

March 26, 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 JAN 2024 – TRANCHE II	PTC Series A	1,087.32	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	26.10	[ICRA]A-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In January 2024, 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 JAN 2024 – TRANCHE II. The PTCs are backed by a pool of Rs. 1,087.32-crore (pool principal; receivables of Rs. 1,351.22 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 February 2024 payout is shown in the table below:

Parameter	PLATINUM TRUST JAN 2024 – TRANCHE II
First payout date	Feb 23, 2024
Months post securitisation	1
Pool amortisation	2.37%
PTC Series A amortisation	2.37%
Cumulative Prepayment rate	0.22%
Cumulative collection efficiency	96.13%
Loss-cum 0+ days past due (dpd)	3.89%
Loss cum 30+ dpd	0.00%
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 ~66%.
- 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 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. 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. 26.10 crore (2.40% of initial pool principal).

There are no overdue 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 any macroeconomic shocks/business disruptions.

**Past rated pools:** ICRA currently has rating outstanding on 18PTC transactions of CIFCL. The performance of the live pools (which have completed more than three months post securitisation) remained healthy till the February 2024 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 2.25% - 3.25% 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 ~3.75 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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, CIFCL operates through 1,166 branches across 29 states and Union Territories (UTs) with net assets under management (AUM) of Rs. 1,06,498 crore as March 2023. The company's core business segments include vehicle finance (64%) and home equity loans (21%). It also provides housing loans and small and medium-sized enterprise (SME) loans, which largely constitute the rest of the portfolio.

CIFCL has three wholly-owned subsidiaries, viz. Cholamandalam Home Finance Limited (erstwhile Cholamandalam Distribution Services Limited), Cholamandalam Securities Limited, and Payswiff Technologies Private Limited, and an associate entity – White Data Systems India Private Limited (31% stake).

## Key financial indicators

CIFCL	FY2022	FY2023	9M FY2024
Total income	10,139	12,978	13,724
Profit after tax	2,147	2,666	2,365
Total managed assets <sup>1</sup>	85,128	1,15,278	1,45,037
Return on managed assets	2.6%	2.7%	2.4%
Managed gearing (times)	6.1	6.9	6.7
Gross stage 3	4.4%	3.0%	2.8%
CRAR	19.6%	17.1%	19.4%

Source: Company, ICRA Research; Amount in Rs. Crore

<sup>1</sup> Total assets (as per balance sheet) + assignment book; for H1 FY2024, total managed assets = Rs. 1,43,718 crore + Rs. 1,319 crore = Rs. 1,45,037 crore

Status of non-cooperation with previous CRAs: Not applicable

Any other information: None

### 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
					March 26, 2024	January 31, 2024			
1	PLATINUM TRUST JAN 2024 – TRANCHE II	PTC Series A	1,087.32	1,087.32	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	
		Second Loss Facility	16.31	26.10	[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
<b>PLATINUM TRUST JAN 2024 – TRANCHE II</b>	PTC Series A	January 2024	7.90%	January 2029	1,087.32	[ICRA]AAA(SO)
	Second Loss Facility		-		26.10	[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.

For more information, visit [www.icra.in](http://www.icra.in)

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### Branches



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