

Date: August 02, 2022

The Manager,  
BSE Limited  
Phiroze Jeejeebhoy Tower,  
Dalal Street,  
Mumbai – 400001

Dear Sir,

**Subject: Intimation under Regulation 51(1) & 51 (2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Dear Sir / Madam:

In terms of Regulation 51(1) & 51 (2) read with Part B of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that CRISIL Ratings Limited has assigned rating of CRISIL AAA/Stable for Rs. 100 Crore Perpetual Debt Instruments to be issued by the Company.

Please find attached the rating rationale.

This is for your information and appropriate dissemination.

Yours faithfully,

**For HDFC Credila Financial Services Limited**  
(Formerly known as HDFC Credila Financial Services Private Limited)



**Akanksha Kandoi**  
Company Secretary & Compliance Officer

**HDFC CREDILA FINANCIAL SERVICES LIMITED**

(Formerly known as HDFC Credila Financial Services Private Limited)

Corporate Identity Number: U67190MH2006PLC159411

 **Regd. Office:** B-301, Citi Point, Andheri-Kurla Road, Next To Kohinoor Continental, Andheri (East), Mumbai 400 059, India



**Tel:** +91-22-28266636



**Email:** loan@hdfccredila.com

## Rating Rationale

August 01, 2022 | Mumbai

## HDFC Credila Financial Services Limited

'CRISIL AAA / Stable' assigned to Perpetual Bonds

## Rating Action

Rs.100 Crore Perpetual Bonds	CRISIL AAA/Stable (Assigned)
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)

1 crore = 10 million

Refer to Annexure for Details of Instruments &amp; Bank Facilities

**Detailed Rationale**

CRISIL Ratings has assigned its '**CRISIL AAA/Stable**' rating to the Rs 100 crore perpetual bonds of HDFC Credila Financial Services Ltd (HDFC Credila) and has reaffirmed its ratings on the existing debt instruments at '**CRISIL AAA/Stable/CRISIL A1+**'.

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.

During the first wave of the pandemic the company had provided moratorium to its customers and collections declined during the initial months but improved thereafter. Intermittent lockdowns and localised restrictions amid the second wave of the pandemic had again impacted collections. While the same has improved subsequently, any change in the payment discipline of borrowers or subsequent waves may affect delinquency levels. HDFC Credila did witness an inch up in overall delinquencies. Its gross stage 3 (GS3) assets increased to 0.57% as on March 31, 2022 (0.60% as on March 31, 2021) from 0.12% as on March 31, 2020. However, the same has improved to 0.50% as on June 30, 2022.

While a part of the increase in GS3 assets was attributed to the macro-environment related challenges, close to ~62% of the GS3 assets, as on March 31, 2022 (~60% as on June 30, 2022), are 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 (0.52% as on June 30, 2022). On account of pandemic and its impact on the economy, HDFC Credila's ability to manage collections and asset quality will remain a monitorable.

**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 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 June 30, 2022, the company had total borrowing worth Rs 8,146 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 June 30, 2022, bank borrowing constituted 57% (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 1409 crore and 5.8 times as on June 30, 2022 (Rs 1361 crore and 5.5 times, respectively, as on March 31, 2022 and Rs 1144 crore and 4.6 times, respectively, as on March 31, 2021). Historically, HDFC Credila has operated at a relatively high gearing levels. Its gearing was 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. On account of lower disbursements and higher prepayments, loan book growth has remained muted in fiscal 2020 and fiscal 2021 due to the on and off lockdowns and restrictions on international travel during the ongoing Covid 19 pandemic, resulting in gearing further improving to 4.6 times as on March 31, 2021. 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.

### **Weaknesses**

#### **Moderate scale of operations with limited seasoning of the loan book**

Scale of operations is moderate, however, the business has seen significant growth over the past few years. The five-year compound annual growth rate of loan book was 22% during fiscals 2017 to 2022. However, on account of lockdowns related to the pandemic, disbursements have been impacted in fiscal 2021. Lower disbursements and high prepayments led to a flat loan book in fiscal 2021 at Rs 6267 crore as on March 31, 2021. Nevertheless, disbursements have picked up in fiscal 2022 to Rs 4309 crore (Rs 1579 crore in fiscal 2021 and Rs 2094 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 1055 crore in the quarter ended June 30, 2022, resulting in a loan book of Rs 9462 crore as on June 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 0.50% (Rs 47 crore) as on June 30, 2022. Further, as on June 30, 2022, restructured accounts, as on June 30, 2022, has improved to 0.52% (Rs 49 crore) from 0.62% (Rs 55 crore) as on March 31, 2022 out of which accounts worth Rs 28 crore are classified as gross stage 3. 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.

### **Liquidity : Superior**

The company has adequate liquid assets (Rs 440 crore) and unutilized bank lines (Rs 845 crore) as on July 26, 2022 which is sufficient to cover upcoming debt repayments (including interest expense) for the next six months (Rs 890 crore of principal repayments by December 31, 2022). 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.