

February 24, 2023

Toyota Financial Services India Limited: Ratings reaffirmed and assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term/Short term (fund based – others)	1,197.5	1,197.5	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Non-convertible debentures	1,375.0	1,375.0	[ICRA]AAA (Stable); reaffirmed
Non-convertible debentures	150.0	0.0	[ICRA]AAA (Stable); reaffirmed & withdrawn
Non-convertible debentures	0.0	625.0	[ICRA]AAA (Stable); assigned
Commercial paper	1,000.0	1,000.0	[ICRA]A1+; reaffirmed
Total	3,722.5	4,197.5	

*Instrument details are provided in Annexure I

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 is a wholly-owned subsidiary of Toyota Motor Corporation (TMC/ultimate parent; rated A1 (Stable) by Moody's). 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 TFSIN's comfortable capitalisation profile, supported by timely equity support from the parent, robust underwriting practices and risk management policies, and its diversified borrowing profile. However, its margins are expected to be under pressure on account of increasing competition amidst rising interest rates. 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 a 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.

ICRA has reaffirmed and withdrawn its rating of [ICRA]AAA (Stable) for the Rs. 150.0-crore non-convertible debenture (NCD) programme of the company as the instruments have matured and have been fully repaid. This is in line with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage and experienced board and management– TFSIN derives substantial 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 has a 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 19.0% as on December 31, 2022, supported by timely equity infusions from TFSC in the past. TFSC has infused equity capital of Rs. 1,640 crore in TFSIN, since its inception, of which Rs. 350 crore was received in January 2023. 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, TFSIN's loan book growth has been stagnant due to the subdued performance of the auto sector, given 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). The company is expected to derive further benefit from its agreement with Maruti Suzuki India Limited (MSIL), under which it has been providing financial services to MSIL's retail customers. Considering the rising interest scenario, TFSIN's ability to offer lending services at competitive rates would be a key monitorable.

TFSIN's net profitability remained modest with a return on average managed assets (RoMA) of 1.7% in H1 FY2023 and 1.1% in FY2022, given its lower net interest margin of 3.6% in FY2022 and 3.5% in H1 FY2023 on account of operating in an intensely competitive business segment. The operating expenses 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 was somewhat supported by 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 in focus.

Adequate asset quality – TFSIN's gross stage 3 assets improved to 4.8% in December 2022 from 5.3% in March 2022 due to controlled slippages in the retail segment though there are still concerns regarding the asset quality in the fleet financing segment. TFSIN maintained its provisions, which stood at 3.8% of the loan book as of December 2022 vis-a-vis 5.0% in March 2022 and 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 January 31, 2023, reflected positive cumulative mismatches up to one year. As on December 31, 2022, TFSIN's liquidity position remained strong, supported by cash and cash equivalents of ~Rs. 306 crore and unutilised sanctioned funding lines of Rs. 4,258 crore, including committed bank lines. The company has debt repayments of Rs. 1,051 crore between February 2023 and July 2023. As on December 31, 2022, the total borrowing of Rs. 6,581.70 crore was fairly diversified across bank facilities (37.0%), NCDs (35.5%), commercial paper (1.5%) and external commercial borrowing loans (26.0%). TFSIN 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 – A significant deterioration in the credit profile of the TMC Group or lower-than-expected support from the Group could lead to a rating downgrade.

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 the 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 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 manufacturers 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)

Toyota Financial Services India Limited	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 & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021			Date & rating in FY2020	
				Feb 24, 2023	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/Short term (fund based – others)	Long term /Short term	1,197.5	1,197.5	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+*	-	-	-	-	-	-	-
2 Bank facilities – Long term	Long term	-	-	-	-*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3 Bank facilities – Short term	Short term	-	-	-	-*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Non-convertible debentures	Long term	1,375.0	1,375.0	[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	150.0	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 Non-convertible debentures	Long term	625.0	625.0	[ICRA]AAA (Stable); assigned	-	-	-	-	-	-	-	-
7 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+

*Change in limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities – Long term/Short term (fund based – others)	Simple
Non-convertible debentures	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)
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)
INE692Q07332	Non-convertible debentures	24-Mar-21	5.45%	31-Jan-23	150.00	[ICRA]AAA (Stable); reaffirmed & withdrawn
Unutilised	Non-convertible debentures	NA	NA	NA	625.00	[ICRA]AAA (Stable); assigned
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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