July 26, 2022

HDFC Credila Financial Services Limited: Ratings reaffirmed; rated amount enhanced for bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines programme	6,000.00	8,000.00	[ICRA]AAA (Stable); assigned/reaffirmed
Non-convertible debenture programme	1,100.00	1,100.00	[ICRA]AAA (Stable); reaffirmed
Commercial paper programme	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Non-convertible subordinated debenture programme	250.00	250.00	[ICRA]AAA (Stable); reaffirmed
Perpetual debt programme	275.00	275.00	[ICRA]AA+ (Stable); reaffirmed
Total	**8,625.00**	**10,625.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in HDFC Credila Financial Services Limited's (HCFSL) ownership in the form of Housing Development Finance Corporation Limited (HDFC; rated [ICRA]AAA (Stable)/[ICRA]A1+). ICRA has also taken into consideration the shared brand name, indicating HDFC's strong commitment towards supporting HCFSL. The company continues to benefit from the operational and financial support from the parent in the form of a shared branch network, board representation, manpower and regular capital infusions.

In April 2022, HDFC had announced a scheme of amalgamation whereby it would amalgamate with and into HDFC Bank Limited (HDFC Bank) subject to regulatory approvals. Upon the implementation of the proposed transaction, HDFC's subsidiaries/associates (including HCFSL) will become subsidiaries/associates of HDFC Bank, subject to regulatory and other approvals. ICRA takes note of the announcement and does not expect the proposed transaction to have any adverse impact on HCFSL's credit profile.

The ratings factor in the company's strong domain knowledge and experienced core management team, its robust monitoring systems and prudent lending norms, resulting in healthy asset quality and profitability indicators. ICRA takes note of HCFSL's adequate capitalisation profile with a gearing of 5.6x as on March 31, 2022, supported by regular equity infusions from the parent and healthy internal accruals.

ICRA, however, takes note of HCFSL's relatively moderate scale and monoline nature of operations. ICRA also notes the risk associated with education loans, given their long tenures and moratorium periods, low collateral cover, and the high delinquencies faced by the Indian banking sector in the education lending segment. While the parent has been regularly infusing capital into the company (the most recent being Rs. 200 crore in March 2020), continued support from the parent and the company's ability to increase its portfolio profitably while maintaining adequate capitalisation and asset quality will remain important from a credit perspective going forward.

The one notch lower rating assigned to the company's perpetual debt programme compared to the [ICRA]AAA rating for the other long-term debt programmes reflects the specific features of these instruments wherein debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms include regulatory approvals from the Reserve Bank of India (RBI) for debt servicing (including principal repayments) if the company reports a loss and is not liable to service the debt if it breaches the minimum regulatory capitalisation norms.

Key rating drivers and their description

Credit strengths

Strong financial and operational support from the parent – The ratings factor in the strong ownership of HCFSL with HDFC holding a 100% stake in the company. The ratings also take into consideration the shared brand name, indicating the strong commitment of HDFC to support HCFSL. The company continues to benefit from the parent's operational and financial support in the form of a shared branch network as well as manpower, and fund-raising support. HDFC has also regularly infused equity capital into HCFSL with the most recent being Rs. 200 crore in March 2020. Since FY2017, HDFC had infused capital of Rs. 435 crore into HCFSL. ICRA expects support from the parent to be forthcoming if needed.

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Experienced management team with strong domain knowledge; good appraisal and selection criteria – The management team has significant experience in the financial sector and is guided by the HDFC Group's senior management, who are on the company's board. HCFSL's management information system (MIS) is strong, enabling it to track the sourcing, appraisal, verification, disbursal and monitoring of clients across geographies. It also has a large database of universities and placement details across the world, which helps in risk assessment and appraisal. The underwriting strength is evident, given the good asset quality indicators with a gross stage 3 ratio of 0.57% (of which 0.35% is on account of restructuring as per the Resolution Framework for Covid-19-related stress) as of March 31, 2022 (0.60% as of March 31, 2021).

Diversified borrowing profile – By virtue of being a part of the HDFC Group, the company has access to diverse funding sources at competitive rates. The borrowing profile remains skewed towards long-term funds to match the tenure of the loans extended. HCFSL's borrowings included bank loans (54%), debentures (35%), external commercial borrowings (10%) and commercial papers (1%) as on March 31, 2022.

Healthy profitability – HCFSL's net interest margin (NIM) improved in FY2022 as the decline in the cost of funds was higher than the decline in yields, thereby resulting in an improvement in the operating profitability. However, this was partially offset by the higher operating expenses of 1.30% of the average total assets (ATA) in FY2022 (1.15% in FY2021). Credit costs continued to remain low (0.2% of ATA in FY2022). The company reported a net profit of Rs. 206.38 crore in FY2022 (2.63% of ATA) compared to Rs. 155.23 crore (2.28% of ATA). It continues to carry a management overlay in provisions of ~Rs. 18 crore as on March 31, 2022 created in light of the Covid-19 pandemic, which provides a cushion against future credit costs.

Adequate capitalisation – The company's capitalisation profile remains adequate with a reported capital adequacy ratio (CAR) of 18.9% (Tier I ratio – 14.8%) and a gearing of 5.6x as on March 31, 2022, supported by healthy internal accruals and regular equity infusions by the promoters. While HCFSL had a relatively higher leverage (7.7x in FY2019 and 8.3x in FY2018) historically, ICRA notes that the gearing improved on the back of capital infusions (Rs. 250 crore in FY2020) and slower growth in the loan book in FY2021 due to the impact of the pandemic. With higher growth, the gearing is likely to increase. ICRA expects support from the parent to be forthcoming in case of a rapid increase in the loan book.

Credit challenges

Exposure to relatively risky education loans, given longer tenures, high moratorium periods and low collateral cover – The entire portfolio is concentrated towards education loans with a high share of the book under principal moratorium. ICRA has also considered the specific product feature, whereby 64% of the total loan book is unsecured. However, a large portion of the total loan portfolio was for post-graduate courses as on March 31, 2022. Applicants in these courses have higher chances of gaining employment compared to undergraduates, somewhat mitigating concerns regarding their repayment ability. The collection of interest, even during the moratorium period, provides comfort. Further, HCFSL's strong underwriting and risk mitigation processes with a focus on relatively premium segments and its track record in this segment provide comfort.

With the pandemic, disbursements were lower in FY2021 while prepayments increased, thereby resulting in a largely stable loan book of Rs. 6,267 crore as on March 31, 2021. However, the loan book witnessed a significant growth in FY2022 and stood at Rs. 8,838 crore as on March 31, 2022. The company has been focussed on education loans from inception and does not plan to diversify its portfolio, going forward.

HCFSL's gross stage 3 remained low at 0.57% (Rs. 50.61 crore) as on March 31, 2022 (0.60% (Rs. 37.35 crore) as on March 31, 2021). The company had a total restructured book of Rs. 55.02 crore as on March 31, 2022, restructured as per the RBI's Resolution Framework for Covid-19-related stress. Of this, Rs. 31.36 crore (0.35% of loan book) has been classified as stage 3 on a conservative basis under HCFSL's expected credit loss (ECL) model. The ability to maintain the asset quality through business cycles will remain a monitorable.

Liquidity position: Adequate

The company had positive cumulative mismatches as per the structural liquidity statement as on March 31, 2022. As on June 30, 2022, HCFSL held Rs. 341 crore of cash and liquid investments along with Rs. 205 crore of unutilised bank lines against total debt (including interest payments) of Rs. 938 crore scheduled to mature up to December 2022. The liquidity is supported by the monthly repayments from the loan portfolio. Historically, the company has had no difficulty in refinancing its loans. Access to funds from diverse sources and the ability to secure funding at competitive rates provide good financial flexibility to HCFSL.

Rating sensitivities

Positive factors – NA

Negative factors – ICRA could downgrade the ratings of HCFSL in case of a change in the parent's ratings or a change in the ownership. Pressure on the ratings could also arise in the event of a sustained deterioration in the asset quality or a material increase in the gearing on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	ICRA expects HDFC to provide financial, managerial and operational support, when required, given the parentage and shared brand name
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

HDFC Credila Financial Services Limited (HCFSL) was founded by Mr. Ajay Bohora and Mr. Anil Bohora in 2006. HCFSL, which received a non-banking financial company (NBFC) licence in 2007, is the first financial services company established as a specialised institution for originating, holding and servicing education loans. On December 12, 2019, HDFC bought 9.12% of the equity share capital of the company on a fully-diluted basis from the other shareholders, Mr. Ajay Bohora and Mr. Anil Bohora, making HCFSL its wholly-owned subsidiary. HCFSL was converted to a public limited company with effect from October 8, 2020. HCFSL, which is a key subsidiary of HDFC, leverages HDFC's brand name and infrastructure in the form of a shared branch network and manpower.

The company reported a net profit of Rs. 206 crore in FY2022 with total assets of Rs. 9,107 crore against a net profit of Rs. 155 crore in FY2021 with total assets of Rs. 6,603 crore.

Key financial indicators (audited)

HDFC Credila Financial Services Limited	FY2020	FY2021	FY2022
Total income	727	713	824
Profit after tax	123	155	206
Net worth	986	1,144	1,361
Loan book	6,257	6,267	8,838
Total assets	7,001	6,603	9,107
Return on assets	1.97%	2.28%	2.63%
Return on net worth	15.23%*	14.57%	16.48%
Gross gearing (times)	6.0	4.7	5.6
Gross stage 3	0.12%	0.60%	0.57%
Net stage 3	0.10%	0.40%	0.38%
Solvency (Net stage 3/Net worth)	0.64%	2.20%	2.45%
CRAR	22.27%	24.02%	18.93%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
** This is derived after considering capital infusion of Rs. 200 crore on March 30, 2020; excluding this, the return on equity (RoE) would have been 17.38% in FY2020*
Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years									
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2022 (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020				
					Jul-26-22	Jun-20-22	Apr-05-22	Sep-14-21	Sep-18-20	Feb-05-20	Jul-02-19	Jun-17-19	Jun-04-19	Apr-22-19
1	Non-convertible debenture programme	Long term	1,100	1,100	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
2	Non-convertible subordinated debenture programme	Long term	250	250	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Perpetual debt programme	Long term	275	275	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Commercial paper programme	Short term	1,000	150	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Bank lines	Long term	8,000	4,676^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

^ As on June 30, 2022; Rs. 6,881 crore including undrawn lines

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank Lines	Simple
Non-convertible Debenture Programme	Very Simple
Non-convertible Subordinated Debt Programme	Simple
Perpetual Debt Programme	Moderately Complex
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE539K08153	Non-convertible Subordinated Debenture Programme	Jul-24-17	8.20%	Jul-23-27	50	[ICRA]AAA (Stable)
INE539K08195	Non-convertible Subordinated Debenture Programme	Jun-06-19	9.12%	Jun-06-29	150	[ICRA]AAA (Stable)
INE539K08161	Non-convertible Subordinated Debenture Programme	Nov-16-17	8.10%	Nov-16-27	50	[ICRA]AAA (Stable)
INE539K08179	Perpetual Debt Programme	Dec-08-17	8.75%	NA (call option – 10 years from date of issuance)	50	[ICRA]AA+ (Stable)
INE539K08187	Perpetual Debt Programme	Jun-06-18	9.35%	NA (call option – 10 years from date of issuance)	75	[ICRA]AA+ (Stable)
INE539K08112	Perpetual Debt Programme	Jul-09-14	11.75%	NA (call option – 10 years from date of issuance)	50	[ICRA]AA+ (Stable)
INE539K08120	Perpetual Debt Programme	Jan-27-15	10.50%	NA (call option – 10 years from date of issuance)	50	[ICRA]AA+ (Stable)
INE539K08138	Perpetual Debt Programme	Jun-17-15	10.50%	NA (call option – 10 years from date of issuance)	50	[ICRA]AA+ (Stable)
INE539K07114	Non-convertible Debenture Programme	Jun-17-19	8.62%	Jun-17-24	100	[ICRA]AAA (Stable)
INE539K07122	Non-convertible Debenture Programme	Jul-08-19	8.85%	Jul-06-29	200	[ICRA]AAA (Stable)
INE539K07130	Non-convertible Debenture Programme	Aug-01-19	8.70%	Aug-01-29	200	[ICRA]AAA (Stable)

ISIN/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE539K07148	Non-convertible Debenture Programme	Jan-31-20	8.00%	Jan-31-25	200	[ICRA]AAA (Stable)
INE539K07163	Non-convertible Debenture Programme	Sep-24-20	5.99%	Aug-02-23	200	[ICRA]AAA (Stable)
INE539K07171	Non-convertible Debenture Programme	Nov-13-20	7.00%	Nov-12-27	200	[ICRA]AAA (Stable)
INE539K14AN4	Commercial Paper Programme	Aug-31-21	4.40%	Aug-30-22	100	[ICRA]A1+
NA	Commercial Paper Programme^	-	-	7-365 days	900	[ICRA]A1+
-	**Bank Lines – Long-term Fund Based**	-	-	-	**8,000**	**[ICRA]AAA (Stable)**

Source: Company
^Unutilised

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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