

Rating Rationale

March 29, 2024 | Mumbai

HDFC Credila Financial Services Limited

Long-term rating downgraded to 'CRISIL AA+/CRISIL AA/Stable'; Removed from 'Watch Negative'; Short-term rating reaffirmed

Rating Action

Rs.2500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
Non Convertible Debentures Aggregating Rs.4800 Crore	CRISIL AA+/Stable (Downgraded from 'CRISIL AAA'; Removed from 'Rating Watch with Negative Implications')
Perpetual Bonds Aggregating Rs.300 Crore	CRISIL AA/Stable (Downgraded from 'CRISIL AAA'; Removed from 'Rating Watch with Negative Implications')
Subordinated Debt Aggregating Rs.1225 Crore	CRISIL AA+/Stable (Downgraded from 'CRISIL AAA'; Removed from 'Rating Watch with Negative Implications')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings.

The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the subordinate debt and non-convertible debentures of HDFC Credila Financial Services Ltd (HDFC Credila) from 'Rating Watch with Negative Implications' and downgraded to '**CRISIL AA+**' rating. The rating on perpetual bonds has also been removed from 'Rating Watch with Negative Implications' and has been downgraded to '**CRISIL AA**'. The outlook is '**Stable**'. Also, CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the Rs 2,500 crore commercial paper of the company.

The watch resolution and rating action follows the consummation of the transaction of 90.01% stake sale in HDFC Credila by HDFC Bank Ltd to EQT entities and ChrysCapital entities.

On June 28, 2023, CRISIL Ratings had placed its long-term ratings on HDFC Credila on 'Watch with Negative Implications' following announcement dated June 19, 2023, stating that the company had entered into a definitive agreement with its then parent Housing Development Finance Corporation Ltd, HDFC Bank Ltd, and potential acquirers, EQT group owned Kopvoorn B.V. and ChrysCapital group owned entities Moss Investments Ltd, Defati Investments Holding B.V., and Infinity Partners.

On March 19, 2024, following receipt of necessary approvals, HDFC Bank announced completion of the sale of 90.01% stake in HDFC Credila for Rs 9,552 crore to the incoming investors, with EQT acquiring majority 72% stake, ChrysCapital acquiring 18% and the remaining less than 10% stake being retained by HDFC Bank.

Resultantly, HDFC Credila now ceases to be a subsidiary of HDFC Bank Ltd.

EQT is a global investment organisation with EUR 232 billion in total assets under management (EUR 130 billion in fee-generating assets under management), within two business segments – Private Capital and Real Assets. ChrysCapital is an India focused investment firm with around USD 5 billion assets under management (AUM).

With change in shareholding, CRISIL Ratings has now evaluated the standalone credit profile of HDFC Credila, along with expectation of support from the majority shareholder and lead investor, EQT, both on an ongoing basis and in the event of distress.

The ratings reflect the strengthening capital position of HDFC Credila, with EQT and ChrysCapital having infused primary capital of Rs 2,003.6 crore in fiscal 2024. Additional capital infusion of Rs 2,500 to Rs 2,700 crore is expected in the first half of fiscal 2025, with participation by existing investors as well as induction of a new investor. The ratings also reflect the company's leading market position in the education loans segment and stable profitability trajectory. However, although asset quality metrics have remained stable over the years, with substantial growth in the last 18 months and expected high growth going ahead, a large proportion of the book will remain under moratorium. Thus, asset quality performance will remain a monitorable as the book seasons.

The ratings also centrally factor in the expectation of support from EQT, which will maintain a majority stake post the planned equity raise. Other investors are expected to act in concert with EQT. Any change in the expectation of support from EQT, will be a key rating sensitivity factor.

The rating on the perpetual bonds reflects the subordinated nature of instruments and factor in the extent of buffer over regulatory capital adequacy requirements. CRISIL Ratings believes that HDFC Credila will maintain this cushion going forward.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of HDFC Credila and has factored in expected support from the parent, EQT.

The rating on the perpetual bonds additionally factors in the deeply subordinated nature of these instruments, whereby HDFC Credila is restricted from servicing these instruments if it breaches the minimum regulatory capital requirement or if the regulator denies permission to the company to make payments of interest and principal if it reports a loss.

Key Rating Drivers & Detailed Description

Strengths:

- **Strengthening capitalisation with expectation of additional infusion in near term**

Networth increased to Rs 3,513 crore in the first nine months of fiscal 2024, from Rs 2,435 crore in fiscal 2023 and Rs 1,361 crore in fiscal 2022. This increase in networth was supported by equity infusion of Rs 800 crore in fiscal 2023 and Rs 700 crore in the first quarter of fiscal 2024. Furthermore, the company received primary capital infusion of Rs 1,303.6 crore in March 2024 on completion of the transaction.

Historically, the company has been operating at high leverage, with gearing at 6.8 times as on December 31, 2023, against 5.6 and 5.5 times as on March 31, 2023, and March 31, 2022, respectively; going forward, the company aims to maintain gearing below 5 times on steady state basis. EQT and ChrysCapital are committed to infuse or raise incremental capital as and when required to maintain the said gearing levels on a fast-growing book.

The company plans an equity raise of Rs 2,500 crore to Rs 2,700 crore in the first half of fiscal 2025, wherein a new investor is also expected to participate. This will further enhance the overall capitalisation levels with a networth expected to cross Rs 7,500 crore. Furthermore, adequate internal cash accrual (consistent with return on equity of more than 14% over the past five fiscals) will support capitalisation.

- **Expectation of support from majority shareholder, EQT**

The ratings centrally factor in the expectation of strong support from the majority shareholder and lead investor, EQT, both on an ongoing basis and in the event of distress.

EQT is a global investment organization with EUR 232 billion in total assets under management (EUR 130 billion in fee-generating assets under management), within two business segments – Private Capital and Real Assets. It is one of the largest private equity investors in India and has invested over \$8.0 billion till date. ChrysCapital is an India focused investment firm having made investments of \$4.7 billion since inception. The investments in both cases have been made through funds raised in 2022, with a 10-year horizon, with the option of extending the fund life by another 2 years.

India remains a key target market for the two investors; coupled with the large current and prospective size of the investment in HDFC Credila, this is a strategically important investment for both. EQT and ChrysCapital are aligned on the strategy and value creation plan for HDFC Credila.

Nevertheless, EQT is expected to remain the lead investor, with four Board seats, and a key role in decision making, including with respect to fund raise in case of any exigencies. Both EQT and ChrysCapital normally set aside some capital to support portfolio companies if needed, and this support has been demonstrated in the past with other companies.

EQT also aims at supporting the company in strengthening its business strategies, risk management practices, technology, and cybersecurity.

These steps instilled by the investors, will support HDFC Credila to remain well capitalised for its business needs, remain compliant with contractual and regulatory requirements and in timely discharge of debt obligation.

- **Leading market position in the education loan segment**

HDFC Credila extends financing to students, primarily for overseas education. This includes tuition fees and living expenses. The company's AUM grew to Rs 25,237 crore as on December 31, 2023, from Rs 15,298 crore as on March 31, 2023 (Rs 8,838 crore as on March 31, 2022). This growth has largely come from increased demand and increased penetration in existing key geographies viz the US (56% as on December 31, 2023), the UK (13%) and Canada (16%). With overall industry AUM of education loans estimated at around Rs 1.3 lakh crore as on September 30, 2023, HDFC Credila has a share of around ~17%

The market position is supported by a fair spread of sourcing channels across eight cities in India, from consultants/Direct selling agents (DSAs), HDFC Bank sales, referrals, digital channels and local market activities. Majority of loans financed by HDFC Credila are for Master of Science (MS; 70% as on December 31, 2023) and Master of Business Administration (MBA; 11%) courses; however, the company continues to increase presence in other courses such as bachelors, clinical research, pilot training among others.

The education loans market is a niche segment and a few non-banks are present in this segment. Overseas education financing opportunity has been growing with increase in number of students travelling abroad for higher studies. HDFC Credila has sustained its ability to gain market share from banks and maintain leading position.

Going ahead, the underpenetrated gross enrolment ratio, favourable demographics, and increased interest from students to study abroad, will push growth in the overseas education financing segment.

- **Stable profitability trajectory**

HDFC Credila has demonstrated a stable profitability trajectory, with healthy Net Interest Margins (NIM), low credit cost and range bound operating expenses. With yield of around 10.9%, NIMs have ranged from 3.7% to 4%. Credit costs given the low delinquency levels, was contained at ~0.1-0.2% in fiscals 2021 to the nine months of fiscal 2024. Operating expenses also remained in the range of 1-1.3% over this period; investments to strengthen its technology and digital base have

partially shaved off the operating efficiency that HDFC Credila would have otherwise enjoyed owing to substantial scaling up of AUM.

Consequently, HDFC Credila reported return on average assets (ROAA) above 2% for over five fiscals. ROAA was 2.3% in the nine months of fiscal 2024, against 2.2% in fiscal 2023 and 2.6% in fiscal 2022. The decline in the current fiscal was due to increase in the cost of funds; however, overall profitability remains comfortable.

HDFC Credila's NIMs may see some downward pressure as the benefit on the cost of funds owing to HDFC Bank's parentage may be diluted. The management aims to operate at lower steady state gearing of 5 times and increase avenues to generate other income through cross sell, which should partly offset the impact of increased cost of funds.

Improvement in the company's profitability will depend on its ability to generate operating efficiencies and maintain credit costs.

Weakness:

- **Asset quality performance to be seen given high growth in the portfolio**

Asset quality has been stable with gross stage 3 assets having improved to 0.08% (Rs 21.4 crore) as on December 31, 2023, from 0.17% (Rs 25.4 crore) as on March 31, 2023, and 0.57% (Rs 50.6 crore) as on March 31, 2022.

As on December 31, 2023, AUM under principal moratorium was 87% and the remaining were equated monthly instalment (EMI) based loans; therefore, even when 90+ days past due (dpd) on the EMI book is assessed basis one-year lag, it remains benign at 0.7%. The peak delinquencies on vintage pool, the 90+ dpd remains below 1% with write offs of merely Rs 1.79 crore since inception.

HDFC Credila's loan book grew 65% in the nine months of fiscal 2024 to Rs 25,237 crore as on December 31, 2023, from Rs 15,298 crore as on March 31, 2023, and Rs 8,838 crore as on March 31, 2022. Given high growth in recent years, 87% of the loans are in moratorium, and hence, the seasoning of the loan portfolio is limited and remains monitorable.

The loans generally have a two-year moratorium to cover the study period and one year grace period, post which the repayment cycle begins. However, HDFC Credila historically has been receiving high level of prepayments with behavioural loan tenure of 4 to 5 years and prepayments and foreclosures ranging between 31% and 47% of the disbursed amount by the time the EMI is due to start. This reflects the quality of underwritten students, their healthy employability trends and co-borrower credentials.

The company has made investments to develop systems such as data lake and analytics which will be used to underwrite the borrower based on past trends. It has also put in place appropriate systems and processes to underwrite loans. Post sanctions there is a defined process for monitoring the loans during moratorium and when in grace period. Although only ~22% of the loans are secured, HDFC Credila has a coborrower for most of the loans extended in India as a risk mitigant.

Nevertheless, given the high growth, the ability to manage asset quality will need to be demonstrated over a longer period.

Liquidity : Strong

The company has adequate liquidity of Rs 2,111 crore in the form of cash bank balances and liquid investments and unutilised bank lines of Rs 1,355 crore as on December 31, 2023; this is sufficient to meet debt repayments over June 2024. Liquidity coverage ratio was comfortable at 134% for third quarter of fiscal 2024 against the regulatory minimum of 85%. The company as practice will maintain liquidity to meet upto 45 to 50 days of maturities and net disbursements.

Outlook Stable

CRISIL Rating expects HDFC Credila to maintain healthy capitalisation, sustain growth momentum and benefit from support from its parent, EQT

Rating Sensitivity factors

Upward factors:

- Significant ramp up in scale of operations while maintaining asset quality
- Improvement in profitability metrics
- Improvement in market position

Downward factors:

- Change in the support stance of EQT or material change in EQT's shareholding, or downward revision in the credit profile of EQT in CRISIL Ratings' view
- Any sustained deterioration in asset quality and earnings profile of the company
- Weakening in capitalization metrics with gearing greater than 6 times on sustained basis

About the Company

HDFC Credila was incorporated on February 1, 2006, promoted by Mr Anil Bohora and Mr Ajay Bohora. The company is registered as a non-deposit taking NBFC with the Reserve Bank of India. It is in the business of originating, funding, and servicing educational loans. With HDFC buying out the promoters' stake in fiscal 2020, the company became a wholly owned subsidiary of HDFC since December 12, 2019. In March 2024, EQT and ChrysCapital acquired 72% and 18% stake in HDFC Credila and remaining less than 10% is held by HDFC Bank,

HDFC Credila has eight offices, and a network of 17 branches from where it conducts its business activities. The company uses various channels for sourcing and marketing, which include the internet, branch network of HDFC Bank and a few private sector banks, partnering with colleges, education consultants, and test preparation centres, advertising, and direct marketing.

The loan book (gross) was at Rs 25,237 crore as on December 31, 2023, and Rs 15,298 crore as on March 31, 2023 (Rs 8,838 crore as on March 31, 2022).

For fiscal 2023, profit after tax (PAT) was Rs 276 crore on total income of Rs 1352 crore, against a PAT of Rs 206 crore on total income of Rs 824 crore for the previous fiscal. For nine months of fiscal 2024, profit after tax (PAT) was Rs 379 crore on total income of Rs 1897 crore.

Key Financial Indicators

As on/for the period ended		Dec 2023	Mar-23	Mar-2022
Total Assets	Rs crore	27,434	16,446	9,107
Total income	Rs crore	1897	1352	824
PAT	Rs crore	379	276	206
Gross stage 3 assets	%	0.08	0.17	0.57
Gearing	Times	6.7	5.6	5.5
Return on assets (annualised)	%	2.3	2.2	2.6

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity level	Rating outstanding with Outlook
NA	Subordinated debt*	NA	NA	NA	135	Simple	CRISIL AA+/Stable
INE539K08245	Subordinated debt	26-Feb-2024	9.60%	24-Feb-2034	75	Simple	CRISIL AA+/Stable
INE539K08245	Subordinated debt	29-Dec-2023	9.60%	29-Jun-2029	290	Simple	CRISIL AA+/Stable
NA	Non-convertible debentures*	NA	NA	NA	1700	Simple	CRISIL AA+/Stable
INE539K07254	Non-convertible debentures	29-Mar-2023	8.25%	29-Mar-2028	300	Simple	CRISIL AA+/Stable
INE539K08237	Perpetual bonds	31-Jan-2023	8.15%	Perpetual^	200	Highly complex	CRISIL AA/Stable
INE539K07239	Non-convertible debentures	14-Oct-2022	8.17%	14-Oct-2032	500	Simple	CRISIL AA+/Stable
INE539K07247	Non-convertible debentures	24-Nov-2022	7.95%	24-Nov-2032	150	Simple	CRISIL AA+/Stable
INE539K08229	Perpetual bonds	30-Aug-2022	8.36%	Perpetual^	100	Highly complex	CRISIL AA/Stable
INE539K08211	Subordinated debt	25-Jul-2022	8.25%	23-Jul-2032	175	Complex	CRISIL AA+/Stable
INE539K08203	Subordinated debt	04-Jul-2022	8.40%	30-Jun-2032	200	Complex	CRISIL AA+/Stable
INE539K07221	Non-convertible debentures	07-Jul-2022	8.15%	07-Jul-2032	300	Simple	CRISIL AA+/Stable
INE539K07213	Non-convertible debentures	25-Feb-2022	7.30%	23-Feb-2029	200	Simple	CRISIL AA+/Stable
INE539K07205	Non-convertible debentures	01-Feb-2022	7.50%	30-Jan-2032	200	Simple	CRISIL AA+/Stable
INE539K07197	Non-convertible debentures	25-Nov-2021	3M T-Bill Linked	25-Nov-2024	300	Simple	CRISIL AA+/Stable
INE539K07189	Non-convertible debentures	02-Aug-2021	7.23%	01-Aug-2031	250	Simple	CRISIL AA+/Stable
INE539K07171	Non-convertible debentures	13-Nov-2020	7.00%	12-Nov-2027	200	Simple	CRISIL AA+/Stable
INE539K07148	Non-convertible debentures	31-Jan-2020	8.00%	31-Jan-2025	200	Simple	CRISIL AA+/Stable
INE539K07114	Non-convertible debentures	17-June-2019	8.62%	17-June-2024	100	Simple	CRISIL AA+/Stable
INE539K07122	Non-convertible debentures	08-July-2019	8.85%	06-July-2029	200	Simple	CRISIL AA+/Stable
INE539K07130	Non-convertible debentures	01-Aug-2019	8.70%	01-Aug-2029	200	Simple	CRISIL AA+/Stable

INE539K08195	Subordinated debt	6-June-2019	9.12%	6-June-2029	150	Complex	CRISIL AA+/Stable
INE539K08146	Subordinated debt	9-Oct-2015	9.30%	9-Oct-2025	100	Complex	CRISIL AA+/Stable
INE539K08153	Subordinated debt	24-Jul-2017	8.20%	23-Jul-2027	50	Complex	CRISIL AA+/Stable
INE539K08161	Subordinated debt	16-Nov-2017	8.10%	16-Nov-2027	50	Complex	CRISIL AA+/Stable
NA	Commercial paper programme	NA	NA	7 to 365 days	2500	Simple	CRISIL A1+

*Yet to be issued

^Not applicable as perpetual debt instrument

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	2500.0	CRISIL A1+	20-02-24	CRISIL A1+	22-12-23	CRISIL A1+	17-08-22	CRISIL A1+	23-08-21	CRISIL A1+	CRISIL A1+
			--		--	26-09-23	CRISIL A1+	01-08-22	CRISIL A1+	12-02-21	CRISIL A1+	--
			--		--	17-07-23	CRISIL A1+	19-07-22	CRISIL A1+		--	--
			--		--	28-06-23	CRISIL A1+	27-06-22	CRISIL A1+		--	--
			--		--	28-04-23	CRISIL A1+	18-02-22	CRISIL A1+		--	--
			--		--	20-01-23	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	4800.0	CRISIL AA+/Stable	20-02-24	CRISIL AAA/Watch Negative	22-12-23	CRISIL AAA/Watch Negative	17-08-22	CRISIL AAA/Stable	23-08-21	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	26-09-23	CRISIL AAA/Watch Negative	01-08-22	CRISIL AAA/Stable	12-02-21	CRISIL AAA/Stable	--
			--		--	17-07-23	CRISIL AAA/Watch Negative	19-07-22	CRISIL AAA/Stable		--	--
			--		--	28-06-23	CRISIL AAA/Watch Negative	27-06-22	CRISIL AAA/Stable		--	--
			--		--	28-04-23	CRISIL AAA/Watch Developing	18-02-22	CRISIL AAA/Stable		--	--
			--		--	20-01-23	CRISIL AAA/Stable		--		--	--
Perpetual Bonds	LT	300.0	CRISIL AA/Stable	20-02-24	CRISIL AAA/Watch Negative	22-12-23	CRISIL AAA/Watch Negative	17-08-22	CRISIL AAA/Stable		--	--
			--		--	26-09-23	CRISIL AAA/Watch Negative	01-08-22	CRISIL AAA/Stable		--	--
			--		--	17-07-23	CRISIL AAA/Watch Negative		--		--	--
			--		--	28-06-23	CRISIL AAA/Watch Negative		--		--	--
			--		--	28-04-23	CRISIL AAA/Watch Developing		--		--	--
			--		--	20-01-23	CRISIL AAA/Stable		--		--	--
Subordinated Debt	LT	1225.0	CRISIL AA+/Stable	20-02-24	CRISIL AAA/Watch Negative	22-12-23	CRISIL AAA/Watch Negative	17-08-22	CRISIL AAA/Stable	23-08-21	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	26-09-23	CRISIL AAA/Watch Negative	01-08-22	CRISIL AAA/Stable	12-02-21	CRISIL AAA/Stable	--
			--		--	17-07-23	CRISIL AAA/Watch Negative	19-07-22	CRISIL AAA/Stable		--	--
			--		--	28-06-23	CRISIL AAA/Watch Negative	27-06-22	CRISIL AAA/Stable		--	--
			--		--	28-04-23	CRISIL AAA/Watch Developing	18-02-22	CRISIL AAA/Stable		--	--
			--		--	20-01-23	CRISIL AAA/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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