

HDFC CREDILA FINANCIAL SERVICES PVT LTD

JULY 10, 2017

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Issuer rating	-	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Upgraded from CARE AA+ (Is)
Non- Convertible Debenture	700	CARE AAA; Stable (Triple A; Outlook: Stable)	Upgraded from CARE AA+
Subordinate Debt	100	CARE AAA; Stable (Triple A; Outlook: Stable)	Upgraded from CARE AA+
Perpetual Debt	150	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Upgraded from CARE AA

Rating Rationale

The revision in the rating factors in the renaming the company as HDFC Credila Financial Services Pvt. Ltd. "HDFC Credila", with the inclusion of HDFC brand in the name, highlighting linkages with the parent HDFC. This provides additional comfort as it demonstrates HDFC's commitment and support in promoting the business of the company. In addition, HDFC has infused funds during FY17 (refers to the period April 1 to March 31) and increased its stake in the company. The ratings continue to factor in the strength derived from its parent Housing Development Finance Corporation Ltd (HDFC) in terms of operational, managerial and financial support. The ratings are also supported by experienced management team, strong management information system and prudent underwriting norms, good asset quality, and comfortable liquidity profile. The ratings also take into consideration the significant growth in loan book post acquisition by HDFC Ltd with improved profitability. The rating also takes into account exposure to single asset class, relatively small scale of operations and high gearing levels.

The continued support and credit profile of HDFC, capital adequacy, gearing, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, operating and financial support and brand linkage - HDFC has increased stake in HDFC Credila and provided consent to include HDFC's brand name with the company and renamed from Credila Financial Services Pvt Ltd to HDFC Credila Financial Services Pvt Ltd. This provides additional comfort to the company and demonstrates HDFC's commitment and support in promoting the business of the company. HDFC Credila has strong parentage with Housing Development Finance Corporation Ltd. (HDFC), one of the leading Housing Finance Companies and rated **CARE AAA; Stable / CARE A1+**, holding 81.12% stake in the company (as on March 31, 2017). The fully diluted shareholding of HDFC in HDFC Credila (considering the conversion of compulsorily convertible preference shares) stood at 90.09% as on March 31, 2017. By virtue of being a subsidiary, the company enjoys managerial, operational as well as financial support from HDFC. Being subsidiary of HDFC, HDFC Credila has also been able to raise funds at very competitive rates. HDFC Credila also derives operational support by the way of distribution of its loan products through HDFC's widespread branch

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

network. Furthermore, HDFC Credila's board is chaired by the Executive Director of HDFC along with two nominee directors from HDFC and three distinguished Independent Directors.

Growth in business volumes – HDFC Credila's disbursements and loan book size has witnessed significant growth post acquisition of its stake by HDFC. In addition to periodic capital infusions, strong brand linkage associated with HDFC as well as operational support has enabled HDFC Credila to significantly grow its asset book. The total loan book increased to Rs.3,194 crore as on March 31, 2017 registering a growth of 33% Y-o-Y and CAGR of 61% during FY11-FY17 (refers to the period April 01 to March 31) post-acquisition by HDFC. During FY17, HDFC Credila has sanctioned Rs.2,704 crore of education loans with disbursement of Rs.1,336 crore.

Comfortable liquidity profile – There are positive cumulative mismatches upto 5 year time buckets. Company also has unutilized CC facilities of Rs.276 crore, undrawn term loans of Rs.327 crore as on March 31, 2017 and strong parentage support from HDFC which shall enable the company to plug its future liquidity mismatches.

Profitability – In-line with portfolio growth, interest income grew by 31% Y-o-Y in FY17. Total disbursements in FY17 grew by 21%. The Net Interest Margin (NIM) increased to 4.39% for FY17 in comparison to 4.32% in FY16. With increase in business and profitability, the company has been able to better streamline its operating expenses as indicated by lower cost-to-income ratio of 32.63% for FY17 compared to 35.42% in FY16. Thus, ROTA has shown improvement from 2.14% in FY16 to 2.25% in FY17.

Strong systems and prudent lending norms – HDFC Credila has strong domain knowledge and experience management team in education loan business. HDFC Credila has in-house developed software where all the data are stored. The systems are very robust and monitor the loan application from, login till final disbursement is made along with the schedule for repayment. At present all the tele calling and operational work are being taken carried out from Nashik branch. The critical credit related processes and underwriting is done by in house teams in HDFC Credila though they outsource some of the basic checks to outsourced agencies. Collateral and security is not mandatory for domestic/foreign education loans, collateral is subjective based on cases.

Good asset quality with limited seasoning and performance track record- Considering that a significant loan book growth has occurred in the past three years post acquisition by HDFC and only a small proportion of loans has been fully repaid, HDFC Credila's loan book remains unseasoned in nature. Though the asset quality continues to remain good with Gross and Net NPA (based on 90 days NPA classification) at 0.05% and 0.02% respectively as on March 31, 2017 [FY16 (based on 150 days NPA classification): GNPA – 0.05%, NNPA – 0.03%], however it needs to be observed over a longer duration.

Resource profile – Parentage of HDFC strengthens the resource profile of HDFC Credila. The company has raised debt by issue of non-convertible debentures of Rs.700 crore for FY17. Major borrowing comes from Bank and FI loans (40%) followed by NCD (33%), then Net worth (9%), while other sources like Commercial paper, Perpetual debt, etc. constitute the remaining sources.

Key Rating Weaknesses

Exposure to single asset class and Small Scale of Operations- HDFC Credila is into a single asset class of educational loans. This brings in concentration risk as any fall in demand for educational loan may severely impact the operations and profitability of the company. In the past and currently, high delinquencies are faced by the Indian banking sector in the education loan sector. However, HDFC Credila with its specialised focus has been able to maintain its asset quality so far. The overall scale of operations of the company continues to be relatively small, due to single asset class focus.

High Gearing levels –Due to capital infusion of Rs.55 crore in FY17, the company’s gearing level is reduced to 9.38 times in FY17 in comparison to 11.40 times in FY16. However, it remains high and the infusion is being done by the HDFC Ltd on a regular basis to maintain capitalization levels at adequate levels. The total CAR stood at 17.56% (FY16- 17.72%) and Tier-I CAR at 10.48% (FY16-8.86%) as on March 31, 2017 as against the regulatorily prescribed Total CAR of 15% and Tier-I CAR at 10%. Tier II capital consists of Subordinate debt of Rs.100 crore and a part of the Perpetual debt of Rs.150 crore. Furthermore, by virtue of being a HDFC subsidiary, HDFC Credila enjoys high capital raising ability and financial flexibility to fund future business expansion.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE’s Policy on Default Recognition](#)

[Criteria for Non Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

[Factor Linkages in Ratings](#)

About the Company

The name of the company has been changed from ‘Credila Financial Services Pvt Ltd’ to ‘HDFC Credila Financial Services Pvt Ltd’ w.e.f. February 19, 2017. HDFC Credila Financial Services Private Ltd. (HDFC Credila), RBI registered NBFC engaged in education loans, was established in February 2006 by Mr Ajay Bohora and Mr Anil Bohora with DSP Merrill Lynch (which held around 40% stake). The company has become a subsidiary of Housing Development Finance Corporation Ltd. (HDFC – rated **CARE AAA; Stable**) in 2010, after HDFC bought DSP Merrill Lynch’s stake. HDFC’s total stake is 81.12% as on March 31, 2017. Considering the conversion of compulsorily convertible preference shares (CCPS), total diluted shareholding of HDFC Ltd. stands at 90.09% as on March 31, 2017. HDFC Credila has eight own offices and at other places, does business through the branches of HDFC. HDFC Credila uses various channels for sourcing and marketing, which include the internet, branch network of HDFC and a few private sector banks, partnering with colleges, education consultants, and test preparation centres, advertising, and direct marketing. Mr V S Rangan, Executive Director of HDFC Ltd, is the chairman of board of HDFC Credila. Mr Ajay Bohora is the co-founder and MD & CEO along with Mr Anil Bohora as the co-founder and COO of HDFC Credila.

Credila’s total loan book stood at Rs.3,194 crore at the end of FY17 (refers to the period April 01 to March 31), registering a growth of 33% Y-o-Y and CAGR of 98% over the last 7 years. The total loan disbursements during FY17 amounted to Rs.

1,336 crore (FY16: Rs.1,102 crore). The company reported a PAT of Rs.65.48 crore in FY17 on a total income of Rs.391.81 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Ravi Kumar

Tel: 022-67543421

Mobile: 9004607603

Email: ravi.kumar@careratings.com

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Annexure-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
-	Issuer rating	-	-	-	0.00	CARE AAA (Is); Stable
INE539K08112	11.75% HDFC Credila Financial Services Private Limited PDIs 2014 July 9	09-07-2014	11.75%	09-07-2024*	50.00	CARE AA+; Stable
INE539K08120	10.50% HDFC Credila Financial Services Private Limited PDIs 2015 January 27	27-01-2015	10.50%	27-01-2025*	50.00	CARE AA+; Stable
INE539K08138	10.50% HDFC Credila Financial Services Private Limited PDIs 2015 June 17	17-06-2015	10.50%	17-06-2025*	50.00	CARE AA+; Stable
INE539K07015	8.99% HDFC Credila August 7, 2017	07-08-2015	8.99%	07-08-2017	200.00	CARE AAA; Stable
INE539K08146	9.30% HDFC Credila October 9, 2025	09-10-2016	9.30%	09-10-2025	100.00	CARE AAA; Stable
INE539K07056	8.25% HDFC Credila November 11, 2021	27-10-2016	8.25%	25-11-2021	300.00	CARE AAA; Stable
INE539K07064	8.00% HDFC Credila February 02, 2022	27-02-2017	8.00%	25-02-2022	200.00	CARE AAA; Stable

*call option dates

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AA+ (Is); Stable (23-Feb-17) 2)CARE AA+ (Is) (21-Sep-16)	1)CARE AA+ (Is) (22-Dec-15)	1)CARE AA+ (Is) (13-Jan-15) 2)CARE AA+ (Is) (14-Apr-14)
2.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)	1)CARE AA (22-Dec-15)	1)CARE AA (13-Jan-15) 2)CARE AA (24-Jun-14)
3.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Stable	-	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (21-Sep-16)	1)CARE AA+ (22-Dec-15)	1)CARE AA+ (13-Jan-15) 2)CARE AA+ (11-Aug-14)
4.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA; Stable (23-Feb-17)	1)CARE AA (22-Dec-15)	1)CARE AA (13-Jan-15)

						2)CARE AA (21-Sep-16)		
5.	Debt-Perpetual Debt	LT	50.00	CARE AA+; Stable	-	1)CARE AA; Stable (23-Feb-17) 2)CARE AA (21-Sep-16)	1)CARE AA (22-Dec-15) 2)CARE AA (10-Jun-15)	-
6.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	-	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (21-Sep-16)	1)CARE AA+ (22-Dec-15) 2)CARE AA+ (19-Oct-15)	-
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AAA; Stable	-	1)CARE AA+; Stable (23-Feb-17) 2)CARE AA+ (26-Oct-16)	-	-
8.	Debentures-Non Convertible Debentures	LT	200.00	CARE AAA; Stable	-	1)CARE AA+; Stable (23-Feb-17)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 99888 05650
 Tel: +91-172-5171 100 / 09
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com