

March 26, 2024

## Cholamandalam Investment and Finance Company Limited: Ratings reaffirmed for PTCs and SLF issued under vehicle loan securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after February 2024 Payout (Rs. crore)	Rating Action
Platinum Trust September 2021-Tranche II	PTC Series A	159.81	116.74	26.81	[ICRA]AAA(SO); Reaffirmed
	Second loss facility	7.99	7.99	7.99	[ICRA]A-(SO); Reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

ICRA has reaffirmed the ratings for the pass-through certificates (PTCs) and the second loss facility (SLF) issued under a securitisation transaction originated by Cholamandalam Investment and Finance Company Limited (CIFCL; rated [ICRA]AA+ (Positive)/[ICRA]A1+), as tabulated above. The PTCs are backed by light commercial vehicle (LCV), medium and heavy commercial vehicle (MHCV) and multi-utility commercial vehicle (MUV) loan receivables originated by CIFCL. The ratings have been reaffirmed on account of the high amortisation in the transaction, which has led to the build-up of the credit enhancement cover over the future PTC payouts. A summary of the performance of the live pool after the February 2024 payout has been provided below.

### Reset of credit enhancement

At CIFCL's request for resetting the credit enhancement for Platinum Trust September 2021-Tranche II, ICRA has analysed the transaction at a cash collateral (CC) of 9.54% of the balance pool principal against the currently available CC of 41.25% (after the January 2024 payouts). Based on the pool's performance, the current rating for the PTCs will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the PTC investors.

However, as per regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

### Pool performance summary

A summary of the performance of the live pool till the February 2024 payout month has been tabulated below.

Parameter	Platinum Trust September 2021-Tranche II
Months post securitisation	26
Pool amortisation (%)	83.22%
PTC amortisation (%)	83.22%
Cumulative collection efficiency (%) <sup>1</sup>	98.95%
Cumulative prepayment rate (%)	12.39%
Average monthly collection efficiency for last three months <sup>2</sup> (%)	99.88%

<sup>1</sup> Cumulative collections / (Cumulative billings + Opening overdues at the time of securitisation)

<sup>2</sup> (Last 3 months' cumulative collections including current, overdue and advance collections) / (Last 3 months' cumulative billings)

Parameter	Platinum Trust September 2021-Tranche II
Average monthly prepayment rate (%)	0.46%
Loss-cum-90+ (% of initial pool principal) <sup>3</sup>	0.57%
Loss-cum-180+ (% of initial pool principal) <sup>4</sup>	0.32%
Breakeven collection efficiency for PTCs (%) <sup>5</sup>	56.51%
Cumulative CC utilisation (%)	0.00%
CC available (as % of balance pool)	41.25%
First loss facility (FLF; as % of balance pool)	11.45%
SLF (as % of balance pool)	29.80%
Excess interest spread (EIS; as % of balance pool)	6.04%

## Key rating drivers

### Credit strengths

- High amortisation of the pool, leading to lower uncertainty around performance of the balance pool contracts
- Buildup of cash collateral (CC) available in the balance pool

### Credit challenges

- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

## Description of key rating drivers highlighted above

The collection efficiency of the pool has shown an increasing trend on a monthly basis. The cumulative collection efficiency of the trust is ~99%. Supported by the healthy collection performance, delinquencies have remained low with the 90+ days past due (dpd) remaining below 1.0% as of the February 2024 collection month. Interim shortfalls in pool collections have been met through the excess interest spread (EIS) in some months. However, no CC has been utilised for the pool since inception. The performance of the pool would, nevertheless, remain exposed to fresh macro-economic shocks/business disruptions.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings for the PTC and the SLF in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

## Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being

<sup>3</sup> Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>4</sup> Principal outstanding on contracts aged 180+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>5</sup> Breakeven collection efficiency = (Balance PTC cash flows – CC available) / Balance pool cash flows

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 0.25-0.75% 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

### PTC Series A: Superior

The liquidity for the instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be greater than 6 times the estimated losses in the pool.

### SLF: Strong

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

## Rating sensitivities

### Positive factors – NA 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 credit enhancement.

**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 credit enhancement 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 performance of the pool till February 2024 (payout month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the credit enhancement available in the transaction.

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, it 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>6</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

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Mar 26, 2024	May 30, 2023	Jun 27, 2022	Dec 23, 2021	Oct 08, 2021 <sup>^</sup>	
1	Platinum Trust September 2021- Tranche II	PTC Series A	159.81	26.81	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		Second loss facility	7.99	7.99	[ICRA]A-(SO)	[ICRA]A-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

<sup>^</sup>Initial ratings assigned

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Platinum Trust September 2021- Tranche II	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](#)

<sup>6</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

**Annexure I: Instrument details**

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Rating
Platinum Trust September 2021- Tranche II	PTC Series A	Sep-21	4.00%	Mar-26	26.81	[ICRA]AAA(SO)
	Second loss facility		NA		7.99	[ICRA]A-(SO)

*\*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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## About ICRA Limited:

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