

India Ratings Upgrades Cholamandalam Investment and Finance Co. and its NCDs to 'IND AA+' / Stable

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India Ratings and Research (Ind-Ra) has upgraded Cholamandalam Investment and Finance Co. Ltd.'s (CIFCL) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)#	-	-	-	INR5.00	IND AA+/Stable	Upgraded
Lower tier 2 subordinated debt*	-	-	-	INR17.75	IND AA+/Stable	Upgraded
Perpetual debt (tier 1 instrument)	-	-	-	INR1.00	IND AA/Stable	Upgraded

* Limits stand unutilised

* The details of the subordinated debt are given in Annexure

KEY RATING DRIVERS

Improved Profitability Buffers, Reasonable Asset Quality through the cycle: The ratings are driven by CIFCL's improved profitability buffers and reasonable through-the-cycle asset quality, despite a weak operating environment. The company has demonstrated better control than most of its peers' over its delinquencies and credit costs. Since FY15, increased focus on collections and a revamped credit assessment model have shown initial results in terms of controlled blended delinquency. The company has been an early mover to 90+dpd NPA recognition norms, with gross NPA at 4.7% and net NPA at 3.2% for FY17.

CIFCL's profitability buffers (pre-provision operating profit buffers to credit costs) improved to 4.7x in FY17 (FY16: 3.1x; FY15: 3.2x), as profitability improved on account of lower cost of funds and lower credit cost. Having said that, the company's credit costs have marginally benefited from its lower provision coverage (FY17: 31.9%, FY16: 33.5%) as slippages were primarily in early buckets. Ind-Ra expects provision coverage to strengthen as the company plans to provide more incrementally. A focus on improvement in operating cost to average asset (FY17: 3.5%, FY16: 3.3%), with impact of demonetisation waning, is one of the strategies that company expects to use to strengthen its buffers.

Strengthened Capitalisation: CIFCL's capital buffers, which have historically been lower than peers', have strengthened since FY15 (Tier 1: 13.6% in FY17, FY16: 13.3%, FY15: 13%). The company plans to maintain the buffers over the long term. Its high internal accruals together with its demonstrated ability to raise capital can support its higher capitalisation policy. Under Ind-Ra's stress-case scenario, CIFCL's capital buffers remain unimpaired. The company's internal accruals (net of dividend around 17% in FY17) can support moderate growth without dilution.

Large & Diversified Franchise: CIFCL is among the largest asset finance non-bank finance companies in India, with a well-diversified vehicle finance portfolio (69% of managed assets in FY17; FY16: 68%) and strong position in both new and used

vehicle segments across multiple product lines such as light commercial vehicles, heavy commercial vehicles, cars and multi utility vehicles. The company is also a dominant player in the loan against property (LAP) segment. The expansion in branch network (703 branches as of 1QFY18) in FY17, along with increased penetration in tier 3-6 cities would help the company to maintain its positioning in a competitive environment where yields are under pressure. The growth in managed asset (FY17: INR341.6 billion; FY16: INR296.5 billion) has been stable, a CAGR of 20.4 % over FY12-FY17.

Experienced Management and High Governance Structure: CIFCL has experienced top management and has a reasonably seasoned second line of structure with decades of experience in the industry through multiple cycles. The company has an independent board which can bring varied perspectives. The company also benefits from linkages from Muruggapa group, being important part of it. The new MD has a fair experience in the operations of the company and has been associated and has been part of strategy team for long.

Well-diversified Liability Profile: The company has a well-diversified funding profile and has managed its cost of funds using both banks and capital market instruments in line with the prevailing interest rate regime. Also, bank funding is well diversified across banks. The capital market instruments formed 65.9% of the total borrowings in 1QFY18.

Improved Liquidity Profile: CIFCL has a well-matched asset liability maturity profile which it expects to maintain, supported by a high proportion of long-term borrowings (87% in 1QFY18). The company also has adequate unutilised bank lines (INR39 billion) to support in event of liquidity tightness. Moreover, Ind-Ra expects group companies under Murugappa Group to provide support to CIFCL in case of a severe liquidity crunch as CIFCL has transformed to be an important constituent of the group.

Asset Quality Resolution in Home Equity yet to be Established: The company has been facing pressure in the LAP segment and hence it has been moderating disbursements in home equity/LAP (28% of managed assets in FY17; FY16: 30%). Ind-Ra expects this segment to remain under pressure over the near to medium term. Having said that, the company's experience of over 10 years in this segment together with a cautious approach in scaling up the business over the last couple of years should help contain ultimate losses. The company should benefit from access to SARFESI Act (extended to NBFC from August 2016) which should help in the resolution of delinquent loans exceeding INR10 million. Ind-Ra expects that CIFCL would reduce its concentration risk in home equity, along with resolution in existing delinquent loans over the medium term. Incrementally, CIFCL plans to diversify its lending book up to 10% in new segments such as Agri finance, MSME etc.

RATING SENSITIVITIES

Positive: Ability to significantly strengthen funding and liquidity profile while sustaining the superior business competitiveness and establishing leadership in core product segments together with stable-to-moderate through-the-cycle credit costs across segments would be credit positive.

Negative: Any substantial decline in the operating profit buffers due to a rise in credit cost or competitive pressures on margins would be credit negative. Also, a weakened liquidity profile in the form of significant gaps in the asset liability maturity profile or materially higher leverage than similar rated peers could result in a negative rating action.

COMPANY PROFILE

CIFCL is the financial services arm of the Chennai-based Murugappa Group and was incorporated in 1978. The company operates primarily in the commercial vehicle financing space and loan against property. CIFCL ventured into SME loans and housing finance in FY15. The company had a network of 703 branches across India and had INR341.6 billion of assets under managements as of March 2017.

FINANCIAL SUMMARY

Particulars	FY17	FY16
Total assets (INR billion)	307.21	278.88
Total equity (INR billion)	43.13	36.57
Net profit (INR billion)	7.19	5.68
Return on average assets (%)	2.6	2.2
Equity/assets (%)	14.0	13.1
Tier 1 capital (%)	13.6	13.3

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating/Outlook	1 September 2017	25 October 2016	9 October 2014
Issuer rating	Long-term	-	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
NCDs	Long-term	INR5	IND AA+/Stable	IND AA/Stable	IND AA/Stable	
Lower tier 2 Subordinated debt	Long-term	INR17.75	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA
Perpetual debt (tier 1 instrument)	Long-term	INR1	INDAA/Stable	IND AA-/Stable	IND AA-/Stable	-

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Sub-debt	INE121A08LT8	16 April 2010	11.00	6 May 2020	INR30	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LT8	16 April 2010	11.00	6 May 2020	INR5	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LS0	19 April 2010	11.00	28 April 2020	INR1000	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LT8	20 April 2010	11.00	6 May 2020	INR20	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LT8	21 April 2010	11.00	6 May 2020	INR8	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LT8	21 April 2010	11.00	6 May 2020	INR12	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LT8	22 April 2010	11.00	6 May 2020	INR30	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LT8	26 April 2010	11.00	6 May 2020	INR10	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LU6	2 July 2010	10.70	6 July 2020	INR500	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LX0	24 June 2011	12.25	30 June 2018	INR150	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	27 June 2011	12.25	1 August 2018	INR100	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LX0	28 June 2011	12.25	30 June 2018	INR100	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LX0	29 June 2011	12.25	30 June 2018	INR250	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	29 June 2011	12.25	1 August 2018	INR50	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	29 June 2011	12.25	1 August 2018	INR30	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LX0	30 June 2011	12.25	30 June 2018	INR105	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	7 July 2011	12.25	1 August 2018	INR150	IND AA+/Stable	Upgraded
Sub-debt	INE121A08MA6	15 July 2011	12.25	9 August 2018	INR2	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	19 July 2011	12.25	1 August 2018	INR30	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	19 July 2011	12.25	1 August 2018	INR30	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	19 July 2011	12.25	1 August 2018	INR100	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	19 July 2011	12.25	1 August 2018	INR150	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LZ5	22 July 2011	12.25	1 August 2018	INR3	IND AA+/Stable	Upgraded
Sub-debt	INE121A08MA6	1 August 2011	12.25	9 August 2018	INR250	IND AA+/Stable	Upgraded
Sub-debt	INE121A08MC2	16 November 2011	12.75	21 November 2017	INR750	IND AA+/Stable	Upgraded
Sub-debt	INE121A08NW8	27 October 2016	9.08	27 October 2023	INR500	IND AA+/Stable	Upgraded

Sub-debt	INE121A08NX6	9 November 2016	9.20	9 November 2023	INR250	IND AA+/Stable	Upgraded
Sub-debt	INE121A08NX6	9 November 2016	9.20	9 November 2023	INR250	IND AA+/Stable	Upgraded
Sub-debt	INE121A08NY4	10 November 2016	9.20	10 November 2026	INR50	IND AA+/Stable	Upgraded
Sub-debt	INE121A08NY4	10 November 2016	9.20	10 November 2026	INR50	IND AA+/Stable	Upgraded
Sub-debt	INE121A08NZ1	16 November 2016	9.10	16 November 2023	INR150	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OA2	23 November 2016	9.08	23 November 2023	INR400	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OA2	23 November 2016	9.08	23 November 2023	INR100	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OB0	24 November 2016	9.15	24 November 2023	INR1,000	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OC8	15 June 2017	8.80	15 June 2027	INR250	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OC8	15 June 2017	8.80	15 June 2027	INR200	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OC8	15 June 2017	8.80	15 June 2027	INR200	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OC8	15 June 2017	8.80	15 June 2027	INR100	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OC8	15 June 2017	8.80	15 June 2027	INR500	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OD6	20 June 2017	8.78	18 June 2027	INR500	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OE4	28 June 2017	8.80	28 June 2027	INR750	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LJ9	2 May 2008	10.55	21 November 2018	INR100	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LK7	20 May 2008	10.55	1 June 2018	INR10	IND AA+/Stable	Upgraded
Sub-debt	INE121A08LK7	22 May 2008	10.55	1 June 2018	INR5	IND AA+/Stable	Upgraded
Sub-debt	INE121A08OF1	30 August 2017	8.53	30 August 2027	INR1,500	IND AA+/Stable	Upgraded
Total utilised					INR10,730		
Unutilised limit					INR7,020		

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

Non-Bank Finance Companies Criteria
Rating FI Subsidiaries and Holding Companies

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