

July 12, 2021 <sup>Revised</sup>

## Fullerton India Credit Company Limited: Ratings placed on watch with developing implications

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Retail non-convertible debenture programme	2,000	2,000	[ICRA]AAA&; Placed on Watch with Developing Implications
Commercial paper programme	4,500	4,500	[ICRA]A1+; outstanding
Long-term bank lines	8,000	8,000	[ICRA]AAA&; Placed on Watch with Developing Implications
Issuer rating	NA	NA	[ICRA]AAA&; Placed on Watch with Developing Implications
Non-convertible debenture programme	8,464	8,464	[ICRA]AAA&; Placed on Watch with Developing Implications
Subordinated debt programme	888	888	[ICRA]AAA&; Placed on Watch with Developing Implications
Short-term debt programme	1,000	1,000	[ICRA]A1+; outstanding
<b>Total</b>	<b>24,852</b>	<b>24,852</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has placed the long-term ratings of Fullerton India Credit Company Limited (FICCL) on watch with developing implications. The rating action is taken following the company's announcement on July 6, 2021 on Sumitomo Mitsui Financial Group, Inc (SMFG) (rated by Moody's; A1 /stable) and Fullerton Financial Holdings Pte. Ltd. (FFH) entering into a definitive agreement, wherein SMFG will acquire 74.9% controlling stake in FICCL from its existing parent FFH. The deal is approved by the respective Board of Directors of SMFG and FFH but is subject to various regulatory approvals. SMFG will eventually acquire 100% stake of FICCL.

SMFG is the holding company of one of the largest global banking and financial service groups, offering a diverse range of financial services, including commercial banking, leasing, securities and consumer finance with a legacy of 4 centuries in Japan. SMFG's total assets stood at US\$2.2 trillion with a net profit of US\$4.7 billion as on March 31, 2021. Management does not foresee any material changes to FICCL's business strategy, operations and organisation structure post completion of this transaction. The present management team of FICCL led by Shantanu Mitra (MD & CEO) will continue to operate the business.

ICRA notes that the transaction is likely to benefit FICCL as it will leverage SMFG's network as a leading globally reputed financial services brand. Also, the company is expected to leverage from SMFG's global relationships (especially funding relationships) and learnings from emerging markets. Further, SMFG's strong focus on digital is expected to benefit FICCL's business. ICRA will continue to monitor the developments closely and take appropriate rating action once there is more clarity on the business strategy, operations, and updates on the regulatory approvals.

The [ICRA]AAA rating factor in FICCL's strong parentage of Fullerton Financial Holdings Pte Ltd (FFH), which is a step-down subsidiary of Temasek Holdings Private Limited, in terms of capital infusion, strong inter linkages, and the strategic importance of the company in the Fullerton Group's business in India. The ratings also factor in the diversified product profile, strong

liquidity position, FICCL's pan-India presence in urban and rural markets, adequate capitalisation levels, diversified funding profile, good recovery levels, sound provisioning policy, and data analytics capability.

The asset quality levels had seen a deterioration in FY2021 due to the COVID19 pandemic, ICRA does note the conservative provision policy followed by FICCL which had resulted in a net loss in the period. The second wave of the pandemic had resulted in localized lockdown, the effects of which would impact the collections for the firm in Q1FY2022. Going forward, FICCL's ability to attain healthy collection levels, while maintaining profitability and sufficient liquidity buffers to tide over the period of volatility will remain key points to monitor for the firm.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Ultimate Parent/Investor: Temasek Holdings (Private) Limited (rated Aaa by Moody's)  ICRA factors in the strategic fit and importance of FICCL for the Fullerton Group, which is demonstrated in the strong capital, operational and managerial support from the parent
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

### About the company

Fullerton India Credit Company Limited (FICCL) commenced its operations in January 2006 catering primarily to self-employed borrowers. It is a wholly-owned subsidiary of Fullerton Financial Holding Pte Limited (FFH). FICCL's secured lending portfolio consists of mortgage loans to retail customers and small and medium enterprises (SMEs), commercial vehicle (CV) loans and secured rural loans such as two-wheeler loans, CV and mortgage loans. The unsecured portfolio comprises personal loans to salaried and self-employed individuals, and group and individual loans in the rural space. The company operates out of 648 branches.

In FY2021, FICCL reported a loss of Rs. 1,157 crore on a total asset base of Rs. 23,782 crore as compared to a net profit of Rs. 747 crore on a total assets of Rs. 29,168 in FY2020.

## Key financial indicators (audited)

Fullerton India Credit Company Limited	FY2019	FY2020	FY2021
Total income	4,138	5,289	4,758
Profit after tax	775	747	-1,157
Net worth	3,652	4,648	4,244
Adjusted net worth	3,437	4,333	3,889
Asset Under Management	21,542	24,805	20,858
Total assets	23,975	29,168	23,782
Return on average assets	3.75%	2.81%	-4.37%
Return on average equity	24.29%	18.01%	-26.03%
Gearing (times)	5.31	5.12	4.36
Adjusted gearing (times)*	5.64	5.49	4.76
Gross stage 3 / Gross advances	1.65%	2.13%	10.17%
Net stage 3 / Net advances	0.67%	1.15%	2.74%
Net stage 3 / Net worth	3.88%	5.18%	10.77%
Net stage 3 / Adjusted Net worth*	4.13%	5.56%	11.75%
Tier I capital ratio	14.16%	15.35%	14.82%
Capital adequacy ratio	19.64%	19.85%	19.77%

Source: Company, ICRA Research; All ratios as per ICRA calculations, \*Adjusted network = reported network -10%\*investments in subsidiaries

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated	Amount Outstanding as of June 26th, 2021	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
			(Rs. crore)	(Rs. crore)	12-Jul-21	30-Jun-21	12-Jun-20	16-Dec-19 30-Jul-19	1-Oct-18	19-Sep-18	27-Aug-18
1	Commercial Paper Programme	Short Term	4,500	100	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Retail Non-convertible Debenture	Long Term	2,000	-	[ICRA]AAA&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Non-convertible Debenture	Long Term	8,464	2,580	[ICRA]AAA&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
4	Issuer Rating	Long Term	NA	NA	[ICRA]AAA&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
5	Long-term Bank Lines	Long Term	8,000	6,960	[ICRA]AAA&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
6	Subordinated Debt Programme	Long Term	888	538	[ICRA]AAA&	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
7	Short-term Debt Programme	Short Term	1,000	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company

&: Under Watch with Developing Implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Very Simple
Long Term Fund Based Bank Lines	Simple
Non-Convertible Debentures	Simple
Commercial Paper Programme	Very Simple
Short Term Debt Programme	Simple
Subordinate Debt Programme	Moderately Complex
Retail non-convertible debentures	Simple
Issuer Rating	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 analyzing 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, is available on ICRA's website: [Click Here](#)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
INE535H07282	Non-convertible Debenture	29-Apr-13	10.60%	28-Apr-23	75	[ICRA] AAA&
INE535H07308	Non-convertible Debenture	22-May-13	9.85%	22-May-23	40	[ICRA] AAA&
INE535H07357	Non-convertible Debenture	05-Nov-13	10.45%	03-Nov-23	25	[ICRA] AAA&
INE535H07456	Non-convertible Debenture	14-Oct-14	10.00%	30-Dec-21	90	[ICRA] AAA&
INE535H07894	Non-convertible Debenture	15-Jul-16	8.99%	15-Jul-22	50	[ICRA] AAA&
INE535H07AL6	Non-convertible Debenture	21-Jun-18	Zero-Coupon	22-Jul-21	500	[ICRA] AAA&
INE535H07AV5	Non-convertible Debenture	11-Jan-19	9.20%	09-Jul-21	500	[ICRA] AAA&
INE535H07AW3	Non-convertible Debenture	31-Jan-19	9.30%	31-Jan-22	750	[ICRA] AAA&
INE535H07BH2	Non-convertible Debenture	14-Ma-20	7.85%	12-May-23	350	[ICRA] AAA&
INE535H07BI0	Non-convertible Debenture	29-Jun-20	7.15%	29-Jun-23	200	[ICRA] AAA&
NA	Non-convertible Debenture*	-	-	-	4,694	[ICRA] AAA&
INE535H08520	Subordinated Debt	14-Sep-12	11.40%	14-Sep-22	48	[ICRA] AAA&
INE535H08546	Subordinated Debt	28-Sep-12	11.40%	28-Sep-22	40	[ICRA] AAA&
INE535H08553	Subordinated Debt	30-Oct-12	11.40%	28-Oct-22	50	[ICRA] AAA&
INE535H08579	Subordinated Debt	28-Oct-13	10.50%	27-Oct-23	50	[ICRA] AAA&
INE535H08587	Subordinated Debt	26-Dec-14	9.60%	26-Dec-24	50	[ICRA] AAA&
INE535H08637	Subordinated Debt	13-Oct-15	9.50%	13-Oct-25	100	[ICRA] AAA&
INE535H08645	Subordinated Debt	13-Oct-15	9.40%	13-Oct-22	50	[ICRA] AAA&
INE535H08751	Subordinated Debt	25-Jun-21	7.70%	25-Jun-31	150	[ICRA] AAA&
NA	Subordinated Debt*	-	-	-	350	[ICRA] AAA&
NA	Long-term Bank Lines	2014-2015	-	2023-2024	6,960	[ICRA] AAA&
NA	Long-term Bank Lines*	-	-	-	1,040	[ICRA] AAA&
NA	Issuer Rating	NA	NA	NA	NA	[ICRA] AAA&
NA	Short-term Debt Programme*	-	-	7-365 days	1,000	[ICRA]A1+
INE535H14IF7	Commercial Paper Programme	30-Mar-21	-	30-Mar-22	100	[ICRA]A1+
NA	Commercial Paper Programme*	-	-	7-365 days	4,400	[ICRA]A1+
NA	Retail Non-convertible Debenture Programme*	-	-	-	2,000	[ICRA] AAA&

Source: Company, \*unutilised

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

**Corrigendum:**

Rationale dated July 12, 2021 has been revised due to some factual inconsistency.

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