

December 29, 2023

HDFC Credila Financial Services Limited: [ICRA]AAA assigned; Rating on Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible subordinated debenture programme	-	500	[ICRA]AAA; Rating Watch with Negative Implications, assigned
Non-convertible debenture programme	900	900	[ICRA]AAA; Rating Watch with Negative Implications, outstanding
Non-convertible debenture programme	200	-	[ICRA]AAA; Rating Watch with Negative Implications, withdrawn
Non-convertible subordinated debenture programme	250.00	250.00	[ICRA]AAA; Rating Watch with Negative Implications, outstanding
Perpetual debt programme	275.00	275.00	[ICRA]AA+; Rating Watch with Negative Implications, outstanding
Bank lines programme	8,000.00	8,000.00	[ICRA]AAA; Rating Watch with Negative Implications, outstanding
Commercial paper programme	1,500.00	1,500.00	[ICRA]A1+; outstanding
Total	11,125.00	11,425.00	

*Instrument details are provided in Annexure I

Rationale

The rating Watch with Negative Implications continues to factor in the impending change in HDFC Credila Financial Services Limited's (Credila) ownership, whereby it will cease to be a subsidiary of HDFC Bank (HDFC Bank; rated [ICRA]AAA (Stable)¹) with the shareholding declining below 10%. In the absence of the benefits of a stronger parentage, [ICRA had placed the long-term ratings on Watch with Negative Implications](#).

On June 19, 2023, erstwhile HDFC Limited (now merged with HDFC Bank) had announced a definitive agreement to sell 90% of its stake in 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 Bank with the bank's stake in the company declining to less than 10%. 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, of which Rs. 700 crore was infused by erstwhile HDFC Limited in Q1 FY2024 while the balance will be infused by the acquirers after the shareholding is transferred. The proposed transaction is approved by the Competition Commission of India and approval from the Reserve Bank of India (RBI) is yet to be received.

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 approval. Given the proposed change in the 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.

The existing ratings factor in the parentage in the form of HDFC Bank with a shared brand name, board representation and a shared branch network. Credila's capitalisation profile is supported by healthy internal accruals and regular equity infusions from the parent to meet its growth requirements. The ratings factor in the company's strong domain knowledge in student education loans and experienced core management team, resulting in comfortable asset quality and profitability indicators.

¹ Non-convertible debentures

Credila's scale of operations has improved with the strong growth in the loan book. However, its operations remain monoline with the entire loan book dominated by student education loans. Apart from being unsecured, education loans have inherent risks, given their long tenures, moratorium period and exposure to economic cycles impacting employment opportunities.

ICRA has withdrawn the rating assigned to Credila's Rs. 200-crore non-convertible debenture (NCD) programme at the company's request and as there are no dues outstanding against the same, in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Experienced management team with strong domain knowledge, resulting in good asset quality – Credila is the largest non-banking financial company (NBFC) in the education loan segment with niche expertise in overseas education loans. The loan book grew a robust 48% (year-to-date; YTD) to Rs. 22,636 crore as on September 30, 2023 (year-on-year (YoY) growth of 73% to Rs. 15,298 crore as on March 31, 2023). 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. Credila's management information system (MIS) enables the tracking of the sourcing, appraisal, verification, disbursal and monitoring of clients across geographies. The focus remains on the potential income of the student upon completion of the course. It also has a large database of universities and placement details across the world, which helps in risk assessment and appraisal. As a result, the company has reported good asset quality indicators with a gross stage 3 ratio of 0.09% (as of September 30, 2023 (0.17% as of March 31, 2023)). The ability to maintain the asset quality through business cycles will remain a monitorable.

Diversified borrowing profile – As it is a part of the HDFC Group, the company has access to diverse funding sources. Its funding cost has, however, increased recently in the backdrop of the impending change in the ownership. The borrowings are matched with the long tenure of the loans extended to the borrowers. Credila's borrowings included term loans (76%), debentures (20%) and commercial papers (4%) as on September 30, 2023. Given the proposed change in the shareholding, the business plan of the incoming investors will decide the long-term impact on funding and will be a key monitorable.

Comfortable profitability – With the significant growth in the loan book, the company's gearing increased in H1 FY2024, leading to a decline in the net interest margin (NIM). However, the profitability was supported by the higher lending yields, lower operating expenses (1.1% of average total assets (ATA) in H1 FY2024 compared to 1.3% in FY2023) and credit costs (0.2% of ATA in H1 FY2024 compared to 0.1% in FY2023) with the company reporting a net profit of Rs. 233 crore in H1 FY2024 (2.2% of ATA) compared to Rs. 276 crore (2.2% of ATA) in FY2023.

Strong financial and operational support from the parent – The ratings factor in the strong parentage of Credila, with HDFC Bank holding a 100% stake, and the shared brand name, indicating the bank's strong commitment towards supporting the company. The capitalisation (reported capital adequacy ratio (CAR) of 17.0% (Tier I ratio – 13.7%) and gearing of 6.37x as on September 30, 2023) is supported by regular equity infusions by the promoter (Rs. Rs. 2,235 crore since FY2017 and Rs. 700 crore in June 2023) and healthy internal accruals.

Considering the proposed change in the ownership, Credila will cease to be a subsidiary of HDFC Bank with the bank's stake in the company declining below 10%. Accordingly, the ratings are likely to be impacted by the absence of the benefits of a stronger parentage. The impact of the same on the business, funding and capitalisation will be monitored.

Credit challenges

Exposure to relatively risky education loans with longer tenures and initial moratorium period – The entire loan book is concentrated towards education loans, which are largely unsecured in nature, but with a specified and monitored end use unlike personal loans. Recently disbursed loans account for a high share of the assets under management (AUM), which means a sizeable part of the AUM is under principal repayment moratorium. Partial interest payment is done during the moratorium period, and the balance is capitalised in the AUM. Considering that the education loans are mainly being extended for education outside India, the same remains exposed to geopolitical risks. Further, the portfolio remains geographically concentrated with the US and Canada accounting for 57% and 16% of the AUM, respectively, as on September 30, 2023.

Credila's focus on relatively premium segments and its track record in this segment provide comfort. A large portion of the total loan book was for post-graduate courses as on September 30, 2023. Applicants in these courses have higher chances of gaining employment compared to undergraduates, somewhat mitigating concerns regarding their repayment ability.

Liquidity position: Adequate

As on November 30, 2023, the company held Rs. 1,933 crore of cash and liquid investments along with Rs. 225 crore of unutilised bank lines against total debt (including interest payments) of Rs. 2,313 crore scheduled to mature in the next six months (i.e. up to May 2024). The liquidity is supported by the monthly repayments from the loan book.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating watch will be resolved with the change in the ownership, post the receipt of regulatory approvals.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach – Implicit Support from Parent or Group Policy on withdrawal of credit ratings
Parent/Group support	ICRA expects HDFC Bank 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, the erstwhile HDFC Limited 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. With the amalgamation of HDFC Limited with and into HDFC Bank, Credila became a subsidiary of HDFC Bank from July 1, 2023. Credila 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.

Key financial indicators (audited)

HDFC Credila Financial Services Limited	FY2022	FY2023	H1 FY2024
Total income	824	1,352	1,144
Profit after tax	206	276	233
Net worth	1,361	2,435	3,362
Loan book	8,838	15,298	22,636
Total assets	9,107	16,446	25,247
Return on average assets	2.6%	2.2%	2.2%
Return on average net worth*	16.5%	14.5%	16.1%
Gross gearing (times)	5.6	5.7	6.4
Gross stage 3	0.6%	0.2%	0.1%
Net stage 3	0.4%	0.1%	0.04%
Solvency (Net stage 3/Net worth)	2.4%	0.6%	0.3%
CRAR	18.9%	20.4%	17.0%

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

Source: Credila, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2024)								Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2023 (Rs. crore)	Date & Rating in FY2024				Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	
					Dec-29-2023	Jun-23-2023	Apr-26-2023	Jan-31-2023	Jul-26-2022	Jun-20-2022	Apr-05-2022	Sep-14-2021	Sep-18-2020	
1	Non-convertible subordinated debenture programme	Long term	500	-	[ICRA]AAA; rating Watch with Negative Implications; assigned	-	-	-	-	-	-	-	-	
2	Non-convertible debenture programme	Long term	900	900	[ICRA]AAA; rating Watch with Negative Implications	[ICRA]AAA; Watch with Implications	Rating Negative	[ICRA]AAA; placed on Rating Watch with Developing Implications	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Non-convertible debenture programme	Long term	200	-	[ICRA]AAA; rating Watch with Negative Implications; withdrawn	[ICRA]AAA; Watch with Implications	Rating Negative	[ICRA]AAA; placed on Rating Watch with Developing Implications	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
4	Non-convertible subordinated debenture programme	Long term	250	250	[ICRA]AAA; rating Watch with Negative Implications	[ICRA]AAA; Watch with Implications	Rating Negative	[ICRA]AAA; placed on Rating Watch with Developing Implications	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
5	Perpetual debt programme	Long term	275	275	[ICRA]AA+; rating Watch with Negative Implications	[ICRA]AA+; Watch with Implications	Rating Negative	[ICRA]AA+; placed on Rating Watch with Developing Implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
6	Commercial paper programme	Short term	1,500	1,500	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
7	Bank lines	Long term	8,000	2,925	[ICRA]AAA; rating Watch with Negative Implications	[ICRA]AAA; Watch with Implications	Rating Negative	[ICRA]AAA; placed on Rating Watch with Developing Implications	[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
Not Placed	Non-convertible subordinated debenture programme	-	-	-	500	[ICRA]AAA; Rating Watch with Negative Implications
INE539K08179	Perpetual debt programme	Dec-08-2017	8.75%	NA [#]	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08187	Perpetual debt programme	Jun-06-2018	9.35%	NA [#]	75	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08112	Perpetual debt programme	Jul-09-2014	11.75%	NA [#]	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08120	Perpetual debt programme	Jan-27-2015	10.50%	NA [#]	50	[ICRA]AA+; Rating Watch with Negative Implications
INE539K08138	Perpetual debt programme	Jun-17-2015	10.50%	NA [#]	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
INE539K07171	Non-convertible debenture programme	Nov-13-2020	7.00%	Nov-12-2027	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; withdrawn
INE539K14BD3	Commercial paper programme	Aug-09-2023	8.50%	Feb-06-2024	300	[ICRA]A1+
INE539K14BG6	Commercial paper programme	Dec-12-2023	8.50%	Mar-07-2024	450	[ICRA]A1+
INE539K14BF8	Commercial paper programme	Dec-11-2023	8.50%	Mar-11-2024	200	[ICRA]A1+
INE539K14BH4	Commercial paper programme	Dec-14-2023	8.50%	Mar-14-2024	300	[ICRA]A1+
INE539K14BI2	Commercial paper programme	Dec-15-2023	8.01%	Mar-15-2024	250	[ICRA]A1+
-	Bank lines – Long-term fund based	-	-	-	8,000	[ICRA]AAA; Rating Watch with

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
						Negative 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 – Not applicable

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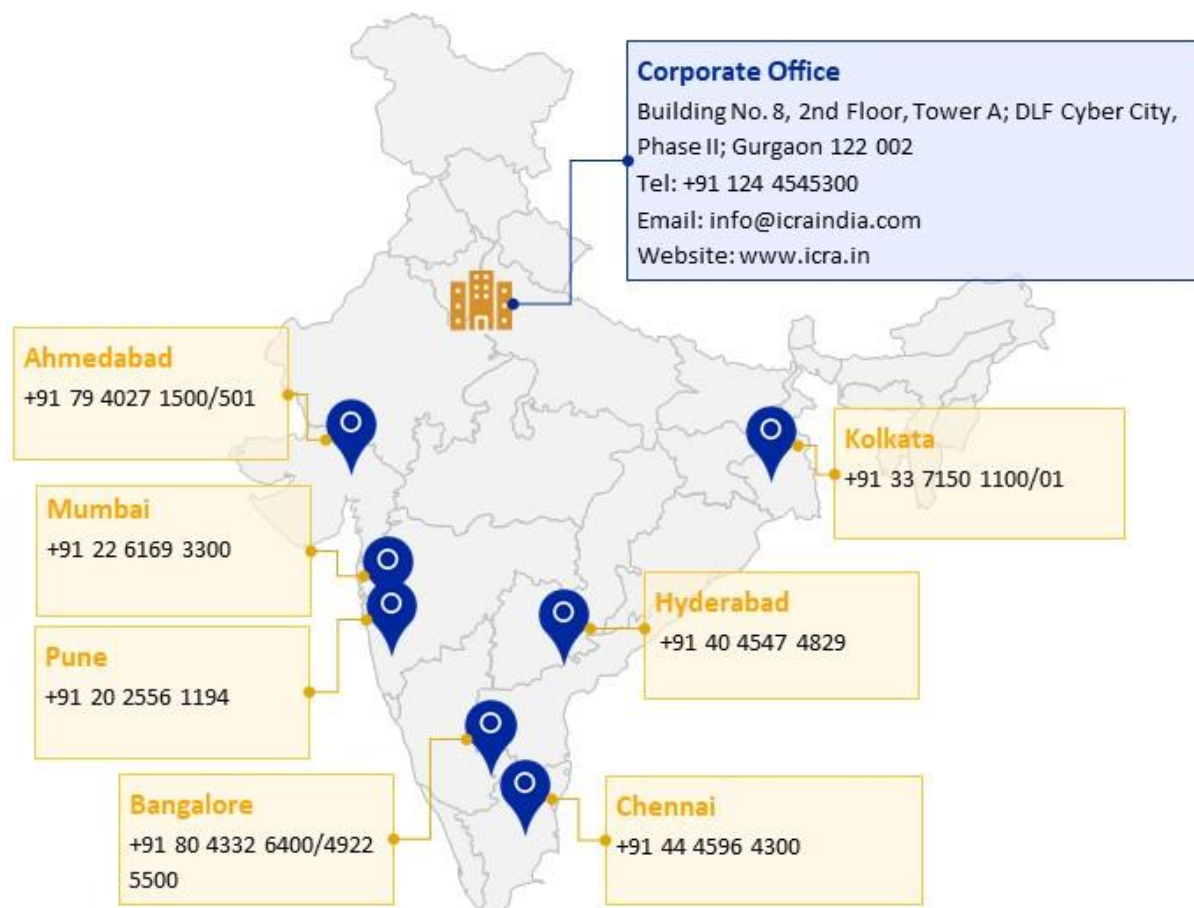


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