CRISIL Ratings

Rating Rationale

April 28, 2023 | Mumbai

HDFC Credila Financial Services Limited

Long-term rating placed on 'Watch Developing'; Shot-term rating reaffirmed

Rating Action

Rs.200 Crore Perpetual Bonds	**CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**
Rs.100 Crore Perpetual Bonds	**CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**
Rs.2000 Crore Non Convertible Debentures	**CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**
Rs.650 Crore Non Convertible Debentures	**CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**
Rs.1500 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**
Non Convertible Debentures Aggregating Rs.2350 Crore	**CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**
Subordinated Debt Aggregating Rs.725 Crore	**CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has placed its debt instruments rating '**CRISIL AAA**' of HDFC Credila Financial Services Limited (HDFC Credila) on '**Rating Watch with Developing Implications**'. The rating on Commercial Paper has been reaffirmed at 'CRISIL A1+'.

The rating action follows HDFC Bank's disclosure dated April 21, 2023, in connection with the composite scheme of amalgamation of Housing Development Finance Corporation Ltd (HDFC: rated 'CRISIL AAA/Stable/CRISIL A1+') with, and into HDFC Bank Limited (HDFC Bank: rated 'CRISIL AAA/Stable/CRISIL A1+') which was initially announced on April 4, 2022. In the said disclosure, the bank has stated, inter alia, that the Reserve Bank of India (RBI) has permitted HDFC Bank to continue holding HDFC Limited's stake in HDFC Credila Financial Services Limited, subject to the shareholding being brought down to 10% within two years from the effective date of the merger and not onboarding new customers.

Various options are being evaluated in order to comply with RBI's directive. One is to bring in a strategic investor/s to acquire majority holding. Second is to merge HDFC Credila with HDFC Bank, subject to regulatory approvals, once the amalgamation of HDFC with the bank is complete.

The current rating on the debt instruments of HDFC Credila factors in the expectation of strong support from the parent.

The 'Rating Watch with Developing Implications' factors in the uncertainty regarding the final outcome as this would have a bearing on the credit profile of HDFC Credila. The credit profile of the potential shareholder/s, the strategic importance of HDFC Credila in the new scheme, as well as the support stance would all be key monitorables.

Further, the restrictions on onboarding new customers would entail substantial business implications; however, CRISIL Ratings understands that the HDFC Bank has sought clarification from the regulator, in this regard.

In the interim, till the final decision is taken, CRISIL Ratings expects that support to HDFC Credila would continue, currently from HDFC Limited and subsequently, if needed, from HDFC Bank, through various means within the applicable regulations.

CRISIL Ratings will continue to closely monitor the developments in this regard and the watch will be resolved once greater clarity emerges on the said aspects.

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 HDFC's 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/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.

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 800 crore in fiscal 2023, 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.

However, in light of the latest RBI directive, developments pertaining to ownership and support stance by HDFC Limited or HDFC Bank (post amalgamation) along with implication on business and financial synergies will be monitored.

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 27% are secured loans as on March 31, 2023, 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 March 31, 2023, the company had total borrowing of Rs 13,655 crore raised at a competitive borrowing cost. It has been able to gradually diversify its resource profile and reduce the dependence on bank borrowing. As on March 31, 2023, bank borrowing constituted 65% (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 2,435 crore and 5.6 times as on March 31, 2023. (Rs 1,361 crore and 5.5 times, respectively, as on March 31, 2022). Capitalisation is supported by equity infusion of Rs 800 crore in fiscal 2023 by HDFC Limited through rights issue.

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 of 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. Further during fiscal 2023, in order to support growth, gearing had reached to 7.3 times as on September 30, 2022. However, HDFC Limited infused equity capital to bring back the gearing to adequate levels of 5.6 times as on March 31, 2023.

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 2023 and fiscal 2022. On account of lockdowns related to the pandemic, disbursements were impacted in fiscal 2021, however, disbursements had picked up in fiscal 2022 to Rs 4,309 crore and further to Rs 7,992 crore in fiscal 2023. As a result, the loan book grew to Rs 8,838 crore as on March 31, 2022, and further to Rs 15,298 crore as on March 31, 2023.

Gross stage 3 assets have improved to 0.17% (Rs 25.4 crore) as on March 31, 2023, from 0.57% (Rs 50.6 crore) as on March 31, 2022. Further, as on March 31, 2023, restructured accounts, have reduced to 0.08% (Rs 12.51 crore) from 0.62% (Rs 55.02 crore) as on March 31, 2022. Of restructured book, Rs 6.9 crore and Rs 31.4 crore were classified as gross stage 3 as on March 31, 2023, 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 The company has adequate liquid assets (Rs 1110 crore) and unutilised bank lines (Rs 1775 crore) as on March 31, 2023. The on-balance sheet liquidity of Rs 1110 crore is sufficient to meet upcoming debt repayments (including interest expense) for upto next five months (Rs 1192 crore by August 31, 2023). Liquidity position is further supported by the parentage of HDFC.

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 15,298 crore as on March 31, 2023 (Rs 8,838 crore as on March 31, 2022). The networth was Rs 2,435 crore as on this date (Rs 1,361 crore as on March 31, 2022). Tier-1 and overall capital adequacy ratios were 14.6% and 20.4%, respectively, as on March 31, 2023 (14.8% and 18.9%, respectively, as on March 31, 2022). The Company has raised equity capital of Rs. 800 Cr. from HDFC Ltd. in fiscal 2023 to strengthen its capital position.

For fiscal 2023, profit after tax (PAT) was Rs 276 crore on total income of Rs 1352 crore, against a PAT of Rs 206 crore on total income of Rs 824 crore for the previous fiscal.

Key Financial Indicators

As on/for the period ended		Mar-23	Mar-2022	Mar-2021
Total Assets	Rs crore	16,446	9,107	6,603
Total income	Rs crore	1352	824	713
PAT	Rs crore	276	206	155
Gross stage 3 assets	%	0.17	0.57	0.60
Gearing	Times	5.6	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.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. 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. Cr)	Complexity level	Rating outstanding with Outlook
NA	Commercial paper programme	NA	NA	7 to 365 days	1500	Simple	CRISIL A1+
INE539K07254	Non-convertible debentures	29-Mar-23	8.25%	29-Mar-28	300	Simple	CRISIL AAA/Watch Developing
INE539K07239	Non-convertible debentures	14-Oct-22	8.17%	14-Oct-32	500	Simple	CRISIL AAA/Watch Developing
INE539K07247	Non-convertible debentures	24-Nov-22	7.95%	24-Nov-32	150	Simple	CRISIL AAA/Watch Developing
INE539K07221	Non-convertible debentures	07-Jul-22	8.15%	07-Jul-32	300	Simple	CRISIL AAA/Watch Developing
INE539K07213	Non-convertible debentures	25-Feb-22	7.30%	23-Feb-29	200	Simple	CRISIL AAA/Watch Developing
INE539K07205	Non-convertible debentures	01-Feb-22	7.50%	30-Jan-32	200	Simple	CRISIL AAA/Watch Developing
INE539K07197	Non-convertible debentures	25-Nov-21	3M T-Bill Linked	25-Nov-24	300	Simple	CRISIL AAA/Watch Developing
INE539K07189	Non-convertible debentures	02-Aug-21	7.23%	01-Aug-31	250	Simple	CRISIL AAA/Watch Developing
INE539K07171	Non-convertible debentures	13-Nov-20	7.00%	12-Nov-27	200	Simple	CRISIL AAA/Watch Developing
INE539K07163	Non-convertible debentures	24-Sep-20	5.99%	02-Aug-23	200	Simple	CRISIL AAA/Watch Developing
INE539K07148	Non-convertible debentures	31-Jan-20	8.00%	31-Jan-25	200	Simple	CRISIL AAA/Watch Developing
INE539K07114	Non-convertible debentures	17-Jun-19	8.62%	17-Jun-24	100	Simple	CRISIL AAA/Watch Developing
INE539K07122	Non-convertible debentures	08-Jul-19	8.85%	06-Jul-29	200	Simple	CRISIL AAA/Watch Developing
INE539K07130	Non-convertible debentures	01-Aug-19	8.70%	01-Aug-29	200	Simple	CRISIL AAA/Watch Developing
NA	Non-convertible debentures*	NA	NA	NA	1700	Simple	CRISIL AAA/Watch Developing
INE539K08237	Perpetual bonds	31-Jan-23	8.15%	Perpetual^	200	Highly complex	CRISIL AAA/Watch Developing
INE539K08229	Perpetual bonds	30-Aug-22	8.36%	Perpetual^	100	Highly complex	CRISIL AAA/Watch Developing
INE539K08211	Subordinated debt	25-Jul-22	8.25%	23-Jul-32	175	Complex	CRISIL AAA/Watch Developing
INE539K08203	Subordinated debt	04-Jul-22	8.40%	30-Jun-32	200	Complex	CRISIL AAA/Watch Developing
INE539K08195	Subordinated debt	06-Jun-19	9.12%	06-Jun-29	150	Complex	CRISIL AAA/Watch Developing
INE539K08146	Subordinated debt	09-Oct-15	9.30%	09-Oct-25	100	Complex	CRISIL AAA/Watch Developing
INE539K08153	Subordinated debt	24-Jul-17	8.20%	23-Jul-27	50	Complex	CRISIL AAA/Watch Developing
INE539K08161	Subordinated debt	16-Nov-17	8.10%	16-Nov-27	50	Complex	CRISIL AAA/Watch Developing

**Yet to be issued*
^Not applicable as perpetual debt instrument

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

Commercial Paper	ST	1500.0	CRISIL A1+	20-01-23	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/Watch Developing	20-01-23	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/Watch Developing	20-01-23	CRISIL AAA/Stable	17-08-22	CRISIL AAA/Stable		--		--	--
			--		--	01-08-22	CRISIL AAA/Stable		--		--	--
Subordinated Debt	LT	725.0	CRISIL AAA/Watch Developing	20-01-23	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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