

February 26, 2024 **(Revised)**

HDFC Credila Financial Services Limited: Short-term rating reaffirmed and assigned to enhanced amount

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Non-convertible debenture programme | 900 | 900 | [ICRA]AAA; Rating Watch with Negative Implications, outstanding |
| Non-convertible subordinated debenture programme | 750.00 | 750.00 | [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 | 2,500.00 | [ICRA]A1+; reaffirmed and assigned to enhanced amount |
| Total | 11,425.00 | 12,425.00 | |

*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. and 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. 700.00 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 common 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 good asset quality and comfortable profitability indicators. Credila's scale of operations has improved with the strong growth in the loan book. However, its operations remain

¹ Non-convertible debentures

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.

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 expertise in the niche segment of overseas education loans. The loan book grew a robust 65% (year-to-date; YTD) to Rs. 25,237 crore as on December 31, 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. 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 0.08% as of December 31, 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. As on December 31, 2024, Credila's borrowings included term loans (74%), debentures (20%) and commercial paper (6%). Subsequently in January 2024, the entity received External Commercial Borrowings (ECB) of Rs. 829 crore. Given the proposed change in the shareholding, the diversification of the funding profile and its impact on the funding cost will be key monitorables.

Comfortable profitability – With the significant growth in the loan book, the company's gearing increased in 9M FY2024, leading to a decline in the net interest margin (NIM). However, the profitability was supported by higher lending yields, lower operating expenses (1.0% of average total assets (ATA) in 9M FY2024 compared to 1.3% in FY2023) and credit costs (0.2% of ATA in 9M FY2024 compared to 0.1% in FY2023) with Credila reporting a net profit of Rs. 379 crore in 9M FY2024 (2.3% 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 with HDFC Bank holding a 100% stake in Credila, and the shared brand name, indicating the bank's strong commitment towards supporting the company. The capitalisation (reported capital adequacy ratio (CAR) of 16.7% (Tier I ratio – 12.8%) and gearing of 6.69x as on December 31, 2023) is supported by regular equity infusions by the promoter (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 its stake in the company declining below 10%. Accordingly, the ratings are likely to be impacted by the absence of the benefits of a strong 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 56% and 16% of the AUM, respectively, as on December 31, 2023.

Credila's focus on relatively premium segments and its track record in these segments provide comfort. A large portion of the total loan book was for post-graduate courses as on December 31, 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 January 31, 2024, the company held Rs. 1,868 crore of cash and liquid investments along with Rs. 625 crore of unutilised bank lines against total debt (including interest payments) of Rs. 3,681 crore scheduled to mature in the next six months (i.e. until July 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 |
| 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. Following 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 | 9M FY2024 |
|---|--------|--------|-----------|
| Total income | 824 | 1,352 | 1,897 |
| Profit after tax | 206 | 276 | 379 |
| Total managed assets | 9,107 | 16,446 | 27,434 |
| Return on managed assets | 2.6% | 2.2% | 2.3% |
| Reported gearing | 5.6 | 5.7 | 6.7 |
| Gross stage 3 | 0.6% | 0.2% | 0.08% |
| CRAR | 18.9% | 20.4% | 16.7% |

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 | 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 Jan 31, 2024 (Rs. crore) | Date & Rating in FY2024 | | | | Date & Rating in FY2023 | | | | | |
| | | | | Feb-26-2024 | 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 | [ICRA]AAA; Rating Watch with Negative Implications | - | - | - | - | - | - | - | - |
| 2 Non-convertible debenture programme | Long term | 900 | 900 | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Developing Implications | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 3 Non-convertible debenture programme | Long term | - | - | - | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Developing Implications | [ICRA]AAA (Stable) | [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; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Developing Implications | [ICRA]AAA (Stable) | [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+; Rating Watch with Negative Implications | [ICRA]AA+; Rating Watch with Negative Implications | [ICRA]AA+; Rating Watch with Developing Implications | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 6 Commercial paper programme | Short term | 2,500 | 1,500 | [ICRA]A1+ | [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 | 8,000 | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Negative Implications | [ICRA]AAA; Rating Watch with Developing Implications | [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 | Very 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 yet placed^ | Non-convertible subordinated debenture programme unallocated | NA | NA | NA | 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 |
| INE539K14BG6 | Commercial paper programme | Dec-12-2023 | 8.50% | Mar-07-2024 | 300 | [ICRA]A1+ |
| INE539K14BF8 | Commercial paper programme | Dec-11-2023 | 8.50% | Mar-11-2024 | 450 | [ICRA]A1+ |
| INE539K14BH4 | Commercial paper programme | Dec-14-2023 | 8.50% | Mar-14-2024 | 200 | [ICRA]A1+ |
| INE539K14BI2 | Commercial paper programme | Dec-15-2023 | 8.50% | Mar-15-2024 | 300 | [ICRA]A1+ |
| INE539K14BJ0 | Commercial paper programme | Feb-08-2024 | 8.98% | Feb-06-2025 | 250 | [ICRA]A1+ |
| Not yet placed^ | Commercial paper programme | - | - | 7-365 days | 1,000 | [ICRA]A1+ |
| - | Bank lines – Long-term fund based | - | - | - | 8,000 | [ICRA]AAA; Rating Watch with 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

Corrigendum

Document dated February 26, 2024, has been corrected with revisions as detailed below:

- The rating history table is updated with corrected outstanding amount details against Rs. 500 crore non-convertible subordinated debenture programme on page No. 5.
- Annexure I: Instrument details is updated with corrected ISIN details for non-convertible subordinated debenture programme on page No. 6.

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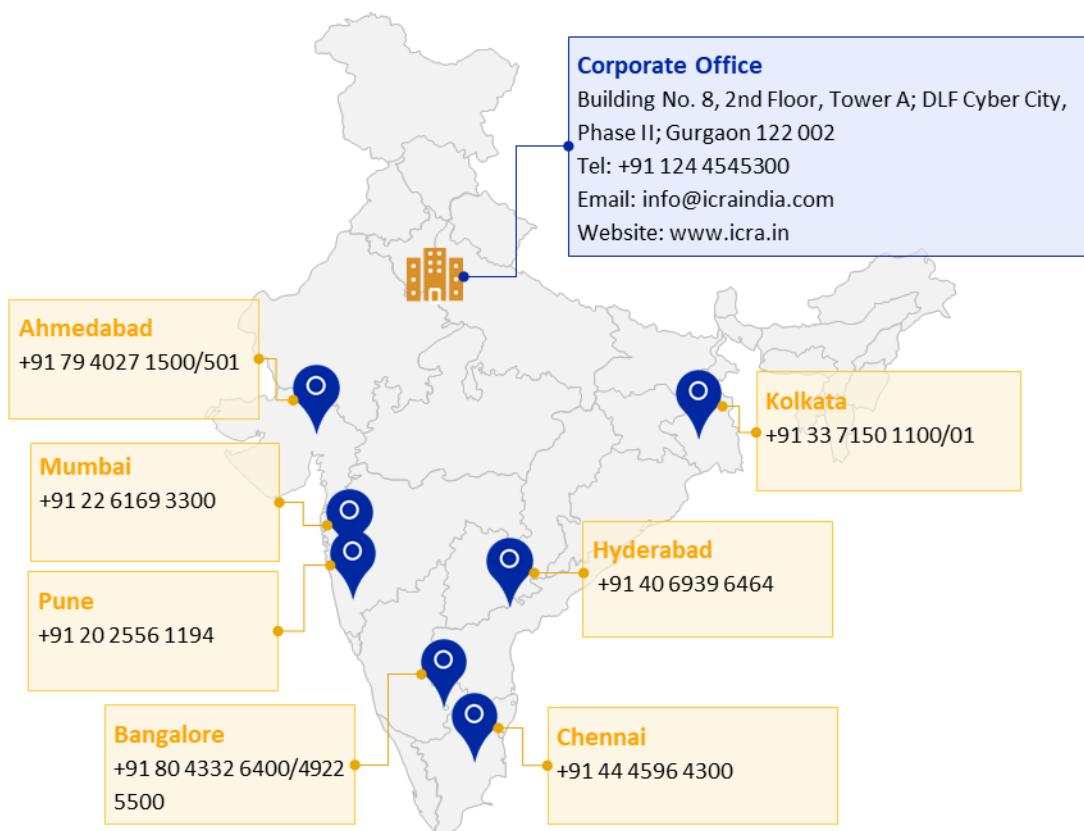
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