

Rating Rationale

January 20, 2023 | Mumbai

HDFC Credila Financial Services Limited

'CRISIL AAA/Stable' assigned to Non Convertible Debentures and Perpetual Bonds; Rated amount enhanced for Commercial Paper

Rating Action

| | |
|--|--------------------------------|
| Rs.2000 Crore Non Convertible Debentures | CRISIL AAA/Stable (Assigned) |
| Rs.200 Crore Perpetual Bonds | CRISIL AAA/Stable (Assigned) |
| Rs.650 Crore Non Convertible Debentures | CRISIL AAA/Stable (Reaffirmed) |
| Rs.100 Crore Perpetual Bonds | CRISIL AAA/Stable (Reaffirmed) |
| Rs.1500 Crore (Enhanced from Rs.1000 Crore) Commercial Paper | CRISIL A1+ (Reaffirmed) |
| Non Convertible Debentures Aggregating Rs.2350 Crore | CRISIL AAA/Stable (Reaffirmed) |
| Subordinated Debt Aggregating Rs.725 Crore | CRISIL AAA/Stable (Reaffirmed) |

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL AAA/Stable' rating to the Rs 200 crore perpetual bond and Rs 2000 crore non-convertible debentures of HDFC Credila Financial Services Limited (HDFC Credila) and has reaffirmed its ratings on the existing debt instruments at 'CRISIL AAA/Stable/CRISIL A1+'.

The rating on the perpetual bonds reflects the comfortable buffer consistently maintained by HDFC Credila over the regulatory capital adequacy requirements, and high financial flexibility due to Housing Development Finance Corporation Ltd (HDFC: rated 'CRISIL AAA/FAAA/Stable/CRISIL A1+') ownership. HDFC Credila is adequately capitalised and has maintained a cushion of >3% over the regulatory minimum capital ratio over the last five years. CRISIL Ratings believes that it will maintain a comfortable cushion going forward (see CRISIL publication 'CRISIL Criteria for Rating Hybrid Instruments Issued by NBFCs/HFCs' dated December 2016 for details on CRISIL's approach for rating such instruments).

The ratings continue to reflect strong expectation of managerial, financial, and operational support from the parent, Housing Development Finance Corporation Ltd (HDFC: rated 'CRISIL AAA/FAAA/Stable/CRISIL A1+'), experienced management with strong processes and systems, and an adequate resource profile. These strengths are partially offset by overall moderate scale of operations.

On April 4th, 2022, the Board of Directors of HDFC and HDFC Bank respectively approved a composite scheme of amalgamation ("Scheme") inter alia involving merger of HDFC with and into HDFC Bank subject to receipt of requisite approvals/ no objections including from Reserve Bank of India (RBI) and other statutory and regulatory authorities. On July 04, 2022, HDFC Bank has received a letter from the RBI whereby the RBI has accorded its 'no objection' for the Scheme, subject to certain conditions as mentioned therein. CRISIL Ratings will continue to monitor the progress on the announced amalgamation. Nevertheless, CRISIL Ratings believes that HDFC will continue to provide strong support to its subsidiaries, on an ongoing basis and in times of distress.

HDFC Credila's asset quality witnessed an inch up in overall delinquencies with gross stage 3 (GS3) assets increasing to 0.57% as on March 31, 2022 (0.60% as on March 31, 2021) from 0.12% as on March 31, 2020, largely on account of the Covid-19 restructuring. However, the same has improved to 0.35% as on September 30, 2022.

While a part of the increase in GS3 assets in March 2022 was attributed to the macro-environment related challenges, close to ~62% of the GS3 assets, as on March 31, 2022 (~53% as on September 30, 2022), were restructured assets under the RBI Resolution Framework 1.0 and 2.0 and have been conservatively classified as GS3 assets. Overall, under the RBI's Resolution Framework 1.0 and 2.0 for COVID-19-related Stress, the company has implemented restructuring on around 0.62% of its portfolio as on March 31, 2022 (0.33% as on September 30, 2022).

Analytical Approach

For arriving at the ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of HDFC Credila and has factored in the support expected from the parent, HDFC.

Key Rating Drivers & Detailed Description

Strengths:**Strong expectation of managerial, financial and operational support from the parent**

HDFC views education loans as a segment with high growth potential in the long term; HDFC Credila, India's first dedicated non-banking financial company (NBFC) offering education loans, is the vehicle to target this segment. Although HDFC Credila has an overall moderate scale of operations, the strong involvement of HDFC clearly reflects its confidence in the growth potential of the education loan business and plans to ramp-up HDFC Credila's operations commensurately. Currently, there are two directors on the company's board from HDFC; these directors, along with the rest of the board, take an active interest in the formulation of the company's business strategies. Moreover, HDFC Credila benefits from its association with HDFC and its established branch network and infrastructure in the sourcing of business.

HDFC has infused around Rs 300 crore in November 2022, prior to which it had infused Rs 250 crore in fiscal 2020, Rs 50 crore in fiscal 2019 and Rs 80 crore in fiscal 2018 as additional capital into HDFC Credila. Since December 12, 2019, the company became a wholly owned subsidiary of HDFC post-acquisition of balance shares from the original promoters.

Experienced management with strong processes and systems

With HDFC taking over full ownership of HDFC Credila, Mr Arijit Sanyal was appointed as the Managing Director and Chief Executive Officer and took over the reins from the erstwhile promoters, Mr Ajay Bohora and Mr. Anil Bohora. The company has an experienced management team with veterans from the banking and financial services industry. Moreover, it benefits from being the first education loans-focused NBFC in a segment that is predominantly dominated by banks. It has also built strong systems and processes over the past many years that help mitigate asset quality risks of this segment. The company has a large database of colleges and over 200,000 courses which it uses for taking decisions on loans. The company has developed credit scoring models for disbursing loans to borrowers of which around 34% are backed by collateral as on June 30, 2022 and all loans have a co-borrower. The company is likely to remain a strong player in the education loan industry.

Adequate resource profile

The strong parentage helps HDFC Credila access a large pool of investors and raise debt at competitive costs. As on September 30, 2022, the company had total borrowing worth Rs 10,695 crore (7,515 crore as on March 31, 2022) raised at a competitive borrowing cost. It has been able to gradually diversify its resource profile and reduced the dependence on bank borrowing. As on September 30, 2022, bank borrowing constituted 57.7% (54% as on March 31, 2022) of the total borrowing. The company has also been able to raise USD 100 million external commercial borrowing in the fiscal 2020. It is expected to increase the proportion of capital-market borrowing and continue to diversify the resource mix over the medium term depending on market conditions.

Adequate capitalisation

HDFC Credila had adequate capitalisation with a networth and a gearing of Rs 1,469 crore and 7.3 times as on September 30, 2022 (Rs 1,361 crore and 5.5 times, respectively, as on March 31, 2022, and Rs 1,144 crore and 4.6 times, respectively, as on March 31, 2021). Post capital raise of Rs 300 crore in November 2022, the gearing levels is expected to have come down below 6.5 times. Historically, HDFC Credila operated at relatively high gearing levels of 7.6 times as on March 31, 2019, and 8.3 times as on March 31, 2018. Nevertheless, supported by capital infusion aggregating to Rs 250 crore by HDFC in fiscal 2020, the gearing improved to 5.9 times as on March 31, 2020. The gearing further improved to 4.6 times as on March 31, 2021. This was on account muted loan book growth largely due to lower disbursements and higher prepayments in fiscal 2020 and fiscal 2021 due to the on and off lockdowns and restrictions on international travel during the Covid 19 pandemic. However, with pick-up in disbursements in FY22, the gearing increased to 5.5 times as on March 31, 2022.

While the leverage levels are expected to gradually inch-up with scale up in operations, CRISIL Ratings understands from the management that the company will maintain a steady-state gearing of 6.5 times. Further, adequate internal cash accrual (consistent with a return on equity of more than 14% over the past five fiscals) coupled with equity infusions as and when required from the parent, is expected to support capitalisation.

Weakness:**Moderate scale of operations with limited seasoning of the loan book**

Scale of operations is moderate, however, the business has seen significant growth in fiscal 2022 and first half of fiscal 2023. On account of lockdowns related to the pandemic, disbursements were impacted; also the book witnessed high prepayments in fiscal 2021 which led to a flat loan book of Rs 6,267 crore as on March 31, 2021. Nevertheless, disbursements had picked up in fiscal 2022 to Rs 4,309 crore (Rs 1,579 crore in fiscal 2021 and Rs 2,094 crore in fiscal 2020) – increasing the loan book to Rs 8,838 crore as on March 31, 2022. The company has also witnessed healthy disbursements of Rs 4,183 crore in first half of fiscal 2023, resulting in a loan book of Rs 12,168 crore as on September 30, 2022.

Gross stage 3 assets had a slight uptick to 0.57% (Rs 50 crore) as on March 31, 2022 from (0.60% {Rs 37 crore} as on March 31, 2021), from 0.12% (Rs 8 crore) as on March 31, 2020. However, it has improved to 0.35% (Rs 42.6 crore) as on September 30, 2022. Further, as on September 30, 2022, restructured accounts, has reduced to 0.33% (Rs 39.98 crore) from 0.62% (Rs 55.02 crore) as on March 31, 2022. Of restructured book, Rs 22.6 crore and Rs 31.4 crore were classified as gross stage 3 as on September 30, 2022, and March 31, 2022, respectively. Further, given high growth in recent years, a significant part of the loans disbursed are in the moratorium period and hence, the seasoning of the loan portfolio is limited at this stage. However, the overall gross stage 3 assets remain low and comfortable.

Nevertheless, the ability to successfully recover the loans across business cycles is yet to be tested for the newer markets like Canada and UK.

Liquidity: Superior

The company has adequate liquid assets (Rs 438 crore) and unutilized bank lines (Rs 500 crore) as on December 31, 2022, which is sufficient to cover upcoming debt repayments (including interest expense) for the next four months (Rs 884 crore of principal repayments by April 30, 2023). Liquidity position is further supported by the parentage of HDFC.

Outlook: Stable

HDFC Credila should continue to benefit from the strong financial, managerial, and operational support from HDFC and the experienced management.

Rating Sensitivity Factors

Downward factors

- Downward change in the credit risk profile of HDFC by 1 notch could lead to a similar rating change on HDFC Credila
- Any material change in the shareholding or support philosophy of HDFC impacting the quantum and timing of support.

About the Company

HDFC Credila was incorporated on February 1, 2006, promoted by Mr Anil Bohora and Mr Ajay Bohora. The company is registered as a non-deposit-taking NBFC with the Reserve Bank of India. It is in the business of originating, funding, and servicing educational loans. With HDFC buying out the promoters' stake in fiscal 2020, the company became a wholly owned subsidiary of HDFC since December 12, 2019. The company has been converted to a public limited company with effect from October 8, 2020.

HDFC Credila has eight own offices, and at other places does business through the branches of HDFC. The company 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.

The loan book (gross) was at Rs 12,168 crore as on September 30, 2022 (Rs 8,838 crore as on March 31, 2022). The networth was Rs 1,469 crore as on this date (Rs 1,361 crore as on March 31, 2022). Tier-1 and overall capital adequacy ratios were 11.4% and 17.2%, respectively, as on September 30, 2022 (14.8% and 18.9%, respectively, as on March 31, 2022). The Company has raised equity capital of Rs. 300 Cr. from HDFC Ltd. In November 2022 to strengthen its capital position.

For fiscal 2022, profit after tax (PAT) was Rs 206 crore on total income of Rs 824 crore, against a PAT of Rs 155 crore on total income of Rs 713 crore for the previous fiscal.

The company reported a PAT of Rs 118 crore on a total income of Rs 546 crore as for first half of fiscal 2023 as against Rs 94 crore and Rs 371 crore, respectively, for the corresponding period previous fiscal.

Key Financial Indicators

| As on/for the period ended | Unit | Sept-22 | Mar-2022 | Mar-2021 |
|--------------------------------------|-----------------|---------------|-------------|-------------|
| Total Assets | Rs crore | 12,484 | 9107 | 6603 |
| Total income | Rs crore | 546 | 824 | 713 |
| PAT | Rs crore | 118 | 206 | 155 |
| Gross stage 3 assets | % | 0.35 | 0.57 | 0.60 |
| Gearing | Times | 7.3 | 5.5 | 4.6 |
| Return on assets (annualised) | % | 2.2 | 2.6 | 2.3 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Cr) | Complexity level | Rating outstanding with Outlook |
|--------------|-----------------------------|-------------------|-----------------|---------------|--------------------|------------------|---------------------------------|
| NA | Non-convertible debentures* | NA | NA | NA | 2000 | Simple | CRISIL AAA/Stable |
| NA | Perpetual bonds* | NA | NA | NA | 200 | Highly complex | CRISIL AAA/Stable |
| INE539K07239 | Non-convertible debentures | 14-Oct-22 | 8.17% | 14-Oct-32 | 500 | Simple | CRISIL AAA/Stable |
| INE539K07247 | Non-convertible debentures | 24-Nov-22 | 7.95% | 24-Nov-32 | 150 | Simple | CRISIL AAA/Stable |

| | | | | | | | |
|--------------|----------------------------|------------|------------------|---------------|------|----------------|-------------------|
| INE539K08229 | Perpetual bonds | 30-Aug-22 | 8.36% | NA^ | 100 | Highly complex | CRISIL AAA/Stable |
| INE539K08211 | Subordinated debt | 25-Jul-22 | 8.25% | 23-Jul-32 | 175 | Complex | CRISIL AAA/Stable |
| INE539K08203 | Subordinated debt | 04-Jul-22 | 8.40% | 30-Jun-32 | 200 | Complex | CRISIL AAA/Stable |
| INE539K07221 | Non-convertible debentures | 07-Jul-22 | 8.15% | 07-Jul-32 | 300 | Simple | CRISIL AAA/Stable |
| INE539K07213 | Non-convertible debentures | 25-Feb-22 | 7.30% | 23-Feb-29 | 200 | Simple | CRISIL AAA/Stable |
| INE539K07205 | Non-convertible debentures | 01-Feb-22 | 7.50% | 30-Jan-32 | 200 | Simple | CRISIL AAA/Stable |
| INE539K07197 | Non-convertible debentures | 25-Nov-21 | 3M T-Bill Linked | 25-Nov-24 | 300 | Simple | CRISIL AAA/Stable |
| INE539K07189 | Non-convertible debentures | 02-Aug-21 | 7.23% | 01-Aug-31 | 250 | Simple | CRISIL AAA/Stable |
| INE539K07171 | Non-convertible debentures | 13-Nov-20 | 7.00% | 12-Nov-27 | 200 | Simple | CRISIL AAA/Stable |
| INE539K07163 | Non-convertible debentures | 24-Sep-20 | 5.99% | 02-Aug-23 | 200 | Simple | CRISIL AAA/Stable |
| INE539K07148 | Non-convertible debentures | 31-Jan-20 | 8.00% | 31-Jan-25 | 200 | Simple | CRISIL AAA/Stable |
| INE539K07114 | Non-convertible debentures | 17-June-19 | 8.62% | 17-June-24 | 100 | Simple | CRISIL AAA/Stable |
| INE539K07122 | Non-convertible debentures | 08-July-19 | 8.85% | 06-July-29 | 200 | Simple | CRISIL AAA/Stable |
| INE539K07130 | Non-convertible debentures | 01-Aug-19 | 8.70% | 01-Aug-29 | 200 | Simple | CRISIL AAA/Stable |
| INE539K08195 | Subordinated debt | 6-June-19 | 9.12% | 6-June-29 | 150 | Complex | CRISIL AAA/Stable |
| INE539K08146 | Subordinated debt | 9-Oct-15 | 9.30% | 9-Oct-25 | 100 | Complex | CRISIL AAA/Stable |
| INE539K08153 | Subordinated debt | 24-Jul-17 | 8.20% | 23-Jul-27 | 50 | Complex | CRISIL AAA/Stable |
| INE539K08161 | Subordinated debt | 16-Nov-17 | 8.10% | 16-Nov-27 | 50 | Complex | CRISIL AAA/Stable |
| NA | Commercial paper programme | NA | NA | 7 to 365 days | 1500 | Simple | CRISIL A1+ |

*Yet to be issued

^Not applicable as perpetual debt instrument

Annexure - Rating History for last 3 Years

| Instrument | Type | Current | | 2023 (History) | | 2022 | | 2021 | | 2020 | | Start of 2020 |
|----------------------------|------|--------------------|-------------------|----------------|----------|-------------------|----------|-------------------|----------|-------------------|-------------------|---------------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Commercial Paper | ST | 1500.0 | CRISIL A1+ | -- | 17-08-22 | CRISIL A1+ | 23-08-21 | CRISIL A1+ | 17-09-20 | CRISIL A1+ | CRISIL A1+ | |
| | | | -- | -- | 01-08-22 | CRISIL A1+ | 12-02-21 | CRISIL A1+ | 24-01-20 | CRISIL A1+ | -- | |
| | | | -- | -- | 19-07-22 | CRISIL A1+ | -- | -- | -- | -- | | |
| | | | -- | -- | 27-06-22 | CRISIL A1+ | -- | -- | -- | -- | | |
| | | | -- | -- | 18-02-22 | CRISIL A1+ | -- | -- | -- | -- | | |
| Non Convertible Debentures | LT | 5000.0 | CRISIL AAA/Stable | -- | 17-08-22 | CRISIL AAA/Stable | 23-08-21 | CRISIL AAA/Stable | 17-09-20 | CRISIL AAA/Stable | CRISIL AAA/Stable | |
| | | | -- | -- | 01-08-22 | CRISIL AAA/Stable | 12-02-21 | CRISIL AAA/Stable | 24-01-20 | CRISIL AAA/Stable | -- | |

| | | | | | | | | | | | |
|--------------------------|----|-------|----------------------|----|----------|----------------------|----------|----------------------|----------|----------------------|----------------------|
| | | | -- | -- | 19-07-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| | | | -- | -- | 27-06-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| | | | -- | -- | 18-02-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| Perpetual Bonds | LT | 300.0 | CRISIL AAA/Stable | -- | 17-08-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| | | | -- | -- | 01-08-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| Subordinated Debt | LT | 725.0 | CRISIL AAA/Stable | -- | 17-08-22 | CRISIL AAA/Stable | 23-08-21 | CRISIL AAA/Stable | 17-09-20 | CRISIL AAA/Stable | CRISIL AAA/Stable |
| | | | -- | -- | 01-08-22 | CRISIL AAA/Stable | 12-02-21 | CRISIL AAA/Stable | 24-01-20 | CRISIL AAA/Stable | -- |
| | | | -- | -- | 19-07-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| | | | -- | -- | 27-06-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |
| | | | -- | -- | 18-02-22 | CRISIL AAA/Stable | | -- | -- | -- | -- |

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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