ICRA

July 17, 2017

HDFC Credila Financial Services Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Perpetual debt programme	150.00	[ICRA]AA+(stable); upgraded from [ICRA]AA(stable)
Short-term debt programme	800.00	[ICRA]A1+; reaffirmed
Total	950.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the rating for the Rs. 150 crore perpetual debt programme of HDFC Credila Financial Services Private Limited (HCFSPL) to [ICRA]AA+(stable) (pronounced ICRA double A plus stable) from [ICRA]AA(stable). ICRA also has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 800 crore commercial paper programme of HCFSPL.

Rationale

The revision in ratings factors in HCFSPL's healthy operational and performance in FY2017, with a 33% portfolio growth while maintaining good asset quality, as reflected by the gross NPAs of 0.05% as on March 31, 2017. The rating continues to factor in HCFSPL's ownership with HDFC Limited (HDFC, rated [ICRA]AAA(stable)), holding stake of ~90% on a fully diluted basis as on March 31, 2017 and the strong commitment of the parent to support HCFSPL's growth plans. ICRA also takes note of HCFSPL's rebranding in February 2017, with the change in name from 'Credila Financial Services Private Limited' to 'HDFC Credila Financial Services Private Limited'; the shared brand name and logo indicate a moral commitment from HDFC to support HCFSPL. The company continues to benefit from the operational and financial support from the parent in the form of shared branch network and manpower, and fund raising support.

The ratings positively factor in the company's strong domain knowledge and experienced core management team, its strong systems and prudent lending norms resulting in healthy asset quality, and improving profitability indicators. Nonetheless, these strengths are partially offset by the company's relatively unseasoned portfolio, its moderate scale of operations, and high pace of growth. ICRA also takes note of the risk perception associated with education loans given their long tenures and moratorium periods, and the high delinquencies faced by the Indian banking sector in this segment. ICRA however takes cognisance of the strong underwriting and risk mitigation processes followed by the company, its focus on the relatively premium segments (post-graduate courses abroad, with a majority in U.S.A) and the focus on collateral security (over 51% of the portfolio as on March 31, 2017). Going forward, continued support from the parent and the company's ability to expand its portfolio profitably while maintaining adequate capitalisation and asset quality will remain important from a credit perspective.

Key rating drivers

Credit strengths

- Strong financial and operational support from the parent (HDFC, rated [ICRA] AAA/Stable/[ICRA]A1+) including sharing of brand name and logo
- Good growth opportunities in the education loan segment; focus on relatively premium segment and collateral security, provides comfort
- Experienced management team with strong domain knowledge; good appraisal and selection criteria
- Good profitability indicators supported by healthy interest spreads and low operating expenses

Credit weaknesses

- Moderate scale and monoline nature of operations
- Relatively high pace of growth and low portfolio seasoning; 50 % of the portfolio as on March 31, 2017 under moratorium where repayment track record of the borrower is not yet established
- Exposure to relatively risky education loans given the longer tenures and high moratorium periods

Description of key rating drivers:

The ratings factor in HCFSPL's standing as a subsidiary of HDFC (rated [ICRA]AAA(stable)/[ICRA]A1+), and the strong capital and financial commitment of the parent to support HCFSPL's growth. The ratings also take into account the change in the entity's name from 'Credila Financial Services Private Limited' to 'HDFC Credila Financial Services Private Limited' and the shared brand name and logo with the parent, from February 2017. The ratings draw comfort from the operational and financial support from the parent in the form shared branch network and manpower (legal, distribution and collection teams) and fund raising support.

HCFSPL's portfolio stood at Rs. 3,194 crore as on March 31, 2017 registering a growth of 33%% during FY2017. The loans extended for courses in USA increased by 45% in FY2017 to account for 68% of the portfolio as on March 31, 2017. Post-graduate course loans continue to dominate the portfolio, accounting for 85% of the loan book as on March 31, 2017. HCFSPL's MIS systems are strong enabling it to track the sourcing, appraisal, verifications, disbursal and monitoring of clients spread over geographies. The company also has a large database of universities across the world which helps in risk assessment and appraisals. The company receives due diligence support from HDFC, for the collateralised portfolio.
Supported by sound lending policies and strong systems, HCFSPL reported comfortable asset quality indicators with gross NPAs of 0.05% and net NPAs of 0.02% as on March 31, 2017. ICRA however notes that the company's portfolio is relatively unseasoned with around 50% of the outstanding portfolio as on March 31, 2017, being under moratorium. Also, the macroeconomic and political environment in USA has a strong impact on the performance of HCFSPL's portfolio. Therefore, the company's ability to maintain asset quality going forward would be important from a credit perspective. A significant portion of HCFSPL's borrowings are in the form of long term bank lines, to match the long tenures of its assets, resulting in a comfortable funding profile. Supported by the strong parentage and an increased share of debt market instruments, the company's cost of funds reduced to 9.01% in FY2017 from 9.79% in FY2016.

The company reported a CRAR of 17.56% with a Tier I capital of 10.5% as on March 31, 2017 as compared with a CRAR of 17.72% with a Tier I capital of 8.86% as on March 31, 2016. ICRA notes that HDFC infused equity of Rs. 55 crore in FY2017 to meet the statutory requirement of Tier I capital. Continued support from the parent and the company's ability expand its portfolio profitably while maintaining adequate capitalisation and asset quality will remain the key rating sensitivities.

The company's average lending yields stood at 12.61% in FY2017 (13.32% in FY2016), which coupled with the lower cost of funds resulted in an increase in net interest margins (NIMs) from to 4.39% in FY2017 from 4.32% in FY2016. The company's operating expenses moderated over the last 5 years to 1.73% in FY2017 (1.91% in FY2016) on account of an increasing scale of operations. Supported by the increasing operating efficiencies and low credit costs, the company reported a return of equity (RoE) of 25% in FY2017. ICRA expects the company to report RoEs of 23-24% going forward, provided it is able to contain its credit costs.

Key financial ratios:

	FY2017	**FY2016**
Total income	391.81	300.55
Profit after tax	65.47	45.06
Net worth	319.26	199.68
Total managed portfolio	3,194	2,403
Total managed assets	3,314.00	2,465.00
Return on managed assets	2.2%	2.1%
Return on equity	25%	25%
Gearing	9.4 times	11.36 times
Gross NPAs	0.05%	0.05%
Net NPAs	0.02%	0.03%
Capital Adequacy Ratio	17.56%	17.72%

Amounts in Rs. crore
Source: HCFSPL; ICRA research

Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Link to applicable criteria:
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company
HDFC Credila Financial Services Private Limited (HCFSPL) was founded by Mr Ajay Bohora & Mr Anil Bohora as a joint venture with DSP Meryll Lynch in 2006. The company received an NBFC licence in 2007. HCFSPL was the first financial services company established as a specialised institution for originating, holding and servicing education loans. In 2009, HDFC Limited (HDFC) acquired DSP Merryll Lynch's stake, and infused further equity to increase its stake to 81.12%. Following a regular infusion of preference capital subsequently, HDFC's stake in HCFSPL stood at ~90% on a fully diluted basis as of March 31, 2017; HCFSPL is a key subsidiary of HDFC. The company leverages HDFC's brand name and infrastructure in the form of shared branch network and manpower.

In FY2017, the company reported a PAT of Rs. 65.47 crore on an income of Rs. 391.81 crore as compared with a PAT of Rs.45.06 crore on an income of Rs. 300.55 crore in FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history:

Table:

Sr. No.	Instrument	Current rating (FY2018)			Chronology of rating history		
					FY2017	FY2016	
		Type	Rated amount (Rs. crore)	July 2017	June 2016	January 2016	May 2015
1	Perpetual debt programme	Long Term	150.00	[ICRA]AA+ (stable)	[ICRA]AA (stable); reaffirmed	[ICRA]AA (stable); reaffirmed	[ICRA]AA (stable); assigned
2	Commercial paper programme	Short Term	800.00	[ICRA]A1+;	[ICRA]A1+; enhanced from Rs. 600 crore	[ICRA]A1+; enhanced from Rs. 500 crore	[ICRA]A1+; reaffirmed

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Perpetual Debt Programme	09/07/2014	11.75%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
Perpetual Debt Programme	27/01/2015	10.50%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
Perpetual Debt Programme	17/06/2015	10.50%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
Commercial Paper Programme	-	-	7-365 days	800.00	[ICRA]A1+
				950.00	

Source: HCFSPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

ICRA

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