September 30, 2022

Nissan Renault Financial Services India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	100.00	100.00	[ICRA]AA- (Stable); reaffirmed
Commercial paper	400.00	400.00	[ICRA]A1+; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation takes into consideration Nissan Renault Financial Services India Private Limited's (NRFSI) strong parentage in the form of Nissan Motor Company Limited[1] (Nissan), which holds 70%[2] in the company through its wholly-owned subsidiary, Nissan International Holdings B.V. NRFSI's ratings remain strongly linked to the expectation of continued support from Nissan (parent), which along with Renault SA (Renault), has extended capital, funding, management and operational support in the past.

Nissan is a global automobile manufacturer with a presence in major auto markets including North America, Japan, and China. ICRA notes that Nissan's financial profile witnessed an improvement in recent quarters; it reported a Moody's adjusted EBITDA of 410.8 billion yen in FY2022 vis-à-vis 67.0 billion yen in FY2021 (271.5 billion yen in FY2020). Going forward, ICRA will continue to monitor the movement in Nissan's credit risk profile and will take appropriate rating action on NRFSI as the company's ratings are underpinned by its parentage.

The ratings continue to factor in NRFSI's comfortable capitalisation (gearing of 2.4 times as of March 2022), comfortable asset quality performance and commensurate risk management systems. The ratings, however, take note of the company's limited track record of operations with a predominant reliance on the financing of Nissan/Renault-branded passenger vehicles as it is a captive financier. The ratings also consider the highly competitive nature of the auto financing industry, which limits the company's scope to expand its business margins.

Key rating drivers and their description

Credit strengths

Strong parentage with Nissan holding 70% stake via its wholly-owned subsidiary – NRFSI is a 70:30 joint venture (JV) between Nissan International Holdings B.V., a wholly-owned subsidiary of Nissan, and RCI Banque (RCI), a wholly-owned subsidiary of Renault. The company is the captive financing arm for the Nissan, Datsun and Renault brand of cars manufactured by Renault Nissan Automotive India Private Limited (RNAIPL). The ratings take note of the India-focused initiatives of the parent, including new product launches and expansion of the dealer network, which make NRFSI a critical part of the Nissan-Renault Group's (the Group) overall India business strategy.

NRFSI has received Rs. 710-crore equity from the shareholders since inception and enjoys adequate funding lines from Group companies at favourable terms. It also has board representation with two Directors from Renault/Nissan. Given its strategic

[1] *Moody's has a Baa3 issuer credit rating with a stable outlook for Nissan Motor Company Limited*
[2] *The balance (30%) is held by RCI Banque, a wholly-owned subsidiary of Renault SA (Renault). Moody's has a Baa2 rating with a negative outlook for the senior unsecured debt instruments of RCI Banque*

importance to the Group, the common branding and strong ownership, ICRA expects NRFSI to continue to benefit from the operational, financial and management support from the shareholders and Group entities.

Comfortable capitalisation profile – NRFSI has a comfortable capitalisation profile, characterised by a net worth and gearing of Rs. 1,016 crore and 2.4 times, respectively, as of March 2022. ICRA notes that the company may not need significant external capital to achieve a medium-term compound annual growth rate (CAGR) of 15-20%. ICRA expects timely capital support from the shareholders, if required, given the strategic importance of NRFSI to the Group's Indian operations.

Adequate funding support from Group companies; however, funding diversification required to meet long-term growth plans – NRFSI enjoys funding support from its Group companies at competitive rates. Its funding profile predominantly comprises inter-corporate loans from RNAIPL. As of June 2022, about 44% of the borrowings was from RNAIPL, followed by external commercial borrowings from banks (28%), working capital loans from banks (12%), and term loans from banks (16%). The company raises funds from a few international banks, leveraging its parentage and the Group's established relationships. Going forward, it would be critical to diversify and secure funds at competitive rates to support business expansion and to improve profitability.

Comfortable asset quality – NRFSI's asset quality improved marginally with 90+ days past due (dpd) of 2.2% as of March 2022 against 2.3% as of March 2021 (2.6% as of March 2020). The asset quality of its wholesale book improved due to the recoveries made in FY2022 (loans to dealers constituting 6.8% of the overall portfolio as of March 2022 {11.7% as of March 2021}; 90+dpd of 7.6% as of March 2022 vis-à-vis 8.1% as of March 2021). However, the 90+dpd in the retail book increased to 1.8% as of March 2022 from 1.6% as of March 2021. NRFSI's ability to contain slippages in the retail segment remains a monitorable, going forward.

Credit challenges

Moderate track record of operations – NRFSI was incorporated in October 2013 and received a non-banking financial company (NBFC) licence in June 2014. Its overall portfolio increased at a CAGR of 15% during FY2017-FY2022 and stood at Rs. 3,467 crore as of March 2022 (Rs. 3,319 crore as of March 2021). NRFSI's AUM is expected to reach Rs. 4,700 crore as of March 2023, as the average ticket size is likely to increase due to the inflation in raw material prices emanating from the repricing of vehicles. Used cars accounted for less than 2% of the overall portfolio with NRFSI's focus currently being on the sale of new vehicles of the Nissan and Renault brands. Going forward, the share of used cars is expected to increase as NRFSI will focus on Tier-I and Tier-II cities, and other brands will also be sourced from selected outlets.

Competitive business segment; portfolio growth contingent on new product launches and finance penetration levels – NRFSI faced competition from established players, including banks and other large NBFCs, and witnessed a moderation in its market share in the last two years as its finance penetration dipped to about 21% in FY2022 from 28% in FY2020. This was because the company held on to its lending rate amidst the highly competitive and declining interest rate scenario. Nevertheless, disbursements grew at a robust 23% in FY2022. Going forward, the portfolio growth would be contingent on the success of the original equipment manufacturers' (OEMs) planned product launches and NRFSI's penetration levels.

Moderate profitability levels; sustainability to be seen – NRFSI's net profitability improved to 2.1% in FY2022 from 0.9% in FY2021 (1.5% in FY2020). The credit costs declined to 0.5% in FY2022 from 1.8% in FY2021 and 1.5% in FY2020, as the asset quality improved and higher provisions were created during FY2020-FY2022. Going forward, NRFSI's ability to keep the operating expenses as well as credit costs under control, while maintaining adequate margins and augmenting the fee-based income, would be crucial for incremental profitability.

Liquidity position: Strong

NRFSI had cash and liquid investments of Rs. 76 crore as on June 30, 2022 and sanctioned credit lines from banks of about Rs. 1,196 crore (including a committed line of Rs. 150 crore). It has repayment obligations on working capital demand loans amounting to Rs. 200 crore during July 2022-December 2022. The repayments towards loans received from Group entities are not due in the near term, although they are expected to be rolled over on maturity, which provides long-term liquidity and funding support from the Group. While the company's collections are stable, access to commensurate funding lines provides comfort from a liquidity perspective.

Rating sensitivities

Positive factors – The rating would be upgraded or the outlook would be revised to Positive in case of an improvement in Nissan's risk profile.

Negative factors – The ratings would remain sensitive to any weakening in Nissan's risk profile or lower-than-expected support from Nissan. A substantial deterioration in NRFSI's asset quality, impacting the earnings, or a steady weakening in its liquidity and capitalisation profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach – Implicit Parent or Group Support
Parent/Group support	The ratings factor in the high likelihood of financial support from Nissan because of the close business linkages. ICRA also expects the parent to be willing to extend financial support to NRFSI to protect its reputation from the consequences of a Group entity's distress. There is a track record of timely financial support (both debt and equity) to NRFSI, whenever required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Incorporated in October 2013, NRFSI is a systemically important, non-deposit taking non-banking financial company (SI-ND-NBFC). It provides financing for the Nissan, Renault and Datsun brand of vehicles (retail loans) and extends term loans and inventory funding facilities to the automobile dealers (wholesale loans) of the above mentioned vehicles. The company provides its financing services through more than 500 sales counters spread across India. NRFSI is a 70:30 joint venture between Nissan International Holdings B.V., a wholly-owned subsidiary of Nissan, and RCI, a wholly-owned subsidiary of Renault.

In FY2022, NRFSI reported a net profit of Rs. 71.1 crore on a total asset base of Rs. 3,477.6 crore compared with a net profit of Rs. 28.9 crore on a total asset base of Rs. 3,377.9 crore for FY2021.

Key financial indicators (IndAS)

Standalone	FY2020	FY2021	FY2022
Total income	322.7	323.4	367.6
Profit after tax	44.2	28.9	71.1
Net worth	903.7	936.9	1,016.1
Loan book	2,879.2	3,209.1	3,365.8
Total managed assets	3,125.3	3,377.9	3,477.6
Return on managed assets	1.5%	0.9%	2.1%

Standalone	FY2020	FY2021	FY2022
Return on net worth	5.0%	3.1%	7.3%
Managed gearing (times)	2.4	2.5	2.4
Gross stage 3	2.6%	2.3%	2.2%
Net stage 3	1.2%	1.0%	0.9%
Solvency (Net stage 3/Net worth)	3.9%	3.5%	3.1%
CRAR	30.8%	28.1%	29.4%

Source: Company, ICRA Research; All ratios as per ICRA's calculations
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	
			(Rs. crore)	(Rs. crore)	Sep-30-22	Jan-31-22	May-31-21	Apr-13-20	Feb-27-20	Aug-30-19 Aug-09-19
1	**NCD**	Long term	100	100	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Negative)**	**[ICRA]AA+ (Negative)**	**[ICRA]AAA (Negative)**
2	**CP**	Short term	400	400	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Very Simple
CP	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Unallocated	NCD	NA	NA	NA	100.00	[ICRA]AA- (Stable)
Unallocated	CP	NA	NA	NA	400.00	[ICRA]A1+

Source: Company

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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