Fullerton India Credit Company Limited

	Amount in Rs. Crore	Rating Action
Non Convertible Debentures	2,000	[ICRA]AA+ / Stable assigned
Issuer Rating	NA	IrAA+ / Stable reaffirmed
Long Term Debt Programme	2,000	[ICRA]AA+ / Stable reaffirmed
Short Term Debt Programme	3,000	[ICRA]A1+ reaffirmed

Rating of [ICRA]AA+ (pronounced ICRA double A plus) with a stable outlook has been assigned to Rs. 2000 crore Non Convertible Debentures (NCD) programme of Fullerton India Credit Company Limited (FICCL or the company). ICRA has also reaffirmed the Issuer Rating of IrAA+ (pronounced I R double A plus) with stable outlook to FICCL. Further, ratings of [ICRA]AA+ (pronounced ICRA double A plus) with stable outlook and [ICRA]A1+ (pronounced ICRA A One plus) have also been reaffirmed rating to the Rs. 2,000 crore long term debt programme and Rs. 3,000 crore short term debt programme, respectively of FICCL.

The ratings are supported by its strong parentage; FICCL is a step down subsidiary of Temasek Holdings (rated Aaa/Stable by Moody's Investors Service), with demonstrated financial and managerial support from Temasek Holdings. The ratings take into account FICCL's strong management team having vast experience in the retail finance space. Further, in light of the periodical equity infusion by from the Parent, the capitalization profile remains adequate. ICRA has also positively taken note of the revised business strategy of the company focussing on a higher share of secured lending, the significant tightening in the credit policy in the unsecured loans portfolio, the operational efficiencies attained by downsizing non-performing branches and personnel, and the moderated growth plans of the unsecured loans portfolio. The ratings also factor in the improvement in profitability and stable credit costs in FY12, although the earnings profile continues to be modest. However, FICCL's ability to control asset quality in all business segments especially, the focus areas such as Mortgages and comparatively new products such as SME loans and rural segment would remain a key rating sensitivity. Furthermore, FICCL's ability to raise funds at competitive rates to support the growth plans, particularly, as the focus shifts towards lower yielding secured asset classes would have a key bearing on its incremental profitability.

FICCL commenced its operations in January 2006 mainly as unsecured retail finance company primarily to self-employed borrowers. Till FY10, the company reported huge losses on account of weak portfolio quality resulting significant write-offs, in line with the trend in the industry, wherein most lenders including FICCL either stopped or significantly reduced incremental disbursements in unsecured retail loans. Subsequently, the company has made fundamental changes in its business model. FICCL has shifted its primary focus towards secured lending and is reducing the share of unsecured loans to the self employed customers, which was earlier its target segment. The company has also moved away from low income segment, which is perceived to be more vulnerable towards the mass affluent segment and has thereby, reduced lower ticket loans in its portfolio.

Resultant to the changes in the business model and strengthening of risk management procedures, FICCL reported an increase of 3.9% in its net interest income to ~Rs. 576 crore in FY12. But, with the cost of funds (19.18% YoY growth) rising faster than the yield on average earning assets (3.93% YoY growth), net interest margin fell from 14.53% in FY11 to 13.72% in FY12. Moreover, on account of rationalisation in branches (~800 branches in 300 locations in Mar-09 to ~330 branches in 220 locations in Mar-12) and manpower, the operating expenses moderated to 11.40% of average total assets in FY12 (12.96% in FY11) and is expected to reduce further as FICCL scales up its business by leveraging its current branch network without any significant addition in branches. Subsequently, the operating profit (before provisions) for FY12 was 5% higher at ~Rs. 111 crore in FY12. With credit provisions reducing as compared to the last financial year(1.7% of average total assets in FY12 as compared to ~3% of average total assets), the company reported a net profit of Rs. 49.79 crore in FY12 as compared to Rs. 2.64 crore in FY11.

Post FY11 onwards, FICCL has entered the growth phase, after a hiatus of 2 years and hence, the portfolio size of the company has increased from Rs. 2969 crore as on Mar-11 (Rs. 2667 crore as on Mar-10) to Rs. 3616 crore as on Dec-11. After writing off old delinquent accounts and with healthy incremental asset quality, the GNPA% has reduced from 4.35% in FY11 to 2.25% in FY12 and Net NPA% has reduced from 2.73% in FY11 to 1.99% in FY12.

The total capital infused till date into the company stands at Rs. 1716 crore. The networth of the company, however, stands at Rs. 764 crore (adjusted for the losses incurred till date) and the gearing continues to remain at moderate levels of 4.75 times as on Mar-12. The capital adequacy ratio stood at 18.88% as on Mar-12. The ALM profile of the company remains comfortable as on Mar-12 with a small mismatch in <1 year bucket. The financial flexibility remains good with access to and good relationships with diversified set of lenders and is expected to improve further with change in business mix towards secured and rural businesses.

Company profile

FICCL is a retail finance company with a nationwide presence through a network of around 330 branches. The company commenced operations in January 2006 focussing mainly on metros and Tier I cities. The company offers a complete range of financial products from unsecured loans such as personal loans to lending against secured assets such as commercial vehicle, two-wheelers, mortgage, used cars etc. In December 2005, Fullerton Financial Holdings Pte, Singapore (through its investment arm Angelica Investment Pte Ltd.) had acquired a controlling (92.28%) stake and management control in Dove Finance Limited (a closely held finance company) and renamed the Company as First India Credit Corporation Limited. The company was rechristened as Fullerton India Credit Company Limited in FY07. Fullerton Financial Holdings Pte, Singapore (FFH) is a wholly owned subsidiary of Temasek Holdings and is Temasek's arm for holding strategic investments in the financial services sector. FFH's stake in FICCL stands at 99.99% pursuant to the subsequent rounds of capital infusion.

During fiscal 2012, the company has reported a net profit of Rs. 49.79 crore on a total income of 931.89 crore as compared to a net profit of Rs. 2.64 crore on a total income of Rs. 880.61 crore for fiscal 2011. The regulatory capital adequacy ratio of the company stood at 18.88% as on March 31, 2012 (20.43% as on March 31, 2011).

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