

## Cholamandalam Investment and Finance Company Limited

September 27, 2017

### Ratings

Instrument	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Subordinated Debt – I	100.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA (Double AA)
Subordinated Debt – II	250.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA (Double AA)
Subordinated Debt – III	115.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA (Double AA)
Perpetual Debt Instrument – I	397.70	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
Perpetual Debt Instrument – II	200.00	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
Perpetual Debt Instrument – III	200.00	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
Perpetual Debt Instrument – IV	100.00	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
Perpetual Debt Instrument – V	50.00	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
Perpetual Debt Instrument – VI	100.00	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
Perpetual Debt Instrument - VI	25.0	CARE AA; Stable (Double A Outlook: Stable)	Revised from CARE AA- (Double A Minus)
<b>Total</b>	1,537.70 <b>(Rupees One thousand Five hundred Thirty Seven crore and Seventy lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the debt instruments of Cholamandalam Investment and Finance Company Limited (CIFCL) factors in the continuous improvement in financial performance of the company in the last three years ended March 31, 2017, supported by significant growth in AUM and relatively stable asset quality on comparable basis (90+ dpd & 120+ dpd basis).

The ratings continue to factor in the strong parentage of Murugappa group, established track record of CIFCL in the commercial vehicle financing supported by established pan-India branch network, geographically diversified loan portfolio, comfortable liquidity profile and diversified funding profile. The ratings take note of moderation in asset quality in Home Equity Segment wherein 90+ dpd has increased from 2.4% as on March 31, 2015 to 5.7% as on March 31, 2017, whereas 90+dpd of Vehicle Finance segment improved from 5.9% to 3.6% during the corresponding period resulting in improvement in 90+dpd of 4.2% of AUM as on March 31, 2017 as against 4.8% as on March 31, 2015.

Going forward, the ability of the company to maintain asset quality in Vehicle Finance segment and improve asset quality in Home equity segment, improve capitalisation and maintain profitability levels while growing its loan portfolio are the key rating sensitivities

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Strong parentage of Murugappa group**

The Murugappa group is a well-diversified group in India with presence in several sectors like bicycles, fertilisers, sugar, abrasives, refractors, steel tubes, financial services, etc. The group operates in 28 business lines, with manufacturing

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com)

facilities spread across 13 states in India. The Murugappa group holds around 53.08% (as on June 30, 2017) in CIFCL. The group companies of CIFCL include Tube Investments of India Limited, EID Parry (India) Limited, Coromandel International Limited and Carborundum Universal Limited. The Group recorded a turnover of Rs.30,023 crore during FY17 (refers to the period April 01 to March 31), with EBITDA of Rs.4,065 crore and PBT of Rs.2,973 crore.

***Established track record of CIFCL supported by established pan-India branch network***

CIFCL has an experienced key management team which has been with the group for more than a decade, on an average. Mr N. Srinivasan, MD has experience of more than three decades in the industry and was earlier non-executive director in the board of CIFCL since 2006. With more than three decades of existence, CIFCL has built up a strong franchise across India.

***Geographically diversified loan portfolio***

During FY17, the company has expanded its branch network from 534 to 703. With addition of these new branches across geographies, Southern India accounts for 29 % of branch network followed by Northern India (24%), Western India (24%) and Eastern India (23%). In terms of portfolio outstanding, top 4 states contribute around 42% of AUM as on March 31, 2017 (PY: 42%) with top state contributing 11.2% as on same date.

***Continuous improvement in financial performance supported by significant improvement size***

During the period from FY15-FY17, total income grew at CAGR of 13% supported by growth in AUM. The total income has increased from Rs.3,691 crore in FY15 to Rs.4,660 crore in FY17. During the same period, AUM and loan portfolio witnessed CAGR of 14%. Growth in this period was supported by equity infusion and internal accruals with net worth growing at CAGR of 23% while total debt growing at CAGR of 10% during the period under reference. Same has resulted in improvement in leverage and Tier-I CAR with, Tier-I CAR improving from 13.02% as on March 31, 2015 to 13.61% as on March 31, 2017.

Profitability parameters have also seen continuous improvement with NIM and ROTA improving continuously. NIM remained at 8.29% in FY17 (PY: 8.29%) with decrease in cost of borrowings in line with drop in yield during the period. During FY17, there has been an increase in employee expenses due to the expansion of branches from 534 in FY16 to 703 in FY17. ROTA improved from 2.21% during FY16 to 2.48% during FY17 on account of lesser credit costs.

During Q1FY18, the company generated total income of Rs.1,235 crore registering growth of 11% and PAT of Rs.207 crore as against Rs.165 crore during Q1FY17 (Y-o-Y growth of 25%).

***Adequate capitalisation levels and comfortable liquidity profile***

As on March 31, 2017, CAR and Tier-I CAR stood at 18.64% and 13.61% as against 19.68% and 13.26% as on March 31, 2016 respectively. CIFCL has been able to attract equity infusion from promoters and various investors in the past (Rs.250 crore in FY11, Rs.212 crore in FY12, Rs.300 crore in FY13 and Rs.500 crore in FY15). ALM stood comfortable with no cumulative mismatches in any of the time buckets.

***Diversified funding profile***

CIFCL's bank borrowings are diversified with borrowings from various banks which include a good mix of both public and private sector banks. Bank borrowing as a % of total borrowing has declined from 49% as on March 31, 2016 to 32% as on March 31, 2017, whereas the borrowings from NCD has increased from 22% as on March 31, 2016 to 43% as on March 31, 2017. As a result, the average cost of borrowings decreased from 9.75% in FY16 to 9.54% in FY17. CIFCL has also been mobilising funds through securitisation route.

***Relatively stable asset quality on comparable basis; while HE segment witnessed moderation in asset quality vehicle finance shown improvement in asset quality***

During FY17, CIFCL has changed its NPA recognition from 120+ DPD to 90+ DPD which resulted in moderation in reported asset quality. GNPA and NNPA (90+ DPD) stood at 4.66% and 3.19% (on AUM basis) as on March 31, 2017. On a comparable basis considering 120+ dpd, GNPA and NNPA stood at 3.54% (PY: 3.55%) and 2.17% (PY: 2.14%) as on March 31, 2017.

90+ DPD for vehicle finance has improved from 4.4% of AUM as on March 31, 2016 to 3.5% of AUM as on March 31, 2017. While the asset quality has improved in vehicle finance segment, the same has been off-set by increase in NPAs in Home Equity. Though, the level of NPA is in increasing trend in HE segment, there have been no losses in the segment as the loans are backed by adequate collateral which are predominantly self-occupied residential property and the average LTV is lower in the segment. With focus on asset quality, CIFCL has slowed down the disbursement in HE during FY17.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

[Financial Ratios-Financial Sector](#)

[CARE's Rating Methodology for Non-Banking Finance Companies \(NBFCs\)](#)

**About the Company**

CIFCL is a Non-Banking Finance Company promoted by the Chennai-based Murugappa group, having a track record of over three decades. As on June 30, 2017, the promoter group held 53.08% stake in CIFCL. At present, CIFCL has major presence in the segments such as Vehicle Financing (VF, mainly new Commercial Vehicles), Home Equity (HE, which is

Loan against Property – Retail), Home loans and MSME. The share of VF & HE segments accounted for around 97% of the total AUM of the company as on March 31, 2017. The company also lends Home loans and Agricultural loans, however share of these segments in total AUM was negligible as on March 31, 2017.

The company has 703 branches as on March 31, 2017 (PY: 534 branches) spread across 25 states/UTs across India with AUM of Rs.34,678 crore, of which share of Vehicle Finance was 69% and Home Equity was 28% as on March 31, 2017.

Brief Financials (Rs.crore)	FY16(A)	FY17(A)
Total Income	4,193	4,660
PAT	568	719
Interest coverage(times)	1.42	1.50
Total Assets	27,607	30,406
Net NPA(%)	2.14\$	3.19#
ROTA(%)	2.21	2.43

A-Audited \$based on 120+dpd; #based on 90+dpd

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Perpetual Debt Issue	11-Oct-10	12.05%	150.00	12-Oct-20	CARE AA; Stable
Perpetual Debt Issue	29-Jun-11	12.50%	101.05	29-Jun-21	CARE AA; Stable
Perpetual Debt Issue	22-Jul-11	12.50%	20.65	22-Jul-21	CARE AA; Stable

Perpetual Debt Issue	18-Aug-11	12.50%	16.00	18-Aug-21	CARE AA; Stable
Perpetual Debt Issue	7-Dec-11	12.50%	75.00	7-Dec-21	CARE AA; Stable
Perpetual Debt Issue	6-Jan-12	12.50%	35.00	6-Jan-22	CARE AA; Stable
Perpetual Debt Issue	26-Dec-11	12.95%	100.00	27-Dec-21	CARE AA; Stable
Perpetual Debt Issue	1-Mar-12	12.50%	10.00	1-Mar-22	CARE AA; Stable
Perpetual Debt Issue	13-Dec-12	12.80%	90.00	13-Dec-22	CARE AA; Stable
Perpetual Debt Issue	6-Aug-12	12.90%	50.00	8-Aug-22	CARE AA; Stable
Perpetual Debt Issue	22-Aug-12	12.90%	50.00	22-Aug-22	CARE AA; Stable
Perpetual Debt Issue	25-Sep-12	12.75%	25.00	26-Sep-22	CARE AA; Stable
Perpetual Debt Issue	13-Dec-12	12.80%	75.00	13-Dec-22	CARE AA; Stable
Perpetual Debt Issue	23-Oct-13	12.60%	24.50	23-Oct-23	CARE AA; Stable
Perpetual Debt Issue	27-Dec-13	12.60%	12.00	26-Dec-23	CARE AA; Stable
Perpetual Debt Issue	27-Dec-13	12.50%	26.10	27-Dec-23	CARE AA; Stable
Perpetual Debt Issue	23-Jan-14	12.60%	5.00	23-Jan-24	CARE AA; Stable
Perpetual Debt Issue	23-Feb-14	12.90%	25.00	23-Feb-24	CARE AA; Stable
Perpetual Debt Issue	30-Oct-13	12.90%	50.00	30-Oct-23	CARE AA; Stable
Perpetual Debt Issue	27-Jun-14	12.90%	25.00	27-Jun-24	CARE AA; Stable
Perpetual Debt Issue	27-Dec-13	12.50%	60.00	27-Dec-23	CARE AA; Stable
Perpetual Debt Issue	27-Dec-13	12.50%	5.00	27-Dec-23	CARE AA; Stable
Perpetual Debt Issue	9-Jul-14	12.90%	17.40	27-Jun-24	CARE AA; Stable
Perpetual Debt Issue	27-Aug-14	12.80%	25.00	27-Aug-24	CARE AA+; Stable
Subordinate Debt Issue	26-Jun-12	11.25%-11.40%	100.00	5-Dec-22	CARE AA+; Stable
Subordinate Debt Issue	30-Sep-13	11.00%	15.00	29-Sep-23	CARE AA+; Stable
Subordinate Debt Issue	30-Oct-13	11.00%	15.00	30-Oct-20	CARE AA+; Stable
Subordinate Debt Issue	30-Jan-14	11.00%	25.00	30-Jan-24	CARE AA+; Stable
Subordinate Debt Issue	24-Feb-14	11.00%	20.00	23-Feb-24	CARE AA+; Stable
Subordinate Debt Issue	24-Feb-14	11.00%	10.00	24-Feb-21	CARE AA+; Stable
Subordinate Debt Issue	26-Mar-14	11.00%	25.00	26-Mar-24	CARE AA+; Stable
Subordinate Debt Issue	26-Mar-14	11.00%	10.00	26-Mar-21	CARE AA+; Stable
Subordinate Debt Issue	25-Apr-14	11.00%	25.00	25-Apr-24	CARE AA+; Stable
Subordinate Debt Issue	17-May-14	11.00%	5.00	20-May-24	CARE AA+; Stable
Subordinate Debt Issue	30-May-14	11.30%	100.00	28-May-21	CARE AA+; Stable

Subordinate Debt Issue	11-Jun-14	11.00%	15.00	11-Jun-24	CARE AA+; Stable
Subordinate Debt Issue	18-Jun-14	11.30%	100.00	18-Jun-21	CARE AA+; Stable

**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.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Jul-14)
2.	Bonds-Perpetual Bonds	LT	397.70	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (17-Jul-14)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Jul-14)
4.	Debt-Perpetual Debt	LT	200.00	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (17-Jul-14)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Jul-14)
6.	Debt-Subordinate Debt	LT	100.00	CARE AA+; Stable	-	1)CARE AA (28-Oct-16)	1)CARE AA (13-Jul-15)	1)CARE AA (17-Jul-14)
7.	Debt-Perpetual Debt	LT	200.00	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (17-Jul-14)
8.	Debt-Perpetual Debt	LT	100.00	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (17-Jul-14)
9.	Debt-Subordinate Debt	LT	250.00	CARE AA+; Stable	-	1)CARE AA (28-Oct-16)	1)CARE AA (13-Jul-15)	1)CARE AA (17-Jul-14)
10.	Debt-Perpetual Debt	LT	50.00	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (17-Jul-14)
11.	Debt-Perpetual Debt	LT	100.00	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (17-Jul-14)
12.	Debt-Subordinate Debt	LT	115.00	CARE AA+; Stable	-	1)CARE AA (28-Oct-16)	1)CARE AA (13-Jul-15)	1)CARE AA (10-Jun-14)
13.	Debt-Perpetual Debt	LT	25.00	CARE AA; Stable	-	1)CARE AA- (28-Oct-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (24-Jul-14)
14.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (28-Oct-16)	1)CARE AA (13-Jul-15)	1)CARE AA (28-Oct-14)

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