

June 25, 2024

Toyota Financial Services India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term/Short term (fund based – others)	1,872.50	2,977.5	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount
Non-convertible debentures	4,175.00	4,175.00	[ICRA]AAA (Stable); reaffirmed
	675.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
	0.00	675.00	[ICRA]AAA (Stable); assigned
Commercial paper	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Total	8,222.50	9,327.50	

*Instrument details are provided in Annexure I

Rationale

The ratings consider Toyota Financial Services India Limited's (TFSIN) strong parentage, given its position as a wholly-owned subsidiary of Toyota Financial Services Corporation (TFSC), which is a wholly-owned subsidiary of Toyota Motor Corporation (TMC/ultimate parent; rated A1 (Positive) by Moody's). TFSIN receives significant financial and management support from TFSC and TMC by virtue of its parentage. Its board of directors and senior management team have representatives from TFSC. This, together with the shared brand name and integration with the TMC Group, reflects TFSIN's significance to the Group.

The ratings also factor in TFSIN's comfortable capitalisation profile, supported by timely equity support from the parent, robust underwriting practices and risk management policies, and diversified borrowing profile. However, TFSIN's margins continue to remain under pressure on account of the competitive scenario and the rising interest rates. This resulted in the net profitability (PAT / AMA) declining to 0.5% in FY2024 from 1.4% in FY2023. Incrementally, TFSIN's profitability is expected to stabilise during FY2025, in line with expected stabilisation in cost of funds.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion on TFSIN's comfortable capitalisation and strong liquidity position and the expectation that it would continue to benefit from the strong support of the TMC Group.

ICRA has simultaneously reaffirmed and withdrawn the long-term rating outstanding on the Rs.675-crore non-convertible debentures (NCDs) as the instruments have been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage with track record of support – TFSIN derives substantial financial and management support from TFSC and TMC owing to its parentage (wholly-owned subsidiary of TFSC and wholly-owned step-down subsidiary of TMC). TFSC exercises managerial control in TFSIN, which reflects its significance to the Group. Regular operational reporting and monitoring by TFSC's regional headquarters in Singapore, periodic reviews and senior management engagement indicate a high level of integration within the Group. Moreover, TFSIN receives regular guidance from TFSC in matters pertaining to treasury, debt raising and risk management. It has adequate risk management policies and benefits from TFSC's global best practices.

Comfortable capitalisation profile – TFSIN’s capitalisation remains comfortable with a capital adequacy ratio (capital-to-risk weighted assets ratio; CRAR) of 19.4% as of March 2024, supported by timely equity infusions from TFSC. TFSC has infused equity capital of Rs.2,250 crore in TFSIN since its inception, of which Rs.610 crore was received in FY2024 (Rs. 240.0 crore was infused in October 2023 and Rs.370 crore in March 2024). ICRA notes the track record of timely aid from TFSC to keep TFSIN comfortably capitalised well in advance to support the loan book growth. TFSIN’s gearing stood at 4.3 times as on March 31, 2024 (3.7 times as on March 31, 2023).

The company has strong growth plans for FY2025 and is expected to raise additional equity capital in the financial year. ICRA expects TFSIN to maintain comfortable capitalisation over the near-to-medium term.

Improving asset quality– TFSIN’s gross and net stage 3 assets declined to 3.0% and 1.3%, respectively, as of March 2024 from 4.1% and 1.9%, respectively, as of March 2023 (5.4% and 2.4%, respectively, as of March 2022), on the back of controlled slippages in both retail and dealer financing segments. The company follows an outsourced collection model with the in-house collection team closely monitoring the outsourced agencies.

TFSIN’s overall provisions reduced to 2.5% of the loan book as of March 2024 from 3.3% of the loan book as of March 2023 in line with the reduction in the delinquencies; however, they continue to remain adequate. Going forward, given its strong growth plans for the near-to-medium term, the company’s ability to maintain strict underwriting standards, and hence asset quality indicators, would be monitored.

Credit challenges

Competitive business segment and modest profitability – The domestic passenger vehicle sales volume witnessed a healthy pickup in FY2024. Toyota Kirloskar Motors (TKM) also recorded a 41.8%¹ increase in sales volume in the past one year. With TFSIN maintaining its financing penetration at around 16% and given the increasing ticket size, its loan book grew by 51.8% year-on-year (YoY) to Rs. 13,587.3 crore as of March 2024 (portfolio increased by 26.5% in FY2023). Going forward, TFSIN is expected to scale up its loan book through the existing models as well as the launch of new variants by TKM. It is also expected to diversify its presence into used cars loans, though the share of AUM derived from this segment would remain modest in the near-to-medium term. It is also expected to derive benefit from its agreement with Maruti Suzuki India Limited (MSIL), under which it has been providing financial services to MSIL’s retail customers in select locations.

The auto financing space is highly competitive and comprises large banks and non-banking financial companies. This has resulted in modest lending spreads over the years. Going forward, TFSIN’s ability to offer lending services at competitive rates would be a key monitorable.

TFSIN’s net profitability (PAT/AMA) witnessed a decline to 0.5% in FY2024 from 1.4% in FY2023 (1.1% in FY2022), predominantly on account of a decline in the interest margins to 2.6% in FY2024 from 3.2% in FY2023 (3.6% in FY2022). The operating expenses were under control and stood at 1.8% in FY2024 vis-à-vis 2.2% in FY2023; the company will continue to invest to support its incremental digitisation initiatives. Going forward, TFSIN’s ability to maintain its margins while keeping the operating expenses and credit costs under control, amid steep portfolio growth expectations, would be crucial.

Liquidity position: Strong

The company’s asset-liability management statement, as on March 31, 2024, reflected positive cumulative mismatches up to one year. As on March 31, 2024, TFSIN’s liquidity position remained strong, supported by free cash and liquid investments of Rs.747.7 crore and unutilised sanctioned funding lines of Rs. 2,995.5 crore. The company has debt repayments of Rs.2059.2 crore within the next six months. TFSIN also enjoys strong financial flexibility for mobilising funding at competitive rates on the back of its track record and strong parentage.

¹ Source: Society for Indian Automobile Manufacturers (SIAM) data as of March 2024

As on March 31, 2024, the total borrowing of Rs.11,203.3 crore was fairly diversified across bank facilities (47%), non-convertible debentures (NCDs; 33%), commercial paper (2%) and external commercial borrowing (18%).

Rating sensitivities

Positive factors – Not applicable

Negative factors – A significant deterioration in the credit profile of the TMC Group or lower-than-expected support from the Group could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Support from Toyota Motor Corporation Group
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Toyota Financial Services India Limited (TFSIN) is a non-deposit taking non-banking financial company registered with the Reserve Bank of India and is primarily involved in the retail financing of Toyota cars. Additionally, TFSIN offers financing for Toyota dealers in the form of inventory funding and infrastructure term loans. TFSIN is a wholly owned subsidiary of Toyota Financial Services Corporation, which is a wholly owned subsidiary of Toyota Motor Corporation (TMC). The company commenced its operations in FY2013. TMC is one of the world's leading automobile manufacturers with a strong brand and products across categories including cars, trucks and buses. Headquartered in Japan, TMC has a diversified global presence across Asia, Europe and the US.

Key financial indicators (audited)

Toyota Financial Services India Limited	FY2022	FY2023	FY2024
Total income	678.2	740.7	1,061.1
Profit after tax	84.1	124.0	54.7
Total Assets	7,828.8	9,632.8	14,567.8
Return on assets	1.1%	1.4%	0.5%
Gross gearing (times)	3.9	3.7	4.3
Gross stage 3	5.4%	4.1%	3.0%
CRAR	20.1%	22.1%	19.4%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022	
				Jun 25, 2024	Dec 27, 2023	Aug 01, 2023	May 11, 2023	Feb 24, 2023	Dec 20, 2022	Dec 27, 2021	Jul 30, 2021
1 Bank facilities – Long term/Short term (fund based – others)	Long term / Short term	2,977.50	2,977.50	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-
2 Non-convertible debentures	Long term	4,175.00	4,175.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3 Non-convertible debentures	Long term	675.00	675.00	[ICRA]AAA (Stable)	-	-	-	-	-	-	-
4 Commercial paper	Short term	1,500.00	1,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank facilities – Long term/Short term (fund based – others)	Simple
Non-convertible debentures	Simple
Commercial paper	Very 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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current rating and Outlook
NA	Bank facilities – Long term/Short term (fund based – others)	NA	NA	NA	2,977.5	[ICRA]AAA (Stable) / [ICRA]A1+
INE692Q07316	NCD	Feb-24-21	5.70%	Feb-7-24	300.0	[ICRA]AAA (Stable); withdrawn
INE692Q07324	NCD	Mar-12-21	5.74%	Mar-12-24	275.0	[ICRA]AAA (Stable); withdrawn
INE692Q07340	NCD	Jun-30-21	5.68%	Jun-28-24	200.0	[ICRA]AAA (Stable)
INE692Q07365	NCD	Jan-31-22	5.88%	Jan-31-24	100.0	[ICRA]AAA (Stable); withdrawn
INE692Q07373	NCD	Sep-26-22	7.55%	Sep-26-25	150.0	[ICRA]AAA (Stable)
INE692Q07381	NCD	Oct-21-22	7.83%	Oct-21-24	200.0	[ICRA]AAA (Stable)
INE692Q07415	NCD	Apr-28-23	8.10%	May-28-26	300.0	[ICRA]AAA (Stable)
INE692Q07407	NCD	Mar-20-23	8.35%	Jun-19-26	150.0	[ICRA]AAA (Stable)
INE692Q07423	NCD	Jul-05-23	8.00%	Jul-03-26	375.0	[ICRA]AAA (Stable)
INE692Q07431	NCD	Jul-28-23	8.09%	Jul-28-28	250.0	[ICRA]AAA (Stable)
INE692Q07449	NCD	Sep-07-23	8.15%	Sep-07-26	500.0	[ICRA]AAA (Stable)
INE692Q07456	NCD	Nov-21-23	8.25%	Jan-21-26	150.0	[ICRA]AAA (Stable)
INE692Q07464	NCD	Nov-21-23	8.25%	Nov-21-28	150.0	[ICRA]AAA (Stable)
INE692Q07480	NCD	Jan-19-24	8.36%	Mar-19-27	325.0	[ICRA]AAA (Stable)
INE692Q07472	NCD	Jan-19-24	8.32%	Jan-19-29	150.0	[ICRA]AAA (Stable)
INE692Q07498	NCD	Feb-26-24	8.30%	Jan-25-27	200.0	[ICRA]AAA (Stable)
INE692Q07506	NCD	May-31-24	8.17%	May-21-27	265.0	[ICRA]AAA (Stable)
-	NCD – Proposed	-	-	-	1,485.0	[ICRA]AAA (Stable)
INE692Q14BD7	CP	May-17-24	NA	Aug-09-24	125.0	[ICRA]A1+
INE692Q14BC9	CP	Apr-22-24	NA	Feb-27-25	75.0	[ICRA]A1+
INE692Q14BB1	CP	Apr-19-24	NA	July-19-24	100.0	[ICRA]A1+
	CP – Proposed				1,200.0	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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