December 29, 2023

Cholamandalam Investment and Finance Company Limited: Provisional [ICRA]AA+(SO) assigned to PTC Series A backed by vehicle loan receivables issued by PLATINUM TRUST DEC 2023 – TRANCHE I

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST DEC 2023 – TRANCHE I	PTC Series A	1,366.87	Provisional [ICRA]AA+(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Cholamandalam Investment and Finance Company Limited {CIFCL/originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 1,366.87-crore (pool principal; receivables of Rs. 1,682.59 crore) vehicle loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, CIFCL's track record in the vehicle loan business and the credit enhancement available in the form of (i) a credit collateral (CC) of 5.00% of the initial pool principal (Rs. 68.34 crore) to be provided by the originator, (ii) excess interest spread (EIS) of 9.55% of the initial pool principal (Rs. 130.58 crore) in the structure, and the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Established position in vehicle finance market, backed by strong franchisee base and diverse product portfolio
- Availability of credit enhancement in the form of EIS and CC
- Absence of delinquent contracts in the pool as on the cut-off date

Credit challenges

- Proportion of contracts with loan-to-value (LTV) ratio of more than 80% is high in the initial pool at ~57%
- Performance of the pool would remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding and the promised principal (100% of the pool principal billed). Any EIS, after making the payments to Series A PTCs, will flow back to the originator on a monthly basis. The CC will be used for any shortfall in the promised interest payment and the promised principal payment in any month.

The first line of support for meeting the scheduled PTC payouts is the EIS in the structure. Further credit support is available through a CC of 5.00% of the initial pool principal amount (Rs. 68.34 crore). The CC will be in the form of a first loss facility (FLF).

There are no overdues in the pool as on the pool cut-off date (November 30, 2023). The pool is characterised by contracts with a weighted average seasoning of ~11 months and is well diversified with low obligator concentration as on the cut-off date. It consists of new and used multipurpose utility vehicle (New MUV: ~30% and Used MUV: ~14%), new and used light commercial vehicle (New LCV: ~11% and Used LCV: ~5%), new and used heavy commercial vehicle (New HCV: ~2% and Used HCV: ~3%), new and used construction equipment (New CE: ~1% and Used CE: ~1%) and two-wheeler (~34%) loan contracts. It has a high share of contracts with an LTV ratio of more than 80% (~57%) as on the cut-off date. Further, the performance of the pool would remain exposed to any macroeconomic shocks/business disruptions.

Past rated pools: ICRA had ratings outstanding on 14 vehicle finance PTC transactions of CIFCL as of November 2023. The performance of the live pools (which have completed at least three months post securitisation) remained healthy till the November 2023 payouts. Any CC utilisation in the past was fully topped up in subsequent months and there has been no CC utilisation in the past 12 months.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.25-3.25% of the initial pool principal, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 12.0% p.a.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 5.00% of the initial pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the scheduled PTC payouts for a period of three months.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency of more than 95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of CIFCL's portfolio till September 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

CIFCL, a non-banking financial company, is a part of the Chennai-based Murugappa Group of companies. Incorporated in 1978, it operates through 1,267 branches across 29 states and Union Territories (UTs) with assets under management (AUM) of Rs. 1,24,246 crore as of September 2023. The company's core business segments include vehicle finance loans (61%) and loan against property (LAP; 20%). The housing loan (9%) and small and medium enterprise (SME) loan (10%) segments largely constitute the rest of the portfolio. CIFCL has forayed into three new business divisions in the consumer and SME ecosystem, namely consumer & small enterprise loan (CSEL), secured business & personal loan (SBPL) and SME. The share and performance of these segments in the overall portfolio is yet to be seen.

As of September 2023, CIFCL had two wholly-owned subsidiaries, Cholamandalam Home Finance Limited and Cholamandalam Securities Limited, a joint venture with Payswiff Technologies Private Limited, and the following associate entities – Vishvakarma Payments Private Limited and Paytail Commerce Private Limited.

CIFCL (standalone) reported a net profit of Rs. 2,666 crore on a managed asset base of Rs. 1,15,278 crore in FY2023 compared to Rs. 2,147 crore and Rs. 85,128 crore, respectively, in FY2022. It reported a net profit of Rs. 1,489 crore on a managed asset base of Rs. 1,38,320 crore in H1 FY2024.

Key financial indicators (audited)

CIFCL – Standalone	FY2022	FY2023	H1 FY2024*
Total income	10,139	12,978	8,706
Profit after tax	2,147	2,666	1,489
Total managed assets[1]	85,128	1,15,278	1,38,320
Gross stage 3	4.37%	3.01%	2.96%
Net stage 3	2.64%	1.62%	1.56%

Source: Company & ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					December 29, 2023	-	-	-
1	**PLATINUM TRUST DEC 2023 – TRANCHE I**	PTC Series A	1,366.87	1,366.87	**Provisional [ICRA]AA+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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

[1] Calculated as sum of Total Assets (as per balance sheet) + Assignment book; for H1 FY2024, Total managed assets= 1,36,881 Cr.+1,439 Cr. = 1,38,320 Cr.

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance/ Sanction	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PLATINUM TRUST DEC 2023 – TRANCHE I	PTC Series A	December 2023	8.55%	June 2028	1,366.87	Provisional [ICRA]AA+(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
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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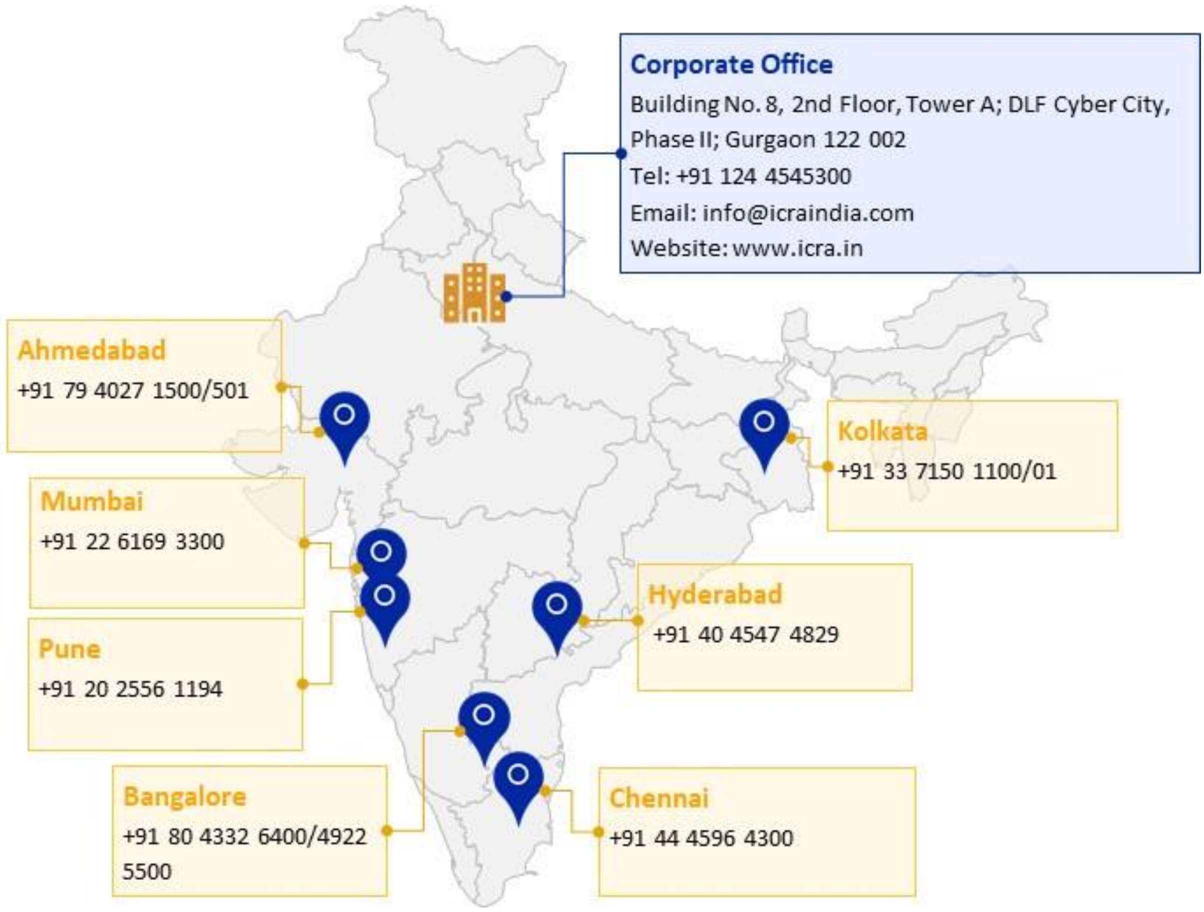

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