

January 29, 2024

Cholamandalam Investment and Finance Company Limited: Ratings confirmed as final for PTCs issued under a vehicle loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST OCT 2023 – TRANCHE I	PTC Series A	621.83	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	15.55	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In October 2023, ICRA had assigned Provisional [ICRA]AAA(SO) rating to Pass-Through Certificates (PTCs) Series A and Provisional [ICRA]A-(SO) rating to Second Loss Facility issued by PLATINUM TRUST OCT 2023 – TRANCHE I. The PTCs are backed by a pool of Rs. 621.83-crore (pool principal; receivables of Rs. 772.95 crore) vehicle loan receivables originated by Cholamandalam Investment and Finance Company Limited (CFSP/originator) {CIFCL; rated [ICRA]AA+ (Positive)}. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

A summary of the pool performance till December 2023 payout is shown in the table below:

Parameter	PLATINUM TRUST OCT 2023 – TRANCHE I
First payout date	Nov 23, 2023
Months post securitisation	2
Pool amortisation	4.65%
PTC Series A amortisation	4.65%
Cumulative Prepayment rate	0.43%
Cumulative collection efficiency	96.56%
Loss-cum 0+ days past due (dpd)	6.50%
Loss cum 30+ dpd	0.07%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Established position in the vehicle finance market backed by its strong franchisee base and fairly diverse product portfolio.
- Availability of credit enhancement in the form of excess interest spread (EIS) and Cash Collateral (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 ~65%.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors. The monthly

cash flow schedule comprises promised interest payment to PTC Series A at the pre-determined interest rate on the principal outstanding and promised principal (100% of the pool principal billed). Any excess interest spread (EIS) after making payments to Series A PTCs will flow back to the originator on a monthly basis. Cash collateral will be used for shortfall in the interest payment in any month and for shortfall in the payment of promised principal.

The first line of support for meeting the scheduled PTC payouts is the subordination of the EIS in the structure. Further credit support is available through a CC of 7.50% of the initial pool principal amount (Rs. 46.64 crore). The CC will be split into a first loss facility (FLF) amounting to Rs. 31.09 crore (5.00% of initial pool principal) and a second loss facility (SLF) amounting to Rs. 15.55 crore (2.50% of initial pool principal).

There are no overdue in the pool as on the pool cut-off date (September 30, 2023). The pool is characterised by contracts with a weighted average seasoning of ~9 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: ~22% and Used MUV: ~2%), new and used light commercial vehicle (New LCV: ~35% and Used LCV: ~8%), new and used heavy commercial vehicle (New HCV: ~10% and Used HCV: ~12%) and new construction equipment (~11%) loan contracts. Further, the performance of the pool would remain exposed to any macroeconomic shocks/business disruptions.

Past rated pools: ICRA currently has rating outstanding on 15 PTC transactions of CIFCL. The performance of the live pools (which have completed more than three months post securitisation) remained healthy till the December 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated between 2.50% - 3.50% of the initial pool principal, with certain variability around it. The average prepayment rate for the underlying pool is estimated 12.0% p.a.

Liquidity position

Strong for PTC Series A

The liquidity for the PTC instrument is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~3.6 times the estimated loss in the pool.

Strong for Second Loss Facility

The liquidity for the SLF is strong after factoring in the FLF available for top up of SLF, if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive factors – Not applicable for the PTC; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool contracts, resulting in an increase in the credit enhancement cover available for the SLF.

Negative factors – Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pool (monthly collection efficiency of <90% on a sustained basis), leading to higher-than-expected delinquency levels and CE utilization levels. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

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 CRAs: Not applicable

Any other information: None

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

Rating history for past three years

	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
					January 29, 2024	October 31, 2023			
1	PLATINUM TRUST OCT 2023 – TRANCHE I	PTC Series A	621.83	621.83	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)		-	-
		Second Loss Facility	9.33	15.55	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)		-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex
Second Loss Facility	Moderately Complex

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

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PLATINUM TRUST OCT 2023 – TRANCHE I	PTC Series A	October 2023	7.75%	October 2028	621.83	[ICRA]AAA(SO)
	Second Loss Facility		-		15.55	[ICRA]A-(SO)

*Scheduled 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.

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Branches



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