

June 23, 2023

## HDFC Credila Financial Services Limited: Rating watch with negative implication, revised from Rating watch with Developing implication

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines programme	8,000.00	8,000.00	[ICRA]AAA; Rating watch with negative implication, revised from [ICRA]AAA; Rating watch with Developing implication
Non-convertible debenture programme	1,100.00	1,100.00	[ICRA]AAA; Rating watch with negative implication, revised from [ICRA]AAA; Rating watch with Developing implication
Non-convertible subordinated debenture programme	250.00	250.00	[ICRA]AAA; Rating watch with negative implication, revised from [ICRA]AAA; Rating watch with Developing implication
Perpetual debt programme	275.00	275.00	[ICRA]AA+; Rating watch with negative implication, revised from [ICRA]AA+; Rating watch with Developing implication
Commercial paper programme	1,500.00	1,500.00	[ICRA]A1+; outstanding
<b>Total</b>	<b>11,125.00</b>	<b>11,125.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

#### Material event

On June 19, 2023, HDFC Limited (HDFC; rated [ICRA]AAA (Stable)/[ICRA]A1+) announced that it has entered into a definitive agreement to sell 90% of its stake in HDFC Credila Financial Services Limited (Credila) to Kopvoorn B.V. (which is a part of the BPEA EQT Group) and Moss Investments Limited, Defati Investments Holding B.V., Infinity Partners (which are a part of the ChrysCapital Group), referred to as the acquirers, for Rs. 9,060.49 crore. Pursuant to the proposed transaction, Credila will cease to be a subsidiary of HDFC with HDFC's stake in the company declining to less than 10%. The proposed transaction is subject to various regulatory approvals including from the Reserve Bank of India (RBI) and Competition Commission of India. The long stop date for the transaction is March 31, 2024. The transaction will also entail an equity infusion of Rs. 2,003.61 crore by the acquirers after the shareholding is transferred.

Earlier, in April 2022, HDFC 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 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 RBI, wherein the RBI 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. Subsequent to the development, [ICRA had placed the ratings on Watch with Developing Implications](#).

#### Impact of the material event

Considering the proposed change in ownership, Credila will cease to be a subsidiary of HDFC/HDFC Bank with their shareholding in the company declining below 10%. Accordingly, in the absence of the benefits of a stronger parentage, ICRA has placed the long-term ratings on Watch with Negative Implications. ICRA will continue to monitor the developments closely

and will take appropriate rating action once there is more clarity on the proposed business plans, post the receipt of regulatory approvals. Given the proposed 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.

Further clarity is awaited on the restrictions on the onboarding of new customers. Credila is likely to apply to the RBI to remove the restrictions in the backdrop of the recent announcement.

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	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a> <a href="#">Rating Approach—Implicit Support from Parent or Group</a>
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
<b>Total income</b>	824	1,352
<b>Profit after tax</b>	206	276
<b>Net worth</b>	1,361	2,435
<b>Loan book</b>	8,838	15,298
<b>Total assets</b>	9,107	16,446
<b>Return on average assets</b>	2.6%	2.2%
<b>Return on average net worth*</b>	16.5%	14.5%
<b>Gross gearing (times)</b>	5.6	5.7
<b>Gross stage 3</b>	0.6%	0.2%
<b>Net stage 3</b>	0.4%	0.1%
<b>Solvency (Net stage 3/Net worth)</b>	2.4%	0.6%
<b>CRAR</b>	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						Date & Rating in FY2022	Date & Rating in FY2021	
		Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2023 (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023						
				Jun-23-23	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; Rating watch with negative implication, revised from [ICRA]AAA; Rating watch with Developing implication	[ICRA]AAA; placed on Rating Watch with Developing Implications	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Non-convertible subordinate debenture programme	Long term	250	250	[ICRA]AAA; Rating watch with negative implication, revised from [ICRA]AAA; Rating watch with Developing implication	[ICRA]AAA; placed on Rating Watch with Developing Implications	[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+; Rating watch with negative implication, revised from [ICRA]AA+; Rating watch with Developing implication	[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)	[ICRA]AA+ (Stable)	
4 Commercial paper programme	Short term	1,500	100	[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	7,849	[ICRA]AAA; Rating watch with negative implication, revised from [ICRA]AAA; Rating watch with Developing implication	[ICRA]AAA; placed on Rating Watch with Developing Implications	[ICRA]AAA (Stable)	[ICRA]AAA (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 Watch with Negative Implications
INE539K08195	Non-convertible subordinated debenture programme	Jun-06-2019	9.12%	Jun-06-2029	150	[ICRA]AAA; Rating Watch with Negative Implications
INE539K08161	Non-convertible subordinated debenture programme	Nov-16-2017	8.10%	Nov-16-2027	50	[ICRA]AAA; Rating Watch with Negative Implications
INE539K08179	Perpetual debt programme	Dec-08-2017	8.75%	NA <sup>#</sup>	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08187	Perpetual debt programme	Jun-06-2018	9.35%	NA <sup>#</sup>	75	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08112	Perpetual debt programme	Jul-09-2014	11.75%	NA <sup>#</sup>	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08120	Perpetual debt programme	Jan-27-2015	10.50%	NA <sup>#</sup>	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08138	Perpetual debt programme	Jun-17-2015	10.50%	NA <sup>#</sup>	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K07114	Non-convertible debenture programme	Jun-17-2019	8.62%	Jun-17-2024	100	[ICRA]AAA; Rating Watch with Negative Implications
INE539K07122	Non-convertible debenture programme	Jul-08-2019	8.85%	Jul-06-2029	200	[ICRA]AAA; Rating Watch with Negative Implications
INE539K07130	Non-convertible debenture programme	Aug-01-2019	8.70%	Aug-01-2029	200	[ICRA]AAA; Rating Watch with Negative Implications
INE539K07148	Non-convertible debenture programme	Jan-31-2020	8.00%	Jan-31-2025	200	[ICRA]AAA; Rating Watch with Negative Implications
INE539K07163	Non-convertible debenture programme	Sep-24-2020	5.99%	Aug-02-2023	200	[ICRA]AAA; Rating Watch with Negative Implications
INE539K07171	Non-convertible debenture programme	Nov-13-2020	7.00%	Nov-12-2027	200	[ICRA]AAA; Rating Watch with Negative Implications
INE539K14AU9	Commercial paper programme	Aug-30-2022	7.04%	Aug-30-2023	100	[ICRA]A1+
NA	Commercial paper programme <sup>^</sup>	-	-	7-365 days	1,400	[ICRA]A1+
-	Bank lines – Long-term fund based	-	-	-	8,000	[ICRA]AAA; Rating Watch with Negative Implications

Source: Company; <sup>#</sup> Call option – 10 years from date of issuance; <sup>^</sup> 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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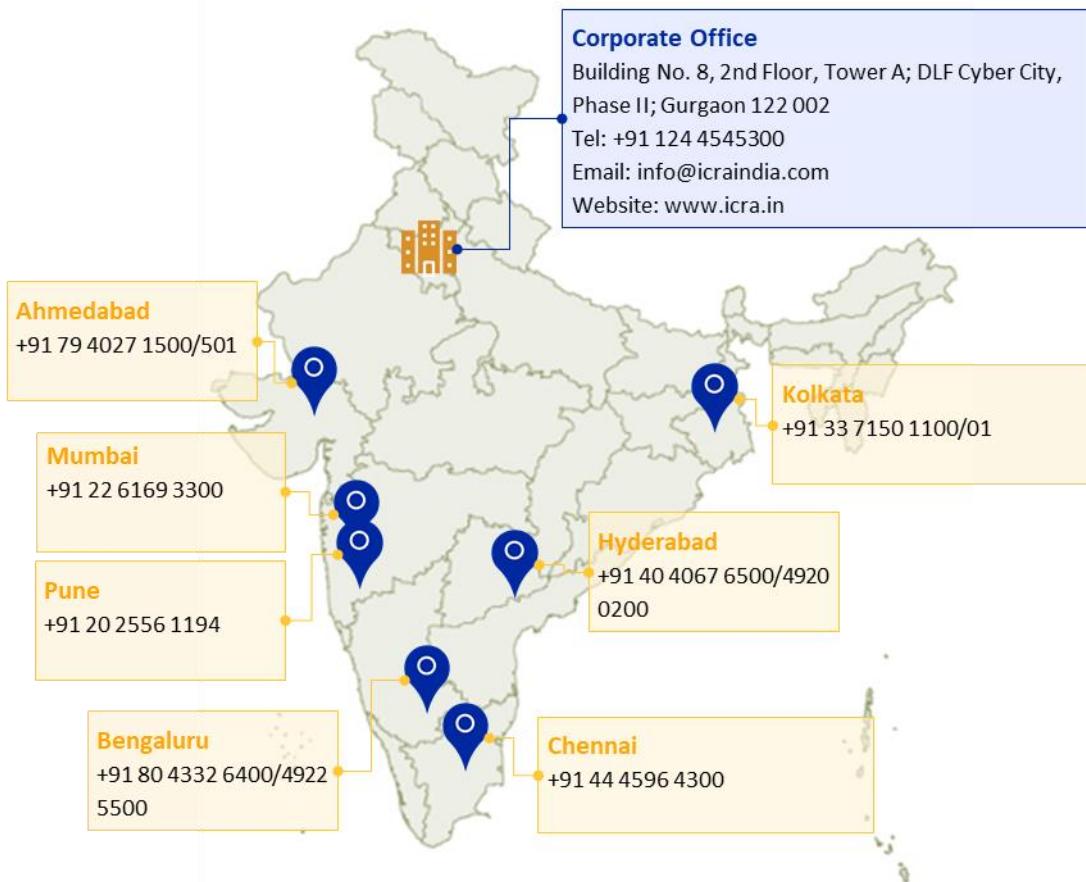
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