

Ratings

CRISIL

An S&P Global Company

Rating Rationale

May 16, 2017 | Mumbai

HDFC Credila Financial Services Private Limited

Rating upgraded to 'CRISIL AAA/Stable'

Rating Action

Rs.200 Crore Non Convertible Debentures Issue	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')
Non Convertible Debentures Issues Aggregating Rs.300 Crore	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')
Non Convertible Debentures Issues Aggregating Rs.600 Crore	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')
Rs.100 Crore Subordinated Debt Issue	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Stable')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the debt instruments of HDFC Credila Financial Services Pvt Ltd (HDFC Credila; formerly Credila Financial Services Pvt Ltd) to '**CRISIL AAA/Stable**' from 'CRISIL AA+/Stable'.

The rating upgrade factors in change in HDFC Credila's name to incorporate the HDFC brand. The shared name enhances the moral obligation of Housing Development Finance Corporation Ltd (HDFC; rated 'CRISIL AAA/FAAA/Stable/CRISIL A1+') to support HDFC Credila. The ratings continue to reflect strong expectation of managerial, financial, and operational support from parent, HDFC, experienced management with strong processes and systems, and adequate resource profile. These rating strengths are partially offset by HDFC Credila's high gearing and overall small scale of operations.

Analytical Approach

For arriving at the ratings, CRISIL has considered the standalone business and financial risk profiles of HDFC Credila and notched up the ratings to those of its parent, HDFC.

Key Rating Drivers & Detailed Description

Strengths

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

HDFC views education loans as a segment with high growth potential in the long term; HDFC Credila, India's first non-banking financial company (NBFC) offering education loans, is its vehicle to target this segment. HDFC has also set up schools and skill upgradation centres. Although HDFC Credila has a small 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 three directors on HDFC Credila's board from HDFC; these directors, along with 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 business.

HDFC has infused around Rs 155 crore as additional capital into HDFC Credila in the past 5 years including Rs 55 crore infused in fiscal 2017. As on March 31, 2017, HDFC's shareholding in HDFC Credila was 81.12% (90.09% on a fully diluted basis).

* Experienced management with strong processes and systems

The promoters, Mr. Ajay Bohora and Mr. Anil Bohora have been in the education services industry for more than a decade and bring with them immense knowledge and expertise. They are supported by an experienced management team with veterans from the banking and financial services industry. Moreover, HDFC Credila benefits from being the first education loans focused NBFC in a segment which is predominantly dominated by banks (mainly PSBs). HDFC Credila has also built strong systems and processes that help mitigate asset quality risks of this segment. The company has a large database of colleges and courses which it uses for loan decisioning. The company has developed credit scoring models for disbursing loans to borrowers of which around 51% are backed by collateral and all loans have a co-borrower. CRISIL believes HDFC Credila will continue to remain a strong player in the education loan industry.

* Adequate resource profile

HDFC's parentage helps HDFC Credila access a large pool of investors, and raise debt at competitive costs. As on March 31, 2017, the company had sanctioned bank credit lines aggregating to Rs 2,225 crore with a weighted average cost of about 8.9%. The company has been able to gradually diversify its resource profile and reduced the dependence on bank borrowings. As on March 31, 2017, bank borrowings constituted 45% of the total borrowings as against 58% as on March 31, 2015. Non-

convertible debentures (NCDs) and commercial paper (CPs) constituted 37% and 9%, respectively, of the total borrowings as on March 31, 2017. The company is expected to further increase the proportion on capital-market borrowings and continue to diversify the resource mix over the medium term.

Weakness

* High gearing levels

Gearing of around 9.2 times as on March 31, 2017, was higher than the industry average, while networth was Rs 319 crore (including Rs 67 crore of compulsory convertible preference shares from HDFC). Tier-1 and overall capital adequacy ratios were 10.48% and 17.56%, respectively, as on March 31, 2017. Nevertheless, with profitability improving since fiscal 2013, and with adequate accrual to networth (25.2% for fiscal 2017), gearing should improve gradually over the medium term. Furthermore, capital profile is backed by expectation that HDFC will infuse capital as and when required.

* Overall small scale of operations with limited seasoning of loan book

Scale of operations is small, however the business has seen significant growth over the past few years. The three year compounded growth rate was 39% from fiscal 2014 to fiscal 2017 with the outstanding portfolio increasing to Rs 3194 crore as on March 31, 2017 (Rs 2403 crore as on March 31, 2016). Business volumes are expected to increase albeit at slower pace than in the past.

Gross non-performing assets (NPA) have remained low at 0.05% (based on 90 days NPA classification) as on March 31, 2017 [0.05% as on March 31, 2016). However, given high growth in recent years, a significant part of the loans disbursed by the company are in the moratorium period and hence, the seasoning of the loan portfolio is limited at this stage. The company's ability successfully recover its loans through business cycles is yet to be tested.

Outlook: Stable

CRISIL believes HDFC Credila will continue to benefit from the strong financial, managerial, and operational support from HDFC and the experienced management of the company. The outlook may be revised to 'Negative' if there is significant deterioration in HDFC's credit risk profile, change in the extent of the HDFC's ownership of HDFC Credila, or diminution in the expected support from HDFC.

About the Company

HDFC Credila, promoted by Mr. Anil Bohora and Mr. Ajay Bohora, was incorporated on February 1, 2006. It is registered as a non-deposit-taking NBFC with the Reserve Bank of India. HDFC Credila is in the business of originating, funding, and servicing educational loans. It is a subsidiary of HDFC. HDFC Credila has eight own offices and at other places, does business through the branches of HDFC. 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 centres, advertising, and direct marketing.

Profit after tax (PAT) and total income were Rs 65 crore and Rs 392 crore, respectively, in fiscal 2017, as against PAT of Rs 45 crore on total income of Rs 301 crore for the previous fiscal.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Rating Outstanding with Outlook
INE539K07064	Non-Convertible Debentures	27-Feb-17	8.00	27-Feb-22	200	CRISIL AAA/Stable
INE539K07015	Non-Convertible Debentures	7-Aug-15	8.99	7-Aug-17	200	CRISIL AAA/Stable
INE539K07023	Non-Convertible Debentures	26-Feb-16	9.00	26-Feb-19	200	CRISIL AAA/Stable
INE539K07031	Non-Convertible Debentures	28-Jun-16	9.00	28-Jun-19	200	CRISIL AAA/Stable
INE539K07056	Non-Convertible Debentures	27-Oct-16	8.25	25-Nov-21	300	CRISIL AAA/Stable
INE539K08146	Subordinated Debt	9-Oct-15	9.30	9-Oct-25	100	CRISIL AAA/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST		--		--		--	17-07-15	Withdrawal		No Rating	CRISIL

										Change	A1+	
Non Convertible Debentures	LT	1100	CRISIL AAA/Stable		No Rating Change		No Rating Change	17-07-15	CRISIL AA+/Stable		--	--
Subordinated Debt	LT	100	CRISIL AAA/Stable		No Rating Change		No Rating Change	07-10-15	CRISIL AA+/Stable		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria

[Rating Criteria for Finance Companies](#)

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

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Tanuja Abhinandan Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 tanuja.abhinandan@crisil.com</p> <p>Jyoti Parmar Media Relations CRISIL Limited D: +91 22 3342 1835 B: +91 22 3342 3000 jyoti.parmar@crisil.com</p>	<p>Krishnan Sitaraman Senior Director - CRISIL Ratings CRISIL Limited D: +91 22 3342 8070 krishnan.sitaraman@crisil.com</p> <p>Rama Patel Director - CRISIL Ratings CRISIL Limited D: 91 22 42541919 rama.patel@crisil.com</p> <p>Jitin Vohra Rating Analyst - CRISIL Ratings CRISIL Limited D: +91 22 3342 3894 Jitin.Vohra@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestor@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a global, agile and innovative analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 95,000 MSMEs have been rated by us.

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>

Last updated: April 2016

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <http://www.crisil.com/ratings/highlightedpolicy.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL