

April 26, 2023

HDFC Credila Financial Services Limited: Long-term ratings placed on rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	1,500.00	1,500.00	[ICRA]A1+; outstanding
Bank lines programme	8,000.00	8,000.00	[ICRA]AAA; placed on Rating Watch with Developing Implications
Non-convertible debenture programme	1,100.00	1,100.00	[ICRA]AAA; placed on Rating Watch with Developing Implications
Non-convertible subordinated debenture programme	250.00	250.00	[ICRA]AAA; placed on Rating Watch with Developing Implications
Perpetual debt programme	275.00	275.00	[ICRA]AA+; placed on Rating Watch with Developing Implications
Total	11,125.00	11,125.00	

*Instrument details are provided in Annexure I

Rationale

Material event

In April 2022, HDFC Limited (HDFC; rated [ICRA]AAA (Stable)/[ICRA]A1+) had announced a scheme of amalgamation, whereby it would amalgamate with and into HDFC Bank Limited (HDFC Bank; rated [ICRA]AAA (Stable)), subject to regulatory approvals. Upon the implementation of the proposed transaction, HDFC's subsidiaries/associates (including HDFC Credila Financial Services Limited (Credila)) would become subsidiaries/associates of HDFC Bank, subject to regulatory and other approvals.

On April 20, 2023, HDFC Bank received some clarifications in this regard from the Reserve Bank of India (RBI), wherein the RBI has permitted the bank to continue holding HDFC's stake in Credila, subject to the shareholding being brought down to 10% (from the existing 100%) within two years from the effective date of amalgamation and not onboarding new customers.

Impact of the material event

ICRA's ratings for Credila derived support from its being a wholly-owned subsidiary of HDFC. Given the clarification from the RBI, HDFC could evaluate the divestment of its stake in Credila, which would result in a change in ownership of Credila. HDFC could also evaluate merging Credila's assets and liabilities with HDFC Bank, post the effective date of HDFC's amalgamation with the bank.

The long-term ratings have been placed on Watch with Developing Implications considering the uncertainty regarding the investors and the approach which would be followed to adhere to the RBI's directive. With restrictions on the onboarding of new customers, the business growth is expected to be impacted and further clarity is awaited on the same. Given the likely change in shareholding, the impact on funding and liquidity will be a key monitorable though ICRA expects funding support to be forthcoming from the parent in the interim.

ICRA will continue to monitor the developments closely and will take appropriate rating action once there is more clarity on the above.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

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 was founded by Mr. Ajay Bohora and Mr. Anil Bohora in 2006. Credila, 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 Credila its wholly-owned subsidiary. Credila was converted to a public limited company with effect from October 8, 2020. Credila, 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. 276 crore in FY2023 with total assets of Rs. 16,446 crore against a net profit of Rs. 206 crore in FY2022 with total assets of Rs. 9,107 crore. HDFC infused capital of Rs. 800 crore into Credila in FY2023.

Key financial indicators (audited)

HDFC Credila Financial Services Limited	FY2022	FY2023
Total income	824	1,352
Profit after tax	206	276
Net worth	1,361	2,435
Loan book	8,838	15,298
Total assets	9,107	16,446
Return on average assets	2.6%	2.2%
Return on average net worth*	16.5%	14.5%
Gross gearing (times)	5.6	5.7
Gross stage 3	0.6%	0.2%
Net stage 3	0.4%	0.1%
Solvency (Net stage 3/Net worth)	2.4%	0.6%
CRAR	18.9%	20.4%

Note: Amount in Rs. crore; All calculations are as per ICRA Research

* Net worth includes Rs. 200 crore raised in March 2020, Rs. 300 crore raised in November 2022 and Rs. 500 crore raised in March 2023

Source: Credila, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years						
		Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021
				Apr-26-23	Jan-31-23	Jul-26-22	Jun-20-22	Apr-05-22	Sep-14-21	Sep-18-20
1 Non-convertible debenture programme	Long term	1,100	1,100	[ICRA]AAA; placed on rating Watch with Developing Implications	[ICRA]AA (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; placed on rating Watch with Developing Implications	[ICRA]AA (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+; placed on rating Watch with Developing Implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4 Commercial paper programme	Short term	1,500	275	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5 Bank lines	Long term	8,000	7,860	[ICRA]AAA; placed on rating Watch with Developing Implications	[ICRA]AA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE539K08153	Non-convertible subordinated debenture programme	Jul-24-2017	8.20%	Jul-23-2027	50	[ICRA]AAA; rating with Watch Developing Implications
INE539K08195	Non-convertible subordinated debenture programme	Jun-06-2019	9.12%	Jun-06-2029	150	[ICRA]AAA; rating with Watch Developing Implications
INE539K08161	Non-convertible subordinated debenture programme	Nov-16-2017	8.10%	Nov-16-2027	50	[ICRA]AAA; rating with Watch Developing Implications
INE539K08179	Perpetual debt programme	Dec-08-2017	8.75%	NA [#]	50	[ICRA]AA+; rating with Watch Developing Implications
INE539K08187	Perpetual debt programme	Jun-06-2018	9.35%	NA [#]	75	[ICRA]AA+; rating with Watch Developing Implications
INE539K08112	Perpetual debt programme	Jul-09-2014	11.75%	NA [#]	50	[ICRA]AA+; rating with Watch Developing Implications
INE539K08120	Perpetual debt programme	Jan-27-2015	10.50%	NA [#]	50	[ICRA]AA+; rating with Watch Developing Implications
INE539K08138	Perpetual debt programme	Jun-17-2015	10.50%	NA [#]	50	[ICRA]AA+; rating with Watch Developing Implications
INE539K07114	Non-convertible debenture programme	Jun-17-2019	8.62%	Jun-17-2024	100	[ICRA]AAA; rating with Watch Developing Implications
INE539K07122	Non-convertible debenture programme	Jul-08-2019	8.85%	Jul-06-2029	200	[ICRA]AAA; rating with Watch Developing Implications
INE539K07130	Non-convertible debenture programme	Aug-01-2019	8.70%	Aug-01-2029	200	[ICRA]AAA; rating with Watch Developing Implications
INE539K07148	Non-convertible debenture programme	Jan-31-2020	8.00%	Jan-31-2025	200	[ICRA]AAA; rating with Watch Developing Implications
INE539K07163	Non-convertible debenture programme	Sep-24-2020	5.99%	Aug-02-2023	200	[ICRA]AAA; rating with Watch Developing Implications
INE539K07171	Non-convertible debenture programme	Nov-13-2020	7.00%	Nov-12-2027	200	[ICRA]AAA; rating with Watch

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
						Developing Implications
INE539K14AU9	Commercial paper programme	Aug-30-2022	7.04%	Aug-30-2023	100	[ICRA]A1+
INE539K14BA9	Commercial paper programme	Mar-06-2023	8.04%	Jun-05-2023	175	[ICRA]A1+
NA	Commercial paper programme [^]	-	-	7-365 days	1,225	[ICRA]A1+
-	Bank lines – Long-term fund based	-	-	-	8,000	[ICRA]AAA; rating with Watch Developing Implications

Source: Company; [#] Call option – 10 years from date of issuance; [^] Yet to be placed

Key features of rated debt instrument

The perpetual debt programme is rated one notch lower compared to the other long-term debt programmes to reflect 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 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.

[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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About ICRA Limited:

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Branches



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