III assets continue to remain comfortable at 0.35% (including assets restructured under the Reserve Bank of India [RBI] Resolution Framework for COVID-19-related stress) as on September 30, 2022 (March 31, 2022: 0.57%). As on September 30, 2022, the total restructuring stood at ₹39.98 crore, wherein ₹22.55 crore was included in Gross Stage-III, whereas Net Stage-III assets stood at 0.23% as on September 30, 2022. The current collection efficiency has been consistently maintained above 98% and witnesses higher proportion of prepayments, which are structural to the company's business. The increase in disbursements in FY22 (refers to the period April 1 to March 31) amounting to ₹4,309 crore and H1FY23 of ₹4,183 crore led to a significant loan book growth, with assets under management (AUM) at ₹12,168 crore as on September 30, 2022. A significant loan growth has been witnessed in the last 18 months, and only a moderate proportion of loan has been fully repaid due to the inherent nature of education loans. HDFC Credila's loan book remains moderately seasoned in nature. Notably, the company structures repayment of loans extended to its borrowers in a way such that at least a part or full interest is scheduled to be paid during the study period also, mainly for continuous monitoring. The gestation period of two years for graduation exposes its ultimate borrowers to the changes in the job market, unemployment rate, and economic cycles, which is likely to have bearing on the asset quality. However, the relatively higher prepayment rates witnessed by the company (18% to 24% in the past) adds comfort. It is to be noted that the prepayment rate is considering the total loan book and not based on the loans under repayment where equated monthly installments (EMIs) are due.

Profitability parameters: During FY22, the yields on advances witnessed a decline, as the company passed on a reduction in the cost of funds to its borrowers. Despite a reduction in yields, the net interest margin (NIM) witnessed improvement in FY22 to 4.75% as against 4.16% in FY21. With stable opex and credit costs, the return on total assets (ROTA) improved to 2.63% in FY22 as against 2.28% in FY21.

Diversified resource profile: The parentage of HDFC strengthens the resource profile of HDFC Credila. As on September 30, 2022, the company's borrowings stood at ₹10,695 crore. Major borrowings come in the form of term loans (57.7%), followed by non-convertible debentures (NCDs) (21.2%), external commercial borrowings (ECBs) (7.6%), Tier-I and Tier-II capital instruments (9.9%), and commercial papers (CPs) (3.7%). In FY22, the company was able to bring down the cost of funds by renegotiating its loans and linking them to external benchmarks, leading to faster transmission of changes in the interest rates in trends with the industry. The company's resource-raising ability from diversified sources at a 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 the demand for educational loans or increase in the competition from other players might severely impact the operations and profitability of the company. The distribution of the loan portfolio across India was evenly spread out, with no cities forming above 20%, with the major share from the cities of Hyderabad (16%), Mumbai (15%), Delhi-NCR (14%), Pune (13%), and others as on FY22. Going forward, CARE Ratings expects the company to diversify its lending within the education loan segment.

Moderate gearing levels: Due to the high loan book growth during FY22 and H1FY23, the overall gearing stood at 7.42x as on September 30, 2022, as compared with 5.60x as on March 31, 2022. Similarly, the company's total capital adequacy ratio (CAR) and Tier-I CAR decreased to 17.24% and 11.41%, respectively, as on September 30, 2022, as compared with 18.93% and 14.84%, respectively, as on March 31, 2022. The company has raised fresh equity of ₹300 crore from HDFC by way of a rights issue on November 14, 2022. Owing to the parent-subsidiary linkage, the company enjoys good capital-raising ability and financial flexibility, which is expected to support its capital levels and fund future business expansions, going forward.

Liquidity: Strong

As per the asset-liability maturity (ALM) as on September 30, 2022, the company has a well-matched ALM up to one year, considering the prepayment rates at historical levels. As on September 30, 2022, the company had cash and bank balances and liquid investments of ₹198 crore along with unutilised bank lines of ₹500 crore. CARE Ratings expects the liquidity profile to be adequately supported by the parentage of HDFC, which will help plug any future liquidity mismatches if required.

Analytical approach

CARE Ratings has analysed the standalone credit profile of HDFC Credila along with the strong linkages with its parent, HDFC, in the form of ownership, management, and financial support.

Applicable criteria

[Policy on Default Recognition](#)

[Notching by Factoring Linkages in Ratings](#)

[Financial ratios – Financial sector](#)

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Rating Methodology - Non-Banking Finance Companies](#)

About the company

HDFC Credila (formerly known as HDFC Credila Financial Services Private Limited), an RBI-registered non-banking financial company (NBFC) engaged in education loans, was established in February 2006. The company provides education loans 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 RBI. The company is classified as a Systemically Important Non-Deposit-taking Non-Banking Financial Institution (NBFC-ND-SI) as per the RBI regulations. Ajay Bohora was the co-founder and CEO, along with Anil Bohora as the founder and COO of HDFC Credila. Up to FY19, Anil Bohora and Ajay Bohora held an 8.31% stake each in the company and HDFC held an 83.38% stake. On December 12, 2019, HDFC bought the balance stakes from the company's other shareholders, Ajay Bohora and Anil Bohora, making it a wholly-owned subsidiary of HDFC. 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 eight major locations, ie, Mumbai, Hyderabad, Pune, Kolkata, Ahmedabad, Chennai, Bengaluru, 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. It has a total of 22 branches (including small branches) as on September 30, 2022, for business sourcing. The company also uses various channels for sourcing and marketing, which include the Internet, the 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov)
Total income	713	824	546
PAT	155	206	118
Pre-provisioning operating profit	217	294	161
Total assets	6,603	9,107	12,484
Net stage-III assets (%)	0.40	0.38	0.23
ROTA (%)	2.28	2.63	2.18

A: Audited; Prov: Provisional; NA: Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Perpetual debt	INE539K08112	09-Jul-14	11.75%	09-Jul-24	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08120	27-Jan-15	10.50%	27-Jan-25	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08138	17-Jun-15	10.50%	17-Jun-25	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08179	08-Dec-17	8.75%	08-Dec-27	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08187	06-Jun-18	9.35%	06-Jun-28	75.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08229	30-Aug-22	8.36%	30-Aug-32	100.00	CARE AAA; Stable
Debt-Subordinate debt	INE539K08146	09-Oct-15	9.30%	09-Oct-25	100.00	CARE AAA; Stable
Debt-Subordinate debt	INE539K08203	04-Jul-22	8.40%	30-Jun-32	200.00	CARE AAA; Stable
Debt-Subordinate debt	INE539K08211	25-Jul-22	8.25%	23-Jul-32	175.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07189	02-Aug-21	7.23%	01-Aug-31	250.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07197	25-Nov-21	5.13%	25-Nov-24	300.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07205	01-Feb-22	7.50%	30-Jan-32	200.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07213	25-Feb-22	7.30%	23-Feb-29	200.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07221	07-Jul-22	8.15%	07-Jul-32	300.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07239	14-Oct-22	8.17%	14-Oct-32	500.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07247	24-Nov-22	7.95%	24-Nov-32	150.00	CARE AAA; Stable
Debentures-Non-convertible debentures	Proposed	-	-	-	2000.00	CARE AAA; Stable
Debt-Perpetual debt	Proposed	-	-	-	200.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer rating-Issuer ratings	Issuer rat	-	-	-	-	-	1)Withdrawn (06-Jan-20)
2	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AA+; Stable (19-Aug-22) 4)CARE AA+; Stable (20-Jul-22) 5)CARE AA+;	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)

					Stable (29-Jun-22)			
3	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AA+; Stable (19-Aug-22) 4)CARE AA+; Stable (20-Jul-22) 5)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov- 20)	1)CARE AA+; Stable (06-Jan-20)
4	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AA+; Stable (19-Aug-22) 4)CARE AA+; Stable (20-Jul-22) 5)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov- 20)	1)CARE AA+; Stable (06-Jan-20)
5	Debt-Subordinate debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AAA; Stable (19-Aug-22) 4)CARE AAA; Stable (20-Jul-22) 5)CARE AAA; Stable (29-Jun-22)	1)CARE AAA; Stable (24-Nov-21)	1)CARE AAA; Stable (25-Nov- 20)	1)CARE AAA; Stable (06-Jan-20)
6	Debentures-Non- convertible debentures	LT	-	-	-	1)Withdrawn (14-Jan-22) 2)CARE AAA; Stable	1)CARE AAA; Stable (25-Nov- 20)	1)CARE AAA; Stable (06-Jan-20)

						(24-Nov-21)		
7	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AAA; Stable (19-Aug-22) 4)CARE AAA; Stable (20-Jul-22) 5)CARE AAA; Stable (29-Jun-22)	1)CARE AAA; Stable (24-Nov-21)	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)
8	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AA+; Stable (19-Aug-22) 4)CARE AA+; Stable (20-Jul-22) 5)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
9	Debt-Perpetual debt	LT	75.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AA+; Stable (19-Aug-22) 4)CARE AA+; Stable (20-Jul-22) 5)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
10	Debentures-Non-convertible debentures	LT	250.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (16-Jul-21)	-	-

					<p>3)CARE AAA; Stable (19-Aug-22)</p> <p>4)CARE AAA; Stable (20-Jul-22)</p> <p>5)CARE AAA; Stable (29-Jun-22)</p>			
11	Debentures-Non-convertible debentures	LT	500.00	CARE AAA; Stable	<p>1)CARE AAA; Stable (29-Nov-22)</p> <p>2)CARE AAA; Stable (30-Aug-22)</p> <p>3)CARE AAA; Stable (19-Aug-22)</p> <p>4)CARE AAA; Stable (20-Jul-22)</p> <p>5)CARE AAA; Stable (29-Jun-22)</p>	<p>1)CARE AAA; Stable (24-Nov-21)</p> <p>2)CARE AAA; Stable (25-Aug-21)</p>	-	-
12	Debentures-Non-convertible debentures	LT	500.00	CARE AAA; Stable	<p>1)CARE AAA; Stable (29-Nov-22)</p> <p>2)CARE AAA; Stable (30-Aug-22)</p> <p>3)CARE AAA; Stable (19-Aug-22)</p> <p>4)CARE AAA; Stable (20-Jul-22)</p> <p>5)CARE AAA; Stable (29-Jun-22)</p>	<p>1)CARE AAA; Stable (22-Feb-22)</p>	-	-
13	Debt-Subordinate debt	LT	200.00	CARE AAA; Stable	<p>1)CARE AAA; Stable (29-Nov-22)</p> <p>2)CARE AAA; Stable (30-Aug-22)</p> <p>3)CARE AAA; Stable (19-Aug-22)</p> <p>4)CARE AAA; Stable</p>	-	-	-

					(20-Jul-22)			
					5)CARE AAA; Stable (29-Jun-22)			
14	Debt-Subordinate debt	LT	175.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AAA; Stable (19-Aug-22) 4)CARE AAA; Stable (20-Jul-22)	-	-	-
15	Debt-Perpetual debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22)	-	-	-
16	Debentures-Non-convertible debentures	LT	650.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Nov-22) 2)CARE AAA; Stable (30-Aug-22) 3)CARE AAA; Stable (19-Aug-22)	-	-	-
17	Debentures-Non-convertible debentures	LT	2000.00	CARE AAA; Stable				
18	Bonds-Perpetual bonds	LT	200.00	CARE AAA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable. No major financial/non-financial covenants stipulated.

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

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Simple
2.	Debt-Perpetual debt	Highly complex
3.	Debt-Subordinate debt	Complex

Annexure-5: Bank lender details for this company

Not applicable

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

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About us:

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