April 03, 2024

To,
The Manager
Listing Department
BSE Limited, P.J. Towers,
Dalal Street, Mumbai – 400001, Maharashtra

Dear Sir/Madam,

Sub: Intimation under Regulation 51 of the Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations")

Pursuant to Regulation 51(1) & 51 (2) read with Part B of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that ICRA Limited has revised (downgraded) the long term ratings on Non-convertible debentures, Non-convertible subordinated debentures, Perpetual debt and Bank lines and short-term ratings have been reaffirmed.

The rationale has been annexed herewith.

Yours faithfully

For HDFC Credila Financial Services Limited

Manjeet Pawankumar Bijlani

Digitally signed by Manjeet Pawankumar Bijlani
Date: 2024.04.03 16:03:05 +05'30'

Manjeet Bijlani
Chief Financial Officer

April 02, 2024

HDFC Credila Financial Services Limited: Long-term ratings downgraded and removed from rating watch with negative implications; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	900.00	900.00	[ICRA]AA (Stable); Rating downgraded from [ICRA]AAA and removed from Rating Watch with Negative Implications
Non-convertible subordinated debenture programme	750.00	750.00	[ICRA]AA (Stable); Rating downgraded from [ICRA]AAA and removed from Rating Watch with Negative Implications
Perpetual debt programme	275.00	275.00	[ICRA]AA- (Stable); Rating downgraded from [ICRA]AA+ and removed from Rating Watch with Negative Implications
Bank lines programme	8,000.00	8,000.00	[ICRA]AA (Stable); Rating downgraded from [ICRA]AAA and removed from Rating Watch with Negative Implications
Commercial paper programme	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Total	**12,425.00**	**12,425.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating revision factors in the change in HDFC Credila Financial Services Limited's (Credila) ownership, whereby it has ceased to be a subsidiary of HDFC Bank {HDFC Bank; rated [ICRA]AAA (Stable)[1]}, with the bank's shareholding declining below 10%. ICRA had previously placed the long-term ratings on Watch with Negative Implications, factoring in the impending change in the shareholding. With all the requisite approvals in place, the 90% stake sale by HDFC Bank to Kopvoorn B.V. (a part of the EQT Group; EQT) and Moss Investments Limited, Defati Investments Holding B.V. and Infinity Partners (which are a part of the ChrysCapital Group; ChrysCapital) was concluded on March 19, 2024. Pursuant to the transaction, EQT and ChrysCapital hold a stake of 72% and 18%, respectively, in the company with HDFC Bank holding less than 10%. Given the change in the shareholding, the long-term ratings now factor in Credila's standalone credit profile.

The ratings factor in Credila's strong domain knowledge in student education loans and experienced core management team, resulting in good asset quality. Credila is a market leader in the overseas education loan segment. The company's scale of operations has increased significantly over the last two years with assets under management (AUM) of Rs. 25,237 crore as on December 31, 2023 (Rs. 8,838 crore as on March 31, 2022). Credila's capitalisation was previously supported by regular equity infusions by the HDFC Group and healthy internal accruals. The new investors had committed a primary 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 (~Rs. 1,304 crore) was received in March 2024. With the conclusion of the transaction, the gearing is likely to be ~5.2x as on March 31, 2024. Further, ICRA expects sizeable equity infusions in early FY2025 to support the strong growth trajectory while keeping the managed gearing below 5x. The earnings profile has remained comfortable so far, supported by moderate credit costs, competitive funding costs, and the operating synergies arising from being a part of the HDFC Group. ICRA expects Credila to maintain comfortable profitability amid the impact of the recent changes and this will remain a monitorable.

[1] *Non-convertible debentures*

The ratings remain constrained by the monoline nature of operations with student education loans accounting for the entire loan book. Apart from being unsecured, education loans have inherent risks, given their long tenures, moratorium period and exposure to economic cycles impacting employment opportunities. Further, the portfolio remains exposed to geographical risks. The company's ability to grow its portfolio while maintaining the profitability and asset quality will be a key rating factor.

The Stable outlook is driven by ICRA's expectation that Credila will continue to grow its scale of operations while maintaining good asset quality and comfortable profitability with the managed gearing remaining below 5x.

Key rating drivers and their description

Credit strengths

Established presence in education loan segment with demonstrated 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). ICRA notes that the growth in the loan book during the last two years was also supported by the elevated interest rates in the US and the UK, thereby improving the preference of students for loans from domestic markets.

The management team has significant experience in the education loan segment. 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 the 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) with cumulative write-offs of only Rs. 1.79 crore since inception. The ability to maintain the asset quality through business cycles will remain a monitorable.

Capitalisation to be supported by equity infusions from shareholders – The company had a net worth of Rs. 3,513 crore as on December 31, 2023 with a reported capital adequacy ratio (CAR) of 16.7% (Tier I ratio –12.8%) and a gearing of 6.7x as on December 31, 2023 (5.7x as of March 31, 2023). The capitalisation was previously supported by regular equity infusions by the HDFC Group (Rs. 2,235 crore since FY2017 and Rs. 700 crore in June 2023) and healthy internal accruals. With the conclusion of the transaction, the new investors (EQT and ChrysCapital) have infused the committed ~Rs. 1,304 crore, leading to a pro forma gearing of ~5.2x. Given the strong growth trajectory, the investors are likely to infuse sizeable equity capital into the company in early FY2025 as well, supporting the medium-term growth plans while maintaining the managed gearing at less than 5x.

Comfortable earnings profile, supported by moderate credit costs – The company's cost of funds increased in 9M FY2024 with the rising interest rates and the impending change in the shareholding as well as the increase in the risk weight for bank lending to NBFCs. While a part of the increase in the cost of funds was passed on to borrowers, Credila's lending spreads were impacted. Along with the compression in spreads, the gearing increased in 9M FY2024 with the significant growth in the loan book, leading to a decline in the net interest margin (NIM). The impact of lower NIMs was offset by the higher non-interest income with the increase in fees earned on cross-selling and better operating leverage. Credit costs remained moderate at 0.2% of average total assets (ATA) in 9M FY2024 (annualised) compared to 0.1% in FY2023. Credila reported 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.

While a part of the increase in the cost of funds already occurred in FY2024, ICRA expects that there could be a further rise with the conclusion of the transaction. Credila's ability to pass on the increased cost of funds would have a bearing on the spreads. The impact of the same on NIMs is likely to be partially offset by the lower gearing at which the company is expected to operate, going forward. ICRA expects the profitability to remain comfortable, supported by low operating expenses and moderate credit costs. ICRA also notes that the company will not be able to use the HDFC brand in due course, though it had been using the Credila brand prior to becoming a part of the HDFC Group. Hence, the impact of the brand change shall not be material, though it will remain a monitorable from a market position perspective.

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 have a specified and monitored end use unlike personal loans. Recently disbursed loans also accounted for a high share of the 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. Thus, the portfolio remains exposed to economic conditions in these geographies, which could impact the employment prospects for the students.

Credila's focus on relatively premium segments and its track record in these segments provide comfort. A large portion of the total loan book (98%) 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. The company's focus is likely to remain on the education loan segment.

Liquidity position: Adequate

As on February 29, 2024, the company held Rs. 2,288 crore of cash and liquid investments along with Rs. 276 crore of unutilised bank lines against total debt (including interest payments) of Rs. 3,500 crore scheduled to mature in the next six months (i.e. until August 2024).

Rating sensitivities

Positive factors – The ability to scale up its operations with an improvement in the profitability, while maintaining adequate capitalisation and good asset quality indicators on a sustained basis, will be a positive factor.

Negative factors – Pressure on the ratings could arise on an increase in the managed gearing beyond 5x or a deterioration in the asset quality indicators, impacting the earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
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. In January 2008, DSP Merrill Lynch acquired a 40% stake in the company on a fully-diluted basis. In 2009, erstwhile 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 Credila stood at ~91% on a fully-diluted basis on September 30, 2019. On December 12, 2019, HDFC 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. On completion of the transaction on March 19, 2024, HDFC Bank's shareholding in Credila reduced to 9.99% and Credila ceased to be a subsidiary of HDFC Bank with the transfer of their shareholding to

Kopvoorn B.V. (a part of the EQT Group) and Moss Investments Limited, Defati Investments Holding B.V. and Infinity Partners (which are a part of the ChrysCapital Group).

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 AUM.

Credila reported a net profit of Rs. 276 crore in FY2023 and total assets of Rs. 16,446 crore against a net profit of Rs. 206 crore in FY2022 and 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 (times)	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: HDFC Credila, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 15, 2024 (Rs. crore)	Current Rating (FY2025)	Chronology of Rating History for the Past 3 Years								
					Date & Rating in FY2025	Date & Rating in FY2024				Date & Rating in FY2023				Date & Rating in FY2022
					Apr-02-2024	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
1	Non-convertible subordinated debenture programme	Long term	500	-	[ICRA]AA (Stable)	[ICRA]AAA; Rating Watch with Negative Implications	[ICRA]AAA; Rating Watch with Negative Implications	-	-	-	-	-	-	-
2	Non-convertible debenture programme	Long term	900	900	[ICRA]AA (Stable)	[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)
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)
4	Non-convertible subordinated debenture programme	Long term	250	250	[ICRA]AA (Stable)	[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)
5	Perpetual debt programme	Long term	275	275	[ICRA]AA- (Stable)	[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)
6	Commercial paper programme	Short term	2,500	1,200	[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	7,886	[ICRA]AA (Stable)	[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)

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]AA (Stable)
INE539K08195	Non-convertible subordinated debenture programme	Jun-06-2019	9.12%	Jun-06-2029	150	[ICRA]AA (Stable)
INE539K08161	Non-convertible subordinated debenture programme	Nov-16-2017	8.10%	Nov-16-2027	50	[ICRA]AA (Stable)
Not yet placed^	Non-convertible subordinated debenture programme	NA	NA	NA	500	[ICRA]AA (Stable)
INE539K08179	Perpetual debt programme	Dec-08-2017	8.75%	NA#	50	[ICRA]AA- (Stable)
INE539K08187	Perpetual debt programme	Jun-06-2018	9.35%	NA#	75	[ICRA]AA- (Stable)
INE539K08112	Perpetual debt programme	Jul-09-2014	11.75%	NA#	50	[ICRA]AA- (Stable)
INE539K08120	Perpetual debt programme	Jan-27-2015	10.50%	NA#	50	[ICRA]AA- (Stable)
INE539K08138	Perpetual debt programme	Jun-17-2015	10.50%	NA#	50	[ICRA]AA- (Stable)
INE539K07114	Non-convertible debenture programme	Jun-17-2019	8.62%	Jun-17-2024	100	[ICRA]AA (Stable)
INE539K07122	Non-convertible debenture programme	Jul-08-2019	8.85%	Jul-06-2029	200	[ICRA]AA (Stable)
INE539K07130	Non-convertible debenture programme	Aug-01-2019	8.70%	Aug-01-2029	200	[ICRA]AA (Stable)
INE539K07148	Non-convertible debenture programme	Jan-31-2020	8.00%	Jan-31-2025	200	[ICRA]AA (Stable)
INE539K07171	Non-convertible debenture programme	Nov-13-2020	7.00%	Nov-12-2027	200	[ICRA]AA (Stable)
INE539K14BJ0	Commercial paper programme	Feb-08-2024	8.98%	Feb-06-2025	250	[ICRA]A1+
INE539K14BK8	Commercial paper programme	Feb-26-2024	8.98%	Feb-24-2025	250	[ICRA]A1+
INE539K14BL6	Commercial paper programme	Feb-29-2024	8.98%	Feb-27-2025	250	[ICRA]A1+
INE539K14BM4	Commercial paper programme	Mar-15-2024	8.50%	Jun-13-2024	450	[ICRA]A1+
Not yet placed^	Commercial paper programme	-	-	7-365 days	1,300	[ICRA]A1+
-	Bank lines – Long-term fund based	-	-	-	**8,000**	**[ICRA]AA (Stable)**

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 Reserve Bank of India (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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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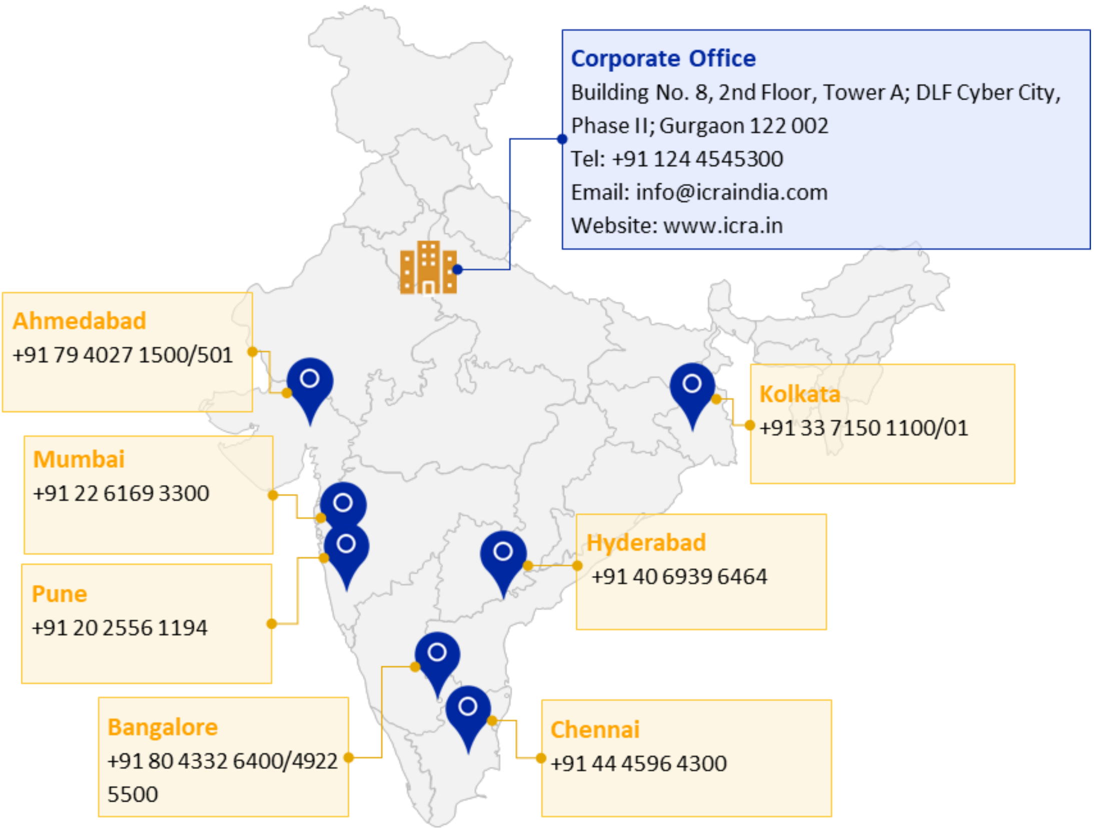

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