

December 20, 2022

Toyota Financial Services India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term (Fund based – Term loan)	1,040.0	0.00	-
Bank facilities – Short term (Fund based – Term loan)	157.5	0.00	-
Bank facilities – Long Term/Short term (Fund based – Others)	0.0	1,197.5	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Non-convertible Debentures	1,525.0	1,525.0	[ICRA]AAA (Stable); reaffirmed
Non-convertible Debentures ^	475.0	0.0	[ICRA]AAA (Stable); reaffirmed & withdrawn
Commercial paper	1,000.0	1,000.0	[ICRA]A1+; reaffirmed
Total	4,197.5	3,722.5	

*Instrument details are provided in Annexure-I

^The withdrawal is at the request of the company as the rated instruments have matured and have been fully repaid

Rationale

The ratings consider Toyota Financial Services India Limited's (TFSIN) strong parentage, given its position as a wholly-owned subsidiary of Toyota Financial Services Corporation (TFSC), which, in turn, is a wholly-owned subsidiary of Toyota Motor Corporation (rated A1 (Stable) by Moody's; TMC/ultimate parent). TFSIN receives significant operational, financial and management support from TFSC and TMC by virtue of its parentage. Its board of directors and senior management team have representatives from TFSC. This, together with the shared brand name and integration with the TMC Group reflects TFSIN's significance to the Group.

The ratings also factor in the comfortable capitalisation profile of TFSIN, supported by timely equity support from the parent, robust underwriting practices and risk management policies, and a diversified borrowing profile. However, its margins are expected to be under pressure on account of the competitive pressures amidst a rising interest rate. Going forward, the company's ability to grow its loan book while maintaining prudent underwriting standards and hence asset quality indicators in a competitive market, would be key monitorable.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion on TFSIN's comfortable capital, strong liquidity position and expectations that it would continue to benefit from the strong support of the TMC Group.

Key rating drivers and their description

Credit strengths

Strong parentage and experienced board and management – TFSIN derives substantial operational, financial and management support from TFSC and TMC owing to its parentage (wholly-owned subsidiary of TFSC and wholly-owned step-down subsidiary of TMC). TFSC exercises managerial control in TFSIN, which reflects its significance to the Group. Regular operational reporting and monitoring by TFSC's regional headquarters in Singapore and periodic reviews and senior management engagements indicate a high level of integration within the Group. Moreover, TFSIN receives regular guidance

from TFSC in matters pertaining to treasury, debt raising and risk management. It has adequate risk management policies and benefits from TFSC's global best practices.

In addition to this, TFSIN's has five-member board of directors including two independent directors with diverse experience in the financial services, automotive, risk management and manufacturing sectors. The company also has a strong senior management team with significant experience across banking, audit, risk management, underwriting, sales and marketing, treasury, information technology (IT) and human resources. This team looks after TFSIN's day-to-day business.

Comfortable capitalisation profile – TFSIN's capitalisation remains comfortable with a capital adequacy ratio (CRAR) of 18.6% as on September 30, 2022, supported by timely equity infusions from TFSC in the past. TFSC has infused equity capital of Rs. 1,290 crore in TFSIN since its inception. ICRA notes the track record of timely support from TFSC to keep TFSIN adequately capitalised well in advance to support the loan book growth. TFSIN's gearing stood moderate at 4.1 times as on September 30, 2022 (3.9 times as on March 31, 2022). ICRA expects the company to maintain comfortable capitalisation over the near-to-medium term.

Credit challenges

Competitive business segment and modest profitability – TFSIN was incorporated in May 2011 and commenced operations in June 2012. The auto financing space is very competitive and comprises large banks and non-banking financial companies. Over the last few years, the loan book growth of TFSIN has been stagnant due to subdued performance of the auto sector on account of the adverse impact of the covid-19 pandemic. Going forward, TFSIN is expected to scale up its loan book with the launch of new variants by Toyota Kirloskar Motors (TKM). Additionally, TFSIN is expected to drive further benefit from the agreement with Maruti Suzuki India Limited (MSIL), pursuant to which the company has been providing financial services to the retail customers of MSIL. Considering the rising interest scenario, the ability of TFSIN to offer lending services at competitive rates would be a key monitorable. TFSIN's net profitability remained modest with return on average managed assets (RoMA) of 1.7% in H1 FY2023 and 1.1% in FY2022 given its lower net interest margins of 3.6% in FY2022 and 3.5% in H1 FY2023 on account of operating in an intensely competitive business segment. The operating expenses have increased to 2.3% in H1 FY2023 and 2.1% in FY2022 vis-à-vis the average of 1.5% in FY2019-20. However, the profitability is supported to an extent by the controlled slippages and hence lower credit provision costs in H1 FY2023. Going forward, TFSIN's ability to maintain adequate margins, while keeping operating expenses and credit costs under control amid steep portfolio growth expectations, would be under focus.

Relatively weaker asset quality – TFSIN's gross stage 3 assets improved to 5.1% in September 2022 from 5.3% in March 2022 due to controlled slippages in retail segment though there are still concerns over asset quality in the fleet financing segment. TFSIN maintained its provisions, which stood at 4.0% of the loan book as of September 2022, vis-a-vis 4.5% in March 2021. Going forward, the company's ability to grow its loan book, in a competitive market, while maintaining strict underwriting standards and hence asset quality indicators would be monitored.

Liquidity position: Strong

The company's Asset liability management statement, as on September 30, 2022, reflected positive cumulative mismatches across all buckets. As on September 30, 2022, TFSIN's liquidity position remained strong, supported by cash and cash equivalents of ~Rs. 345 crore and sanctioned funding lines of Rs. 2,693 crore. The company has debt repayments of Rs. 1,593 crore between October 2022 and February 2023. As on September 30, 2022, the borrowing mix for the total borrowings of Rs. 6,201.70 was fairly diversified across bank facilities (39.6%), non-convertible debentures (28.6%), commercial paper (1.6%) and external commercial borrowing loans (30.2%). The company also enjoys strong financial flexibility for mobilising funding at competitive rates on the back of its track record and strong parentage.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Any significant deterioration in the credit profile of the TMC Group or lower-than-expected support from the Group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-Banking Finance Companies Rating Methodology for Implicit support from parent or group ICRA's policy on withdrawal of credit ratings
Parent/Group support	Support from Toyota Motor Corporation Group
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Toyota Financial Services India Limited (TFSIN) is a non-deposit taking non-banking financial company registered with the Reserve Bank of India and is primarily involved in retail financing of Toyota cars. Additionally, TFSIN offers financing for Toyota dealers in the form of inventory funding and infrastructure term loans. TFSIN is a wholly-owned subsidiary of Toyota Financial Services Corporation, which in turn, is a wholly-owned subsidiary of Toyota Motor Corporation (TMC). The company commenced its operations in FY2013. TMC is one of the world's leading automobile manufacturer with a strong brand and products across categories including cars, trucks and buses. Headquartered in Japan, TMC has a diversified global presence across Asia, Europe and the US.

Key financial indicators (audited)

Company Name	FY2020	FY2021	FY2022
Total income	719.7	690.1	678.2
Profit after tax	(49.8)	52.2	84.1
Net worth	1,352.0	1,404.3	1,488.1
Loan book	7,119.1	7,142.0	7,077.9
Total assets	7,821.2	7,574.8	7,828.8
Return on assets	-0.6%	0.7%	1.1%
Return on net worth	-3.6%	3.8%	5.8%
Gross gearing (times)	4.6	4.1	3.9
Gross NPA / Gross stage 3	169.3	320.3	374.0
Net NPA / Net stage 3	56.7	140.0	159.5
Gross stage 3 %	2.38%	4.48%	5.3%
Net stage 3 %	0.80%	1.88%	2.32%
CRAR %	19.4%	19.5%	20.07%

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	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as on Dec 20, 2022 (Rs. crore)	Date & ratings in FY2023	Date & ratings in FY2022			Date & ratings in FY2021			Date & ratings in FY2020	
				Dec 20, 2022	Dec 27, 2021	Jul 30, 2021	Mar 23, 2021	Feb 15, 2021	Oct 05, 2020	Jun 22, 2020	Jan 07, 2020	
1 Bank Facilities - Long term (Fund based - Term loan)	Long term	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2 Bank Facilities - Short term (Fund based - Term loan)	Short term	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Bank facilities – Long term/Short term (fund based – Others)	Long term /Short term	1,197.5	1,197.5	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-	-
4 Non-convertible Debentures	Long term	1,525.0	1,525.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5 Non-convertible Debentures	Long term	475.0	0.0	[ICRA]AAA (Stable); reaffirmed and withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
6 Commercial Paper	Short term	1,000.0	100.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities – Long term/Short term (fund based – Others)	Simple
Non-convertible Debentures	Very Simple
Commercial paper	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank facilities – Long term/Short term (Fund based – Others)	NA	NA	NA	500.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Bank facilities – Long term/Short term (Fund based – Others)	NA	NA	NA	697.50	[ICRA]AAA(Stable)/[ICRA]A1+
INE692Q07274	Non-convertible Debentures	17-Mar-20	6.75%	16-Jun-23	150.00	[ICRA]AAA (Stable)
INE692Q07316	Non-convertible Debentures	24-Feb-21	5.70%	7-Feb-24	300.00	[ICRA]AAA (Stable)
INE692Q07324	Non-convertible Debentures	12-Mar-21	5.74%	12-Mar-24	275.00	[ICRA]AAA (Stable)
INE692Q07332	Non-convertible Debentures	24-Mar-21	5.45%	31-Jan-23	150.00	[ICRA]AAA (Stable)
INE692Q07340	Non-convertible Debentures	30-Jun-21	5.68%	28-Jun-24	200.00	[ICRA]AAA (Stable)
INE692Q07365	Non-convertible Debentures	31-Jan-22	5.88%	31-Jan-24	100.00	[ICRA]AAA (Stable)
INE692Q07373	Non-convertible Debentures	26-Sep-22	7.55%	26-Sep-25	150.00	[ICRA]AAA (Stable)
INE692Q07381	Non-convertible Debentures	21-Oct-22	7.83%	21-Oct-24	200.00	[ICRA]AAA (Stable)
INE692Q07282	Non-convertible Debentures	04-Jun-20	6.75%	30-May-22	175.00	[ICRA]AAA (Stable); withdrawn
INE692Q07258	Non-convertible Debentures	28-Jan-19	8.60%	28-Jan-22	125.00	[ICRA]AAA (Stable); withdrawn
INE692Q07290	Non-convertible Debentures	21-Aug-20	5.65%	28-Jul-22	175.00	[ICRA]AAA (Stable); withdrawn
INE692Q14AR9	Commercial paper	29-Apr-22	NA	27-Apr-23	100.00	[ICRA]A1+
NA*	Commercial paper	NA	NA	NA	900.00	[ICRA]A1+

Source: Company; *Proposed

Annexure II: List of entities considered for consolidated analysis – Not applicable

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