April 25, 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 FEB 2024 – TRANCHE IV	PTC Series A	381.56	[ICRA]AAA(SO); provisional rating confirmed as final
	Second loss facility	5.72	[ICRA]A-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

ICRA had assigned the provisional ratings to Pass-Through Certificates (PTCs) Series A and Second loss facility issued by PLATINUM TRUST FEB 2024 –TRANCHE IV under a securitisation transaction originated by Cholamandalam Investment and Finance Company Limited {CIFCL; rated [ICRA]AA+ (Positive)}. The PTCs are backed by a pool of vehicle loan and construction equipment loan receivables originated by CIFCL with an aggregate principal outstanding of Rs 381.56 crore (pool receivables of Rs 488.29 crore).

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 March 2024 payout is shown in the table below:

Parameter	PLATINUM TRUST FEB 2024 –TRANCHE IV
First payout date	Mar 22, 2024
Months post securitisation	1
Pool amortisation	2.68%
PTC Series A amortisation	2.68%
Cumulative Prepayment rate	0.43%
Cumulative collection efficiency	97.98%
Loss-cum 0+ days past due (dpd)	2.05%
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 ~52%.
- 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 are 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 and principal payments 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 6.50% of the initial pool principal amount (Rs. 24.80 crore). The CC will be split into a first loss facility (FLF) amounting to Rs. 19.08 crore (5.00% of initial pool principal) and an SLF amounting to Rs. 5.72 crore (1.50% of initial pool principal).

There were no overdue in the pool as on the pool cut-off date (January 31, 2024). The pool is characterised by contracts with a weighted average seasoning of ~10 months and well diversified with low obligator concentration as on the cut-off date. It consists of new and used multipurpose utility vehicle (new MUV: ~17% and used MUV: ~15%), new and used light commercial vehicle (new LCV: ~21% and used LCV: ~18%) and new and used heavy commercial vehicle (new HCV: ~1% and used HCV: ~20%) loan contracts. The pool also consists of new and used construction equipment loans (new CE: ~3% and used CE: ~5%). It has a high share of contracts with an LTV ratio of more than 80% (~52%) 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 currently has rating outstanding on 20 PTC transactions of CIFCL. The performance of the live pools (which have completed more than three months post securitisation) remained healthy till the March 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

For PTC Series A: Strong

The liquidity for PTC Series A is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.5 times the estimated loss in the pool.

For SLF: Strong

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 PTCs. 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 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, 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[1]	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

[1] *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

<table>
<tr><th rowspan="3"></th><th rowspan="3">Trust Name</th><th colspan="4">Current Rating (FY2025)</th><th colspan="3">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Instrument</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating in FY2025</th><th>Date & Rating in FY2024</th><th>Date & Rating in FY2023</th><th>Date & Rating in FY2022</th></tr>
<tr><th>Apr 25, 2024</th><th>Feb 28, 2024</th><th>-</th><th>-</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">PLATINUM TRUST FEB 2024 – TRANCHE IV</td><td>PTC Series A</td><td>381.56</td><td>381.56</td><td>[ICRA]AAA(SO)</td><td>Provisional [ICRA]AAA(SO)</td><td>-</td><td>-</td></tr>
<tr><td>Second loss facility</td><td>5.72</td><td>5.72</td><td>[ICRA]A-(SO)</td><td>Provisional [ICRA]A-(SO)</td><td></td><td></td></tr>
</table>

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Simple
Second loss facility	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

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 FEB 2024 – TRANCHE IV	PTC Series A	February 2024	8.10%	January 2029	381.56	[ICRA]AAA(SO)
	Second loss facility	February 2024	-	January 2029	5.72	[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

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Anubhav Agrawal
+91 22 6114 3439
anubhav.agrawal@icraindia.com

Diptajyoti Banik
+91 22 6114 3412
diptajyoti.banik@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Palak Bhatt
+91 22 6114 3456
palak.bhatt@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches