

September 18, 2020

## HDFC Credila Financial Services Private Limited: [ICRA]AAA(Stable) assigned to Rs. 400-crore NCD programme; Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	-	400.00	[ICRA]AAA(Stable); assigned
Commercial paper programme	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Non-convertible debenture programme	900.00	900.00	[ICRA]AAA(Stable); reaffirmed
Bank lines programme	4,000.00	4,000.00	[ICRA]AAA(Stable); 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
<b>Total</b>	<b>6,425.00</b>	<b>6,825.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has reaffirmed the ratings for HDFC Credila Financial Services Private Limited (HCFSP) at [ICRA]AAA(Stable)/[ICRA]AA+(Stable)/[ICRA]A1+ and has assigned a rating of [ICRA]AAA(Stable) for the company's Rs. 400-crore non-convertible debenture (NCD) programme. The ratings factor in HCFSP's ownership in the form of Housing Development Finance Corporation Limited (HDFC; (rated [ICRA]AAA(Stable)/[ICRA]A1+). ICRA also factors in the shared brand name and logo, indicating HDFC's strong commitment towards supporting HCFSP. 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. The ratings factor in the company's strong domain knowledge and experienced core management team, its strong monitoring systems and prudent lending norms, resulting in healthy asset quality and profitability indicators.

However, ICRA takes note of the company's relatively moderate scale and monoline nature of operations. ICRA also takes note of 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. Historically HCFSP had a high gearing ratio, however this has improved as of June 30, 2020 due to capital infusion done, and a slow growth in disbursements. ICRA takes note of HCFSP's moderate capitalisation profile with a gearing of 6.07x as on March 31, 2020 (improved further to 5.4x as of June 30, 2020). While the parent has been regularly infusing capital into the company (the most recent being Rs. 200 crore in March 2020), the continued support from the parent and the company's ability to increase its portfolio profitably while maintaining moderate capitalisation and asset quality will remain important from a credit perspective going forward.

ICRA does note the impact of the Covid-19 pandemic on the company's business plans for FY2021 with the stress on the asset quality expected to increase. However, the impact will be relatively lower as the lockdowns are less severe in western countries and 91% of the loans are to students outside India.

### Key rating drivers and their description

## Credit strengths

**Strong financial and operational support from the parent** – The ratings factor in HCFSP's ownership in the form of HDFC. HDFC had acquired a stake from HCFSP's founders in December 2019 (9% stake acquired- on a diluted basis, resulting in 100% ownership). The ratings also take into consideration the shared brand name, indicating the strong commitment of HDFC to support HCFSP. 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 HCFSP with the most recent being Rs. 200 crore in March 2020. During the last five years, HDFC had infused capital of Rs. 435 crore into HCFSP. ICRA expects support from the parent to be forthcoming should the need arise.

**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 is on the company's board. HCFSP's management information system (MIS) is strong, enabling it to track the sourcing, appraisal, verification, disbursal and monitoring of clients across geographies. The company also has a large database of universities and placement details across the world, which helps in risk assessment and appraisal. It receives due diligence support from HDFC for the collateralised portfolio. The underwriting strength is evident, given the good asset quality indicators with a gross NPA ratio of 0.12% as of March 31, 2020 (0.08% as of March 31, 2019).

**Healthy profitability** – The company reported a net profit of Rs. 123.10 crore in FY2020, up from Rs. 101.69 crore in FY2019. The improvement was mainly on account of an increase in the net interest income (NII) to Rs. 242.86 crore in FY2020 from Rs. 217.23 crore in FY2019. The net profit stood at Rs. 36.87 crore in Q1 FY2021 against Rs. 26.21 crore in Q1 FY2020. The return on equity (RoE) was recorded at 15.23%<sup>1</sup> in FY2020 compared to 18.84% in FY2019 (14.71% in Q1 FY2021). The RoE was lower in FY2020 and Q1 FY2021 primarily due to the capital infusion and a slow uptick in the business. With a higher loan base, the NII witnessed a YoY improvement in FY2020. On the other hand, the net interest margin (NIM) declined by 56 bps in FY2020 to 3.89% from 4.45% in FY2019 (3.71% in Q1 FY2021). The operating expenses declined to 1.16% of the average total assets in FY2020 from 1.43% in FY2019 due to the scaling up of the operations and the 16% growth in the portfolio. This reduced further to 0.94% in Q1 FY2021. The credit costs, however, increased to 0.36% in FY2020 from 0.05% in FY2019 due to the impact of Covid-19.

**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. HCFSP's borrowings included bank loans (36%), debentures (49%), external commercial borrowings (13%) and commercial papers (2%) as on June 30, 2020.

## Credit challenges

**Moderate scale and monoline nature of operations** – The company has been focussed on education loans from inception with a moderate portfolio of ~Rs. 5,664 crore as on June 30, 2020 and does not plan to diversify its portfolio, going forward. However, HCFSP's strong underwriting and risk mitigation processes focus on relatively premium segments (post-graduate courses abroad with the majority in USA) and its track record in this segment provides comfort in this regard.

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<sup>1</sup> This is derived after considering capital infusion of Rs. 200 crore on March 30, 2020. Excluding this infusion, the ROE would be 17.38% in FY 2020.

**Exposure to relatively risky education loans, given the longer tenures, high moratorium periods and low collateral cover** – The entire portfolio is concentrated towards education loans with a high principal moratorium (70% of the loans outstanding as of June 30, 2020). ICRA also notes that 56% of the loan book was unsecured as on June 30, 2020. However, 91% of the total loan portfolio was for post-graduate courses as on June 30, 2020. Applicants in these courses have higher chances of gaining employment compared to undergraduates, thereby mitigating concerns regarding their repayment ability, to some extent. The collection of interest, even during the moratorium period, provides comfort. Going forward, continued support from the parent and the company's ability to expand its portfolio profitably while maintaining the asset quality will remain important from a credit perspective.

**Moderate capitalisation profile with high gearing** – The company's capitalisation profile is moderate with a reported capital adequacy ratio (CAR) of 22.27% (Tier I ratio - 14.70%) and a gearing of 6.0x as on March 31, 2020. Historically HCFSP had a relatively higher leverage (7.7x in FY2019, and 8.3x in FY2018). However, ICRA does note that the gearing had improved to 5.4x as on June 30, 2020, on the back of capital infusion and a low growth in the loan book. ICRA will be monitoring the leverage on a steady state growth basis. ICRA takes note of the gradual decline in the gearing with healthy internal accruals and regular equity infusions by the promoters. Nevertheless, HCFSP's ability to maintain moderate capitalisation while scaling up its operations will remain important from a credit perspective. ICRA expects support from the parent to be forthcoming if needed.

## Liquidity position

HCFSP's liquidity profile remains adequate, supported by cash and cash equivalents and liquid investments of Rs. 403 crore and undrawn bank lines of Rs. 433 crore against which a total debt of Rs. 1,246 crore is scheduled to mature in the next six months (i.e., up to February 2021). This includes Rs. 300-crore NCDs maturing in September 2020 and another Rs. 300 crore maturing in November 2020, which the company is looking to refinance. HCFSP will need to maintain a collection efficiency of at least 70% to cover the remainder of the debt repayments. Historically, the company has had no difficulty in refinancing its loans, being a wholly-owned subsidiary of HDFC.

## Rating sensitivities

**Positive triggers** – NA

**Negative triggers** – ICRA could downgrade the ratings of HCFSP in case of any 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 an increase in the gearing to more than 8x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</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 Private Limited (HCFSP) was founded by Mr. Ajay Bohora and Mr. Anil Bohora in 2006. HCFSP, which received an NBFC licence in 2007, is the first financial services company established as a specialised institution for originating, holding and servicing education loans. In January 2008 DSP Merrill Lynch acquired 40% stake in

the entity on a fully diluted basis. In 2009, HDFC Limited acquired DSP Merrill Lynch's stake and subsequently infused further equity to increase its stake to 87.31% by September 30, 2019. Following the regular infusion of preference capital, HDFC's stake in HCFSPS stood at ~91% on a fully-diluted basis on September 30, 2019. On December 12, 2019, HDFC bought 1,14,70,000 equity shares of Rs. 10 each (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 HCFSPS its wholly-owned subsidiary. HCFSPS, 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. 36.87 crore in Q1 FY2021 with total assets of Rs. 6,651.91 crore compared to a net profit of Rs. 123.10 crore in FY2020 with total assets of Rs. 7,001.14 crore.

### Key financial indicators

Rs. crore	FY2019	FY2020	Q1 FY2021
Total income	603.52	726.58	180.13
Profit after tax	101.69	123.10	36.87
Net worth	630.46	986.46	1,018.01
Total managed portfolio <sup>1</sup>	5,339.82	6,228.90	6,083.20
Total assets	5,503.01	7001.14	6,651.91
Return on average total assets	2.08%	1.97%	2.16%
Return on average net worth	18.84%	15.23% <sup>2</sup>	14.71%
Gearing (times)	7.7	6.0	5.4
Gross NPA	0.08%	0.12%	0.13%
Net NPA	0.06%	0.10%	0.10%
Capital adequacy ratio	18.45%	22.27%	22.75%

<sup>1</sup> The managed portfolio includes the amount of interest under moratorium, which is capitalised

<sup>2</sup> This is derived after considering capital infusion of Rs. 200 crore on March 30, 2020. Excluding this infusion, the ROE would be 17.38% in FY 2020.

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years

	Instrument	Current rating (FY2021)			Rating history for the past 3 years												
		Type	Rated amount	Amount outstanding	18-Sep-20	FY2020 05-Feb-20	02-Jul-19	17-Jun-19	04-Jun-19	22-Apr-19	FY2019 06-Sep-18	01-Jun-18	FY2018 06-Dec-17	14-Nov-17	12-Oct-17	25-Jul-17	17-Jul-17
1	Non-convertible debenture programme	Long term	400	-	[ICRA] AAA (Stable); assigned	-	-	-	-	-	-	-	-	-	-	-	-
2	Non-convertible debenture programme	Long term	400	400	[ICRA] AAA (Stable)	[ICRA] AA (Stable)	-	-	-	-	-	-	-	-	-	-	-
3	Non-convertible debenture programme	Long term	400	400	[ICRA] AAA (Stable)	[ICRA] AA (Stable)	[ICRA] AA A (Stable)	-	-	-	-	-	-	-	-	-	-
4	Non-convertible debenture programme	Long term	100	100	[ICRA] AAA (Stable)	[ICRA] AA (Stable)	[ICRA] AA A (Stable)	[ICRA] AAA (Stable)	-	-	-	-	-	-	-	-	-
5	Non-convertible subordinated debenture programme	Long term	150	150	[ICRA] AAA (Stable)	[ICRA] AA (Stable)	[ICRA] AA A (Stable)	[ICRA] AAA (Stable)	[ICRA] AA A (Stable)	-	-	-	-	-	-	-	-
6	Non-convertible subordinated debenture programme	Long term	50	50	[ICRA] AAA (Stable)	[ICRA] AA (Stable)	[ICRA] AA A (Stable)	[ICRA] AAA (Stable)	[ICRA] AA A (Stable)	[ICRA] AA (Stable)	[ICRA] AAA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA A (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
7	Perpetual debt programme	Long term	150	150	[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)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable);	[ICRA] AA+ (Stable)

Instrument	Current rating (FY2021)				Rating history for the past 3 years												
	Type	Rated amount	Amount outstanding	18-Sep-20	FY2020 05-Feb-20	02-Jul-19	17-Jun-19	04-Jun-19	22-Apr-19	FY2019 06-Sep-18	01-Jun-18	FY2018 06-Dec-17	14-Nov-17	12-Oct-17	25-Jul-17	17-Jul-17	
																Upgraded from [ICRA]AA (stable)	
8	Commercial paper programme	Short term	1,000	NA	[ICRA] A1+	[ICRA]A 1+	[ICRA]A1 +	[ICRA]A1+	[ICRA]A1 +	[ICRA]A 1+	[ICRA] A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A1 +	[ICRA] A1+; enhanced from Rs. 800 crore	[ICRA] A1+	[ICRA] A1+
9	Non-convertible subordinated debenture programme	Long term	50	50	[ICRA] AAA (Stable)	[ICRA]A AA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]A AA (Stable)	[ICRA] AAA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]AA A (Stable)	-	-	-
10	Perpetual debt programme	Long term	50	50	[ICRA] AA+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]AA + (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA + (Stable)	[ICRA]A A+ (Stable)	[ICRA] AA+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]A A+ (Stable)	-	-	-	-
11	Perpetual debt programme	Long term	75	75	[ICRA] AA+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]AA + (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA + (Stable)	[ICRA]A A+ (Stable)	[ICRA] AA+ (Stable)	[ICRA]A A+ (Stable)	-	-	-	-	-
12	Term loans	Long term	2,950	1,739	[ICRA] AAA (Stable)	[ICRA]A AA (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]A AA (Stable)	[ICRA] AAA (Stable)	-	-	-	-	-	-
13	Overdraft facility	Long term	235	2	[ICRA] AAA	[ICRA]A AA	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A	[ICRA]A AA	[ICRA] AAA	-	-	-	-	-	-

	Instrument	Current rating (FY2021)			Rating history for the past 3 years												
		Type	Rated amount	Amount outstanding	18-Sep-20	FY2020 05-Feb-20	02-Jul-19	17-Jun-19	04-Jun-19	22-Apr-19	FY2019 06-Sep-18	01-Jun-18	FY2018 06-Dec-17	14-Nov-17	12-Oct-17	25-Jul-17	17-Jul-17
14	Unallocated bank lines	Long term	815	-	(Stable)	[ICRA]AAA	[ICRA]AA A (Stable)	[ICRA]AAA (Stable)	[ICRA]AA A (Stable)	[ICRA]AA A (Stable)	[ICRA]AAA	-	-	-	-	-	-

Amount in Rs. crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE539K08153	Non-convertible Subordinated Debenture Programme	24/07/2017	8.20%	23/07/2027	50.00	[ICRA]AAA(stable)
INE539K08112	Perpetual Debt Programme	09/07/2014	11.75%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
INE539K08120	Perpetual Debt Programme	27/01/2015	10.50%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
INE539K08138	Perpetual Debt Programme	17/06/2015	10.50%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
NA	Commercial Paper Programme	-	-	7-365 days	1,000.00	[ICRA]A1+
INE539K08161	Non-convertible Subordinated Debenture Programme	16/11/2017	8.10%	16/11/2027	50.00	[ICRA]AAA(stable)
INE539K08179	Perpetual Debt Programme	08/12/2017	8.75%	NA (Call option – 10 years from date of issuance)	50.00	[ICRA]AA+(stable)
INE539K08187	Perpetual Debt Programme	06/06/2018	9.35%	NA (Call option – 10 years from date of issuance)	75.00	[ICRA]AA+(stable)
-	Term Loans	2012-2019	-	2020-2028	2,950	[ICRA]AAA(stable)
-	Overdraft Facility	NA	NA	NA	235	[ICRA]AAA(stable)
-	Unallocated Bank Lines	NA	NA	NA	815	[ICRA]AAA(stable)
INE539K08195	Non-convertible Subordinated Debenture Programme	06/06/2019	9.12%	06/06/2029	150.00	[ICRA]AAA(stable)
INE539K07114	Non-convertible Debenture Programme	17/06/2019	8.62%	17/06/2024	100.00	[ICRA]AAA(stable)
INE539K07122	Non-convertible Debenture Programme	08/07/2019	8.85%	06/07/2029	200.00	[ICRA]AAA(stable)
INE539K07130	Non-convertible Debenture Programme	01/08/2019	8.70%	01/08/2029	200.00	[ICRA]AAA(stable)
INE539K07148	Non-convertible Debenture Programme	31/01/2020	8.00%	31/01/2025	200.00	[ICRA]AAA(stable)
INE539K07155	Non-convertible Debenture Programme	25/02/2020	7.10%	25/02/2022	200.00	[ICRA]AAA(stable)
-	Non-convertible Debenture Programme*	-	-	-	400.00	[ICRA]AAA(stable)

\*Proposed; Source: HCFSP



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