HDFC Credila Financial Services Limited

August 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Perpetual debt	100.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Perpetual debt	275.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Revised from CARE AA+; Stable (Double A Plus; Outlook: Stable)
Subordinate debt	475.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debentures	2100.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**2,950.00 (₹ Two thousand nine hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the various debt instruments of HDFC Credila Financial Services Limited (HDFC Credila) derive strength from its strong parentage of the Housing Development Finance Corporation Limited (HDFC; rated 'CARE AAA; Stable/CARE A1+'), benefits derived from it being part of the HDFC group, including the common brand name, managerial and operational support, HDFC Credila's experienced management team, the relatively stable profitability, the strong asset quality supported by prudent credit underwriting norms, and a strong liquidity profile. The revision in the rating of the perpetual debt instruments is due to the change in CARE Ratings Limited's (CARE Ratings') policy on rating perpetual debt instruments of non-banking financial companies (NBFCs). The rating strengths are, however, partially offset by the exposure to a single asset class and the moderate gearing levels.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:
Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of the parent's credit profile and/or any major dilution in the shareholding.
- Material deterioration in the asset quality on a sustained basis.
- Increase in the gearing level beyond 8x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and benefits derived from being part of the HDFC group: HDFC Credila is a wholly-owned subsidiary of HDFC, a leading housing finance company in India. HDFC shares its brand name with the subsidiary and the company is an integral part of the group's business, providing diversification in the form of education loans. Consequently, the propensity of the parent to provide support remains high. The strong involvement of the parent company is exhibited in the resultant management oversight – HDFC Credila's board is chaired by the Executive Director of HDFC (VS Rangan) along with key personnel from HDFC, namely, Madhumita Ganguli. The Managing Director and Chief Executive Officer (CEO), Arijit Sanyal, was appointed by HDFC in December 2019. The company also benefits from HDFC's widespread branch network, which supports HDFC Credila's lending operations. HDFC Credila has been receiving capital support from the parent, as reflected over the years. HDFC has infused ₹380 crore in HDFC Credila over the past five years, with the last infusion being in March 2020 of ₹200 crore. CARE Ratings expects HDFC to support the capital requirements of HDFC Credila in case needed.

Experienced management team along with robust systems and credit underwriting processes: The company benefits from the experience of its senior management team. The CEO, Arijit Sanyal, was earlier the head of Strategic Planning & New Initiatives for HDFC. He is supported by an experienced management team of the CFO, CTO, CRO, NCM, and National Business Head, the veterans of the banking and financial services industry. The management is focused on building strong systems and processes that help mitigate asset quality and other operational risks of this segment. Also, HDFC Credila has established systems and risk controls in place, which support its underwriting standards. Going forward, the company is expected to further ramp up its information technology (IT) systems, CRM, and LMS, and digitise many of its underwriting systems along with its continuous monitoring of its portfolio in terms of risk.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong asset quality, albeit loan portfolio has moderate seasoning: The company's Gross Stage-III assets continue to remain low, at 0.57% (includes assets restructured under the RBI Resolution Framework for COVID-19-related stress) as on March 31, 2022 (March 31, 2021: 0.60%). As on March 31, 2022, the total restructuring stood at ₹55.02 crore, wherein, ₹31.36 crore was included in Gross Stage-III, whereas Net Stage-III assets stood at 0.38% as on March 31, 2022. The current collection efficiency has improved from 97.5% (the lowest witnessed in the month of April 2021 during the second wave of COVID-19) and stood at around 99.5% from the month of September 2021 and witnesses higher proportion of prepayments, which are structural to the company's business. The increase in disbursements in FY22 (refers to the period April 1 to March 31) to ₹4,309 crore led to a significant loan book growth, with assets under management (AUM) outstanding at ₹8,838 crore ason March 31, 2022. The growth has occurred majorly in the past seven years and only a moderate proportion of loan has been fully repaid due to the inherent nature of education loans; HDFC Credila's loan book remains moderately seasoned in nature. Notably, the company structures repayment of loans extended to its borrowers in a way such that at least a part or full interest is scheduled to be paid during the study period also, mainly for continuous monitoring. The gestation period of two years for graduation exposes its ultimate borrowers to changes in the job market, unemployment rate, and economic cycles, which is likely to have bearing on the asset quality. However, the relatively higher prepayment rates witnessed by the company (18% to 24% in the past) adds comfort. It is to be noted that the prepayment rate is considering the total loan book and not based on the loans under repayment where equated monthly installment (EMI) is due.

Profitability parameters: During FY22, the yields on advances witnessed decline, as the company passed on reduction in the cost of funds to its borrowers. Despite reduction in yields, the net interest margin (NIM) witnessed improvement in FY22 to 4.75% as against 4.16% in FY21. With stable opex and credit cost, the return on total assets (ROTA) improved to 2.63% in FY22 as against 2.28% in FY21.

Diversified resource profile: The parentage of HDFC strengthens the resource profile of HDFC Credila. As on March 31, 2022, the company's borrowings stood at ₹7,515 crore. Major borrowing comes from term loans (54%), followed by non-convertible debentures (NCDs) (27%), external commercial borrowings (ECBs) (10%), Tier-I and Tier-II capital instruments (8%), and commercial papers (CPs) (1%). In FY22, the company was able to bring down the cost of funds by renegotiating its loans and linking them to external benchmarks, leading to faster transmission of changes in the interest rates in trend with the industry. The company's resource raising ability from diversified sources at a competitive rate, adequately supported by its linkage to the parent, provides more comfort.

Key rating weaknesses

Exposure to a single asset class: HDFC Credila provides education loans, which exposes it to the product concentration risk, as any fall in the demand for educational loans or increase in the competition from other players may severely impact the operations and profitability of the company. The distribution of the loan portfolio across India was evenly spread out, with no cities forming above 20%, with the major share from the cities of Hyderabad (16%), Mumbai (15%), Delhi-NCR (14%), Pune (13%), and others as on FY22. Going forward, CARE Ratings expects the company to diversify its lending within the education loan segment.

Moderate gearing levels: Due to the high loan book growth during FY22, the overall gearing stood at 5.60x as on March 31, 2022, as compared with 4.68x as on March 31, 2021. Similarly, the company's total capital adequacy ratio (CAR) and Tier-I CAR decreased to 18.93% and 14.84%, respectively, as on March 31, 2022, as compared with 24.02% and 17.67%, respectively, as on March 31, 2021. Owing to the parent-subsidiary linkage, the company enjoys good capital raising ability and financial flexibility, which is expected to support its capital levels and fund future business expansions, going forward.

Liquidity: Strong

The company has a well-matched asset-liability maturity (ALM) up to one year, considering the prepayment rates at historical levels. As on June 13, 2022, the company had cash and bank balances and liquid investments of ₹221 crore along with unutilised bank lines of ₹1,005 crore as against the debt obligation of ₹735 crore for the next six months up to November 2022 based on actual maturities (including interest). CARE Ratings expects the liquidity profile to be adequately supported by the parentage of HDFC, which will help plug any future liquidity mismatches if required.

Analytical approach

CARE Ratings has analysed the standalone credit profile of HDFC Credila along with the strong linkages with its parent, HDFC, in the form of ownership, management, and financial support.

Applicable criteria

Policy on Default Recognition
Factoring linkages parent sub JV group
Financial ratios – Financial sector
Rating outlook and credit watch
Non-banking financial companies

About the company

HDFC Credila (formerly known as HDFC Credila Financial Services Private Limited), a Reserve Bank of India (RBI)-registered NBFC engaged in education loans, was established in February 2006. The company provides education loans to Indian students to pursue higher education in India and abroad. HDFC Credila is registered as a non-deposit-taking non-banking financial institution (NBFI-ND) with the RBI. The company is classified as a Systemically Important Non-Deposit taking Non-Banking Financial Institution (NBFC-ND-SI) as per the RBI regulations. Ajay Bohora was the co-founder and CEO, along with Anil Bohora as the founder and COO of HDFC Credila. Until FY19, Anil Bohora and Ajay Bohora held an 8.31% stake each in the company and HDFC Ltd held an 83.38% stake. On December 12, 2019, HDFC Ltd bought the balance stakes from the company's other shareholders, Ajay Bohora and Anil Bohora, making it a wholly-owned subsidiary of HDFC. Arijit Sanyal has been appointed as the MD and CEO of the company. The company has been converted to a public limited company with effect from October 8, 2020. HDFC Credila provides education loans pan-India through its network at eight major locations, ie, Mumbai, Hyderabad, Pune, Kolkata, Ahmedabad, Chennai, Bengaluru, and Delhi. The company has its registered office in Mumbai along with a back-end office in Nashik, which carries out tele-calling and other operational work. It has a total of 21 branches (including small branches) as on March 31, 2022, for business sourcing. The company also uses various channels for sourcing and marketing, which include the Internet, the branch network of HDFC, and a few private sector banks, partnering with colleges, education consultants, and test preparation centres, advertising, and direct marketing.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov)
TOI	713	824	243
PAT	155	206	60
PPOP	217	294	80
Total assets	6,603	9,087	NA
Net stage-III assets (%)	0.40	0.38	0.33
ROTA (%)	2.28	2.63	NA

A: Audited; Prov: Provisional; NA: Not available.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Perpetual debt	INE539K08112	09-Jul-14	11.75%	09-Jul-24	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08120	27-Jan-15	10.50%	27-Jan-25	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08138	17-Jun-15	10.50%	17-Jun-25	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08179	08-Dec-17	8.75%	08-Dec-27	50.00	CARE AAA; Stable
Debt-Perpetual debt	INE539K08187	06-Jun-18	9.35%	06-Jun-28	75.00	CARE AAA; Stable
Debt-Subordinate debt	INE539K08146	09-Oct-15	9.30%	09-Oct-25	100.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07064	27-Feb-17	8.00%	25-Feb-22*	200.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07189	02-Aug-21	7.23%	01-Aug-31	250.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07197	25-Nov-21	5.13%	25-Nov-24	300.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07205	01-Feb-22	7.50%	30-Jan-32	200.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE539K07213	25-Feb-22	7.30%	23-Feb-29	200.00	CARE AAA; Stable
Debentures-Non-convertible debentures (Proposed)	INE539K07221	07-Jul-22	8.15%	07-Jul-32	300.00	CARE AAA; Stable
Debt-Subordinate debt	INE539K08203	04-Jul-22	8.40%	30-Jun-32	200.00	CARE AAA; Stable
Debt-Subordinate debt	INE539K08211	25-Jul-22	8.25%	23-Jul-32	175.00	CARE AAA; Stable
Debentures-Non-convertible debentures (Proposed)	Proposed	-	-	-	650.00	CARE AAA; Stable
Debt-Perpetual debt	Proposed	-	-	-	100.00	CARE AAA; Stable

*The company has redeemed the instrument.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Issuer rating-Issuer ratings	Issuer rat	-	-	-	-	-	1)Withdrawn (06-Jan-20)
2.	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AA+; Stable (19-Aug-22) 2)CARE AA+; Stable (20-Jul-22) 3)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
3.	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AA+; Stable (19-Aug-22) 2)CARE AA+; Stable (20-Jul-22) 3)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
4.	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AA+; Stable (19-Aug-22) 2)CARE AA+; Stable (20-Jul-22) 3)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
5.	Debt-Subordinate debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22) 2)CARE AAA; Stable (20-Jul-22) 3)CARE AAA; Stable (29-Jun-22)	1)CARE AAA; Stable (24-Nov-21)	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)
6.	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (14-Jan-22) 2)CARE AAA; Stable (24-Nov-21)	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)

7.	Debentures-Non-convertible debentures	LT	200.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22) 2)CARE AAA; Stable (20-Jul-22) 3)CARE AAA; Stable (29-Jun-22)	1)CARE AAA; Stable (24-Nov-21)	1)CARE AAA; Stable (25-Nov-20)	1)CARE AAA; Stable (06-Jan-20)
8.	Debt-Perpetual debt	LT	50.00	CARE AAA; Stable	1)CARE AA+; Stable (19-Aug-22) 2)CARE AA+; Stable (20-Jul-22) 3)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
9.	Debt-Perpetual debt	LT	75.00	CARE AAA; Stable	1)CARE AA+; Stable (19-Aug-22) 2)CARE AA+; Stable (20-Jul-22) 3)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Stable (24-Nov-21)	1)CARE AA+; Stable (25-Nov-20)	1)CARE AA+; Stable (06-Jan-20)
10.	Debentures-Non-convertible debentures	LT	250.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22) 2)CARE AAA; Stable (20-Jul-22) 3)CARE AAA; Stable (29-Jun-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (16-Jul-21)	-	-
11.	Debentures-Non-convertible debentures	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22) 2)CARE AAA; Stable (20-Jul-22) 3)CARE AAA; Stable (29-Jun-22)	1)CARE AAA; Stable (24-Nov-21) 2)CARE AAA; Stable (25-Aug-21)	-	-
12.	Debentures-Non-convertible debentures	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22)	1)CARE AAA; Stable (22-Feb-22)	-	-

					2)CARE AAA; Stable (20-Jul-22) 3)CARE AAA; Stable (29-Jun-22)			
13.	Debt-Subordinate debt	LT	200.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22) 2)CARE AAA; Stable (20-Jul-22) 3)CARE AAA; Stable (29-Jun-22)	-	-	-
14.	Debt-Subordinate debt	LT	175.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22) 2)CARE AAA; Stable (20-Jul-22)	-	-	-
15.	Debt-Perpetual debt	LT	100.00	CARE AAA; Stable				
16.	Debentures-Non-convertible debentures	LT	650.00	CARE AAA; Stable	1)CARE AAA; Stable (19-Aug-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities
Not applicable. No major financial/non-financial covenants stipulated.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Simple
2.	Debt-Perpetual debt	Highly complex
3.	Debt-Subordinate debt	Complex

Annexure-5: Bank lender details for this company
Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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