

January 31, 2024

Cholamandalam Investment and Finance Company Limited: Provisional [ICRA]AAA(SO) assigned to PTC Series A backed by vehicle and construction equipment loan receivables issued by PLATINUM TRUST JAN 2024 – TRANCHE II; Provisional [ICRA]A-(SO) assigned to second loss facility

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST JAN 2024 – TRANCHE II	PTC Series A	1,087.32	Provisional [ICRA]AAA(SO); Assigned
	Second loss facility	16.31	Provisional [ICRA]A-(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
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Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) and second loss facility (SLF) 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. 1,087.32-crore (pool principal; receivables of Rs. 1,351.22 crore) vehicle and construction equipment loan receivables.

The provisional ratings are 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 (CE) available in the form of (i) a cash collateral (CC) of 6.50% of the initial pool principal to be provided by the originator, (ii) excess interest spread (EIS) of 8.66% of the initial pool principal in the structure, and the integrity of the legal structure. The ratings are 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 CE 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 ~66%
- 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 interest on the PTC securities, at predetermined rates on the outstanding principal, is promised on a monthly basis while the principal is promised on the final scheduled maturity date (January 23, 2029). On each payout date, the promised cash flow schedule for PTC Series A, on a monthly basis, will comprise only the interest (at the predetermined yield) payment; the principal payment would be promised on the final payout date. During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to PTC Series A, will be used to make the expected principal payouts to PTC Series A (not promised).

Any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

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 6.50% of the initial pool principal amount (Rs. 70.68 crore). The CC will be split into a first loss facility (FLF) amounting to Rs. 54.37 crore (5.00% of initial pool principal) and a second loss facility (SLF) amounting to Rs. 16.31 crore (1.50% of initial pool principal).

There were no overdues in the pool as on the cut-off date. 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: ~30% and Used MUV: ~11%), new and used light commercial vehicle (New LCV: ~18% and Used LCV: ~7%), new and used heavy commercial vehicle (New HCV: ~13% and Used HCV: ~6%) and new and used construction equipment (New CE: ~15% and Used CE: ~1%) loan contracts. Further, the performance of the pool would remain exposed to macroeconomic shocks/business disruptions.

Past rated pools: ICRA currently has ratings 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 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 12.00% p.a.

Liquidity position: Strong

The liquidity position for PTC Series A is strong after factoring in the CE available for meeting the promised payouts to the investor. The liquidity position for the SLF is also strong after factoring in the FLF available for the top-up of the SLF, if needed, as per the defined waterfall mechanism. The total CE would be 3.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable for PTC Series A

The rating for the SLF 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 ratings 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 ratings.

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 CE 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 ratings are 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 ratings 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 ratings, the provisional ratings 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. 1,38,320 crore as of September 2023. The company’s core business segments include vehicle finance loans (61%) and loan against property (20%). It also provides housing loans (9%) and small and medium enterprise (SME) loans (10%), which 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 remains to be observed.

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

In FY2023, CIFCL (standalone) reported a net profit of Rs. 2,666 crore on a managed asset base of Rs. 1,15,278 crore compared with 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	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
Return on managed assets	2.6%	2.7%	2.3%
Managed gearing (times)	6.1	6.9	7.7
Gross stage 3	4.4%	3.0%	3.0%
CRAR	19.6%	17.1%	16.6%

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
					January 31, 2024	-	-	-
1	PLATINUM TRUST JAN 2024 – TRANCHE II	PTC Series A	1,087.32	1,087.32	Provisional [ICRA]AAA(SO)	-	-	-
		Second loss facility	16.31	16.31	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](#)

¹ Total assets (as per balance sheet) + assignment book; for H1 FY2024, total managed assets = Rs. 1,36,881 crore + Rs. 1,439 crore = Rs. 1,38,320 crore

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PLATINUM TRUST JAN 2024 – TRANCHE II	PTC Series A	January 2024	7.90%	January 2029	1,087.32	Provisional [ICRA]AAA(SO)
	Second loss facility	January 2024	-	January 2029	16.31	Provisional [ICRA]A-(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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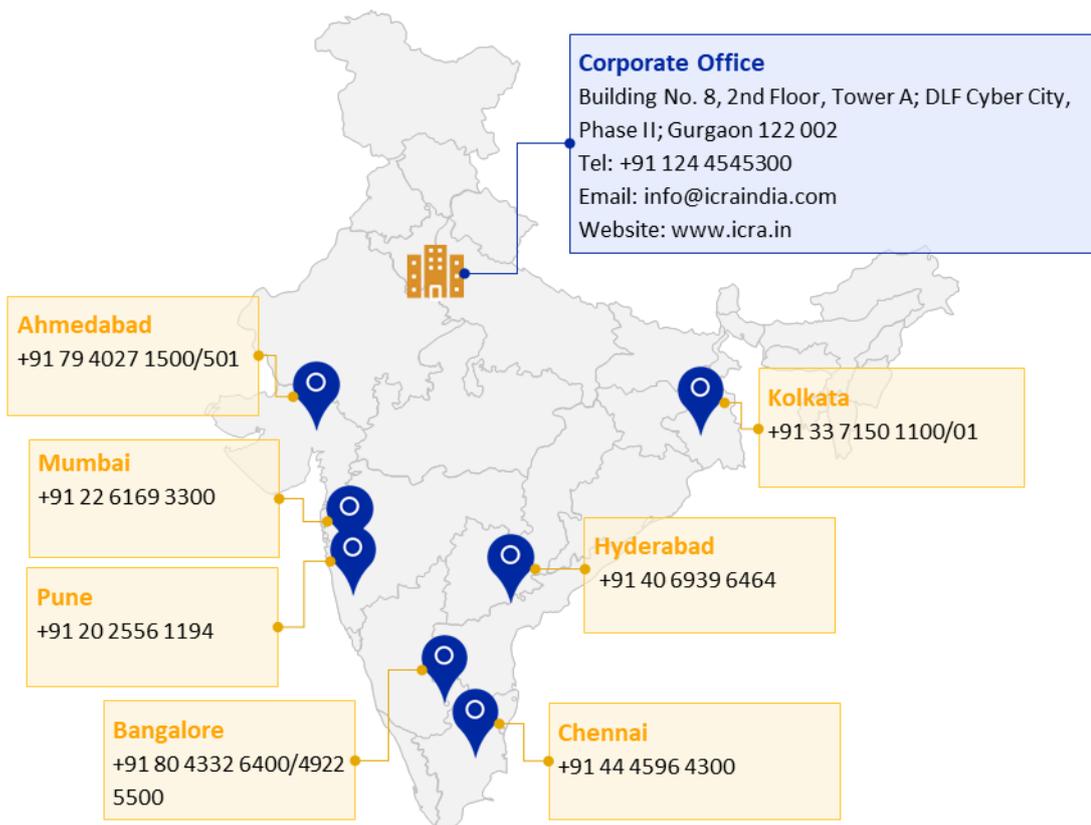
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