S&P Global Ratings

Second Party Opinion

Credila Financial Services Ltd. Social Financing Framework

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Location: India	**Sector:** Non-banking financial institutions

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Strengths

Credila's social investment in higher education loans aligns with the Indian government's National Education Policy 2020. This policy aims to increase the country's gross enrollment ratio (GER) in higher education to 50% by 2035.

Weaknesses

The social impact indictor Credila will disclose is mainly output rather than outcome. The company will report on the number of economically weaker section (EWS) families supported by the loans. This limits insights into the effectiveness and impact of the social projects. However, such a choice of indicators is not unusual for social instruments due to the complexity of measuring their impact.

Areas to watch

Credila's social projects focus on accessibility over affordability. The company offers collateral-free education loans of up to Indian rupee (INR) 7.5 million (US$89,300). It meets up to 100% of its borrowers' funding needs but does not offer preferential interest rates to the target population. The target population covers 18% of India's general population, which is roughly 350 million people.

Lending practices are coming under increasing regulatory and public scrutiny in India. Widespread concern about unfair practices and concerns on over-indebtedness could increase reputational and regulatory risk for Credila.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Credila Financial Services Ltd. was incorporated in 2006 and is based in Mumbai, India. It is a nondeposit taking nonbanking financial institution (NBFI-ND) registered with the country's central bank, the Reserve Bank of India (RBI). The company originates, funds, and services education loans. Since its inception, Credila has funded over 178,000 Indian students pursuing higher education and taking more than 3,300 course at more than 4,600 institutions. As of March 31, 2024, its education portfolio consists of secured (21%) and unsecured loans (79%). As of March 31, 2024, the loan book was at INR280.8 billion (US$3.4 billion), and the company had INR26.2 billion (US$0.3 billion) in interest income for the fiscal year.

In March 2024, private equity firms Baring Private Equity Asia (now EQT) and ChrysCapital acquired 72.01% and 18.00% stakes in Credila, with Bank keeping the remaining 9.99%.

Material Sustainability Factors

Access and Affordability

NBFIs provide individuals and businesses with access to alternative financing options. While banks may offer financial services as a package deal, NBFIs usually unbundle these services, tailoring specific-purpose offerings for particular groups. However, challenges such as asymmetric information and limited financial literacy can result in high expenses for borrowers. Technology advances should help NBFI lenders improve their cost efficiencies and provide innovative product solutions. In India, formal credit use is low. According to the National Multidimensional Poverty Index, India had a 19% poverty rate in rural areas--and of 5% in urban areas--in 2019-2021. In India, income inequality is high, with a Gini coefficient of 0.34, while the global Gini coefficient was 0.67, according to the World Bank and World Inequality Report. A Gini coefficient of 0 equals perfect equality, with 1 equal to perfect inequality.

Impact on communities

NBFIs can address a wide range of community issues by providing economically vulnerable groups with access to financing. This may help alleviate income inequality and foster upward social mobility. The realization of these objectives hinges on the responsible lending practices of NBFIs. These include transparent contractual terms, financial education programs, and support for borrowers encountering unexpected financial hardship. By contrast, obscure loan terms or predatory lending practices can exacerbate existing socioeconomic disadvantages. By actively addressing such concerns, NBFIs can access new markets, achieve better financial performance, attract top talent, and mitigate reputational and regulatory risk. For instance, the Department of Higher Education has schemes in the form of scholarships, interest loan subsidies, and credit guarantees to help economically weaker students afford higher education.

Responsible labeling and marketing

While the financial services sector depends on customer satisfaction and loyalty, opaque pricing and misleading sales have undermined customer trust in some NBFIs. Regulators are closely watching certain subsectors such as subprime lending, student loans, and residential mortgage origination/servicing. But the regulation and supervision of this industry remains lighter than that applying to banks. That can result in aggressive underwriting or collection practices, or in opaque pricing. Furthermore, investors, regulators, and the broader community are subjecting NBFIs' sustainable products to particular scrutiny. There is skepticism about sustainability claims, based on the possibility that such statements may make the products and services appear more proactive on the issues than they are. Such ethical challenges, if not properly managed with responsible marketing practices and customer engagement considerations, could pose material social risks to issuers. Regulation and consumer protection mechanisms have evolved over the past decade and should continue to help limit these risks in the financial services sector. In India, the RBI has issued the Fair Practices Code to guide microfinance institutions on responsible lending.

Issuer And Context Analysis

The framework's single eligible category aims to provide access to education, an essential service that is a core sustainability factor for the company owing to its specialized business model. Loans help the target populations identified by the company cover the cost of higher education. The World Bank found that over 40% of the population of India remains under the lower middle-income poverty line of US$3.65 per person per day. According to the 2021 Global Findex Database, 45% of India's adults have borrowings, but only a third of these are from formal sources. This suggests NBFIs have a role to play in enabling financial inclusion, notably when it comes to funding education. Credila provides collateral free education loans up to INR7.5 million (US$89,300) with a repayment tenure of up to 15 years. It is committed to providing access to its products to a broad customer base and is guided by its Fair Practice Code. In contrast, informal money lenders, who are not regulated by the RBI, often charge higher interest rates and may resort to coercive practices for loans collection.

Credila focuses on empowering underserved social groups through access to higher education. Providing higher education loans aligns with the Indian government's National Education Policy 2020, which aims to increase the country's GER in higher education to 50% by 2035. As per the All India Survey on Higher Education (AISHE) 2021-2022 released by the Ministry of Education in 2024, India's GER was at 28.4%, which is lower than the world average of 42%, according to UNESCO.

There was a 68% increase in Indian students going abroad for higher education over the past years and their number could reach 1.8 million students spending over US$85 million in 2024. Credila may lower the financial barriers associated with the rising costs of education and bring more underserved people into formal financing channels.

Credila's policies should ensure responsible marketing and labelling practices. The company's Corporate Governance Code and Fair Practices Code are available on its website. The loan application form includes detailed information and provides written sanction letters, including terms and conditions. There is a grievance redressal mechanism and a publicly accessible customer support service helpline. The number of customer inquiries increased by 64% in fiscal 2023 from a year earlier. Credila confirmed it has investigated complaints related to customer experiences and provided trainings to employees as part of its remedial measures.

To ensure customers have the capacity to repay and avoid getting into too much debt, Credila's credit policy has underwriting norms that include checks of qualitative and quantitative information to determine the borrower's creditworthiness. The company's Fair Practices Code also identifies recovery of loan methods that avoid coercion.

Credila is in process of formulating an ESG framework and strategy. The company currently has a Corporate Social Responsibility (CSR) policy, as well as an action plan in place focusing on areas such as education, healthcare, female child empowerment, and water and sanitation. To strengthen and align its sustainability initiatives with new stakeholder requirements, the company has engaged an ESG consultant to work on materiality assessments and peer benchmarking. This could help Credila to identify and prioritize key ESG issues relevant to its business and meet new investors' expectations in near future.

Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond Principles and Social Loan Principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

The framework's access to essential service category presents clear social benefits, and Credila commits to allocating the net proceeds issued under the framework or an amount equivalent to the net proceeds exclusively to eligible social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds. The framework has indicated a look-back period of one year and half for refinanced projects after issuance. This is shorter than market practice of three years. Credila will disclose the proportion of proceeds used for financing versus refinancing in its annual allocation reporting.

✓ Process for project evaluation and selection

Credila has established an Asset-Liability Management Committee (ALCO) to select and evaluate the social projects. The ALCO is chaired by the Chief Executive Officer and consists of the company's Chief Risk Officer, Chief Financial Officer, National Credit Manager, and the finance team. The ALCO will meet at least twice a year to screen and validate the eligible projects based on the criteria in the framework. Credila has a risk management system to monitor eligible project-related environmental and social risks. It has internal policies and processes such as a Fair Practices Code, Code of Conduct, and grievance redressal mechanism to mitigate risks of the borrowers. Furthermore, the company will educate potential customers about the characteristics of its products, including on financial obligations.

✓ Management of proceeds

Credila will manage an asset register to track and monitor the balance of net proceeds annually. The company commits to replacing projects that cease to be eligible within six months. Unallocated proceeds will be invested in cash or cash equivalent instruments according to Credila's liquidity management guidelines or internal asset and liability management policy.

✓ Reporting

Credila commits to publishing an annual Social Financing Report until the debt instruments' maturity. Allocation reporting will include the total amount allocated, proportion of financing versus refinancing, and a brief description of the social projects. The company intends to align its reporting with ICMA's Harmonized Framework for Impact Reporting. Impact reporting will include information on the number of EWS families supported by the loans. The company may engage third-party verifiers to issue limited assurance reports on the allocation and impact of financing proceeds.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Credila expects to direct the majority of proceeds of its inaugural social loan to refinancing existing projects. For subsequent social financings, the proportion will vary on an instrument-to-instrument basis.

Social project categories

Access to essential services - education

Provision of loans to students covering the cost of attendance of higher education programs (e.g. tuition fees, books, and living expenses) from the following target population:

Borrowers from families whose gross annual income is in line with income criteria for economically weaker section (EWS) in India

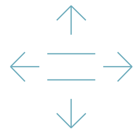
Analytical considerations

- The project category aims to help the target population access to higher education, which is defined as education obtained after completing 12 years of schooling.
- The target population EWS are families with a gross annual income of less than INR800,000 (US$9,500) in India, as defined by the government of India. They are recognized by the government of India as having socioeconomic disadvantaged backgrounds, and are included in the official reservation policy in which quotas are reserved for them in education institutions, government jobs, and legislatures. They account for 18.2% of India's population, i.e. roughly 350 million people, as per the National Institution for Transforming India Aayog.
- The Government of India launched the Central Sector Interest Subsidy Scheme (CSIS) in 2009, providing education loans to students from families of lower income. However, the CSIS generally restricts eligibility for loans to families with less than INR450,000 (US$5,400) in annual income, which is a more stringent requirement for students from EWS backgrounds. Furthermore, scholarships and other government financial support are limited relative to the growing number of students in the country and rising cost of education.
- Credila intends to address the local education financing gap by improving the target population's access to financing for higher education and therefore to better employment opportunities. Although the company does not propose concessionary rates to the individual target populations, it offers collateral free loans of up to INR7.5 million (US$89,300). The maximum loans offered by CSIS and government banks are INR3 million and INR4 million, respectively, for students pursing education in foreign countries. Furthermore, the company funds up to 100% of the borrowers' funding needs (tuition fees, accommodation, transportation etc), while government banks may require borrowers to contribute up to 15% of their future expenses to obtain a loan.
- Through targeted loans, Credila supports students to attend diploma, undergraduate, and master's programs across universities in India and other countries such as the U.S., Canada, U.K., Germany, Ireland, and Australia. The education loans will cover tuition fees and ancillary expenses such as accommodation, travelling expenses, examination fees, purchase of books, equipment, uniforms, or IT equipment. Travel fare restricted to one economy class return ticket may also be included. Credila will assess whether the loan is being used solely for the purpose of education and for the completion of the course. The company will require borrowers to provide enrolment verification of the students with requisite documentation, as well as proof of end use of funds. Academic transcripts will also be checked at disbursement.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Access to essential services - education	 **1. No poverty***	 **4. Quality education***	 **10. Reduced inequalities***

*The eligible project category links to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

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