

September 06, 2024

Nissan Renault Financial Services India Private Limited: Ratings reaffirmed and assigned for enhanced bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	100.00	100.00	[ICRA]AA- (Stable); reaffirmed
Commercial paper	100.00	100.00	[ICRA]A1+; reaffirmed
Term loans	100.00	200.00	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Total	300.00	400.00	

*Instrument details are provided in Annexure I

Rationale

The ratings take into consideration Nissan Renault Financial Services India Private Limited's (NRFSI) strong parentage in the form of Nissan Motor Company Limited¹ (Nissan), which holds 70%² in the company through its wholly-owned subsidiary, Nissan International Holdings B.V. NRFSI's ratings remain strongly linked to the expectation of continued support from Nissan, which, along with Renault SA (Renault), has extended capital, funding, management and operational support in the past. Nissan is a global automobile manufacturer with a presence in major auto markets including North America, Japan and China. ICRA notes that Nissan's financial profile has improved in the last three years; it reported an adjusted EBITDA³ of 773.1 billion yen for the 12 months ending December 2023 vis-à-vis 594.6 billion yen in FY2023 (242.6 billion yen in FY2022). Going forward, ICRA will continue to monitor the movement in Nissan's credit risk profile and will take appropriate rating action on NRFSI as its ratings are underpinned by its parentage.

The ratings continue to factor in NRFSI's comfortable capitalisation (gearing of 2.1 times as of June 2024) and asset quality. The ratings, however, take note of the company's moderate track record of operations with a predominant reliance on the financing of Nissan/Renault⁴-branded passenger vehicles as it is a captive financier. ICRA notes that NRFSI's loan portfolio declined in FY2024, largely on account of a reduction in the sales volume of the OEMs. The sales volume/market share trend of the OEMs would be a key sensitivity for NRFSI's ability to grow its disbursements and loan portfolio. The ratings also consider the highly competitive nature of the auto financing industry, which limits the company's scope to expand its business margins.

The Stable outlook reflects ICRA's expectation that NRFSI will continue to receive timely operational, financial and managerial support from Nissan over the near-to-medium term.

¹ Moody's Investors Service has a Baa3 issuer rating with a stable outlook for Nissan

² The balance (30%) is held by RCI Banque, a wholly-owned subsidiary of Renault SA (Renault). Moody's has a Baa1 rating with a stable outlook for the senior unsecured debt instruments of RCI

³ Adjusted for pensions, operating leases, unusual and non-standard adjustments

⁴ Original equipment manufacturers (OEMs)

Key rating drivers and their description

Credit strengths

Strong parentage with Nissan holding 70% stake via its wholly-owned subsidiary – NRFSI has received Rs. 710-crore equity from the shareholders since inception and enjoys adequate funding lines from Group companies at favourable terms. It also has board representation in the form of Directors from Renault/Nissan. Given its strategic importance to the Group, the common branding and strong ownership, ICRA expects NRFSI to continue benefitting from the operational, financial and management support from the shareholders and Group entities.

Comfortable asset quality – NRFSI's portfolio delinquencies stayed stable in FY2024 and Q1 FY2025, with the 90+ days past due (dpd) remaining at 1.6% as of March 2024 and 1.9% as of June 2024, partly supported by write-offs. It wrote off Rs. 30.2 crore in FY2024 in its wholesale lending portfolio (i.e. lending to dealers, which constituted 7.9% of the overall portfolio as of March 2024), resulting in an improvement in the 90+dpd to 1.2% as of March 2024 from 7.4% as of March 2023. The 90+dpd in the retail book witnessed a modest weakening to 1.7% as of March 2024 from 1.3% as of March 2023 as the company increased its exposure to the self-employed category of customers; however, the asset quality of this segment remains comfortable. ICRA expects NRFSI to maintain its portfolio delinquencies in a range-bound manner in the near term, supported by tight control on its underwriting in the wholesale segment and steady collection efforts in the retail segment.

Comfortable capitalisation profile – NRFSI has a comfortable capitalisation profile, characterised by a net worth and gearing of Rs. 1,173 crore and 2.1 times, respectively, as of June 2024. ICRA notes that the company may not need significant external capital for portfolio growth. ICRA expects timely capital support from the shareholders, if required, given the strategic importance of NRFSI to the Group's Indian operations.

Adequate funding support from Group companies; however, funding diversification at competitive rates required for long-term growth plans – NRFSI's funding profile predominantly comprises inter-corporate loans from Renault Nissan Automotive India Private Limited (RNAIPL). As of June 2024, 45.5% of the borrowings was from RNAIPL, followed by term loans from banks (38.6%), working capital loans from banks (9.5%), external commercial borrowings from banks (4.1%) and securitisation (2.2%). The company raises funds from a few international banks, leveraging its parentage and the Group's established relationships. Although NRFSI currently enjoys favourable funding rates from its Group companies, ICRA notes that the same could get refinanced on maturity at higher rates, which would impact its average cost of funding over the near-to-medium term. The company needs to diversify and secure funds at competitive rates to support business expansion and to improve profitability.

Credit challenges

Moderate track record of operations – NRFSI was incorporated in October 2013 and received a non-banking financial company (NBFC) licence in June 2014. Its overall portfolio stood at Rs. 3,628.4 crore as of June 2024 and Rs. 3,691.9 crore as of March 2024 (Rs. 3,877.6 crore as of March 2023). The decline in the portfolio was mainly due to lower disbursements as OEM sales volume moderated. The company continues to focus on the sale of new vehicles of the Nissan and Renault brands. NRFSI's loan portfolio is expected to reach Rs. 3,800 crore by March 2025.

Competitive business segment – NRFSI faces competition from established players, including banks and other large NBFCs. This results in significant constraints on its lending yields and consequently its interest margins. The company has been taking steps, including increasing the share of higher-yielding loans such as loans to self-employed borrowers, used vehicle loans, etc. However, the impact of the same could be restricted in the near term. Nevertheless, NRFSI's financing penetration with the OEMs improved to 25.4% in FY2024 (26.5% in Q1 FY2025) from 24% in FY2023, which helped restrict the decline in its assets under management (AUM) in FY2024 to 4.8%. Going forward, the portfolio growth would be contingent on the success of the OEMs' planned product launches, revision in vehicle prices and NRFSI's penetration levels.

Moderate profitability levels – NRFSI’s net profitability is moderate at 1.8% in Q1 FY2025 and 1.6% in FY2024 and FY2023. Credit costs remained under control at 0.5% in Q1 FY2025 and FY2024. This was aided by the higher credit provisioning created in the earlier years, which supported the overall provision levels, notwithstanding the write-offs in the wholesale book. Going forward, improving interest margins and higher fee-based income would be crucial for incremental profitability.

Liquidity position: Strong

NRFSI had about Rs. 1,574 crore of sanctioned credit lines from banks as on August 20, 2024, which are available on immediate basis for utilisation. It has repayment obligations of Rs. 150 crore to RNAIPL (inter-corporate loan) during August-November 2024, working capital demand loan (WC DL) borrowings amounting to Rs. 222 crore and term loans of Rs. 361 crore. The WC DL facilities are typically rolled over. The company’s collections remain relatively stable and access to commensurate funding lines provides comfort from a liquidity perspective.

Rating sensitivities

Positive factors – NRFSI’s rating could be positively impacted in case of a significant improvement in Nissan’s risk profile.

Negative factors – Weakening in Nissan’s risk profile or lower-than-expected support from Nissan could have a negative impact on the ratings. A substantial deterioration in NRFSI’s asset quality, affecting the earnings, or a steady weakening in its liquidity and capitalisation profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	The ratings factor in the high likelihood of financial support from Nissan because of the close business linkages. ICRA also expects the parent to be willing to extend financial support to NRFSI to protect its reputation from the consequences of a Group entity’s distress. There is a track record of timely financial support (both debt and equity) to NRFSI, whenever required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Incorporated in October 2013, NRFSI is a systemically important, non-deposit taking non-banking financial company (SI-ND-NBFC). It provides financing for the Nissan and the Renault brands of vehicles (retail loans) and extends term loans and inventory funding facilities to the automobile dealers (wholesale loans) of the above-mentioned vehicles. NRFSI is a 70:30 joint venture between Nissan International Holdings B.V., a wholly-owned subsidiary of Nissan, and RCI, a wholly-owned subsidiary of Renault.

NRFSI reported a net profit of Rs. 64.4 crore in FY2024 on a total asset base of Rs. 3,710.2 crore compared with Rs. 61.4 crore and Rs. 4,069.3 crore, respectively, in FY2023. It reported a provisional net profit of Rs. 16.7 crore in Q1 FY2025 on a total asset base of Rs. 3,651.3 crore.

Key financial indicators (Ind-AS)

NRFSI – Standalone	Ind-AS	Ind-AS	Ind-AS	Ind-AS
	Audited	Audited	Audited	Provisional
	FY2022	FY2023	FY2024	Q1 FY2025
Total income	367.6	384.6	405.4	98.2
Profit after tax	71.1	61.4	64.4	16.7
Total managed assets	3,582.8	4,159.6	3,788.8	3,731.6
Return on managed assets	2.0%	1.6%	1.6%	1.8%
Managed gearing (times)	2.4	2.7	2.2	2.1
Gross stage 3	2.2%	1.7%	1.6%	1.9%
CRAR	29.4%	27.6%	30.5%	31.4%

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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Sep 06, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Non-convertible debenture	Long term	100.0	[ICRA]AA-(Stable)	24-Nov-23	[ICRA]AA-(Stable)	30-Sep-22	[ICRA]AA-(Stable)	31-Jan-22	[ICRA]AA-(Stable)
				15-Sep-23	[ICRA]AA-(Stable)			31-May-21	[ICRA]AA-(Negative)
Commercial paper	Short term	100.0	[ICRA]A1+	24-Nov-23	[ICRA]A1+	30-Sep-22	[ICRA]A1+	31-Jan-22	[ICRA]A1+
				15-Sep-23	[ICRA]A1+			31-May-21	[ICRA]A1+
Term loans	Long term	200.0	[ICRA]AA-(Stable)	24-Nov-23	[ICRA]AA-(Stable)				

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Commercial paper	Very Simple
Long-term fund-based term loans	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
Yet to be placed	Non-convertible debenture	NA	NA	NA	100.00	[ICRA]AA- (Stable)
Yet to be placed	Commercial paper	NA	NA	NA	100.00	[ICRA]A1+
NA	Term loans	Oct-20-23 – Aug-05-24	NA	Nov-20-26 & Aug-05-27	200.00	[ICRA]AA- (Stable)

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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About ICRA Limited:

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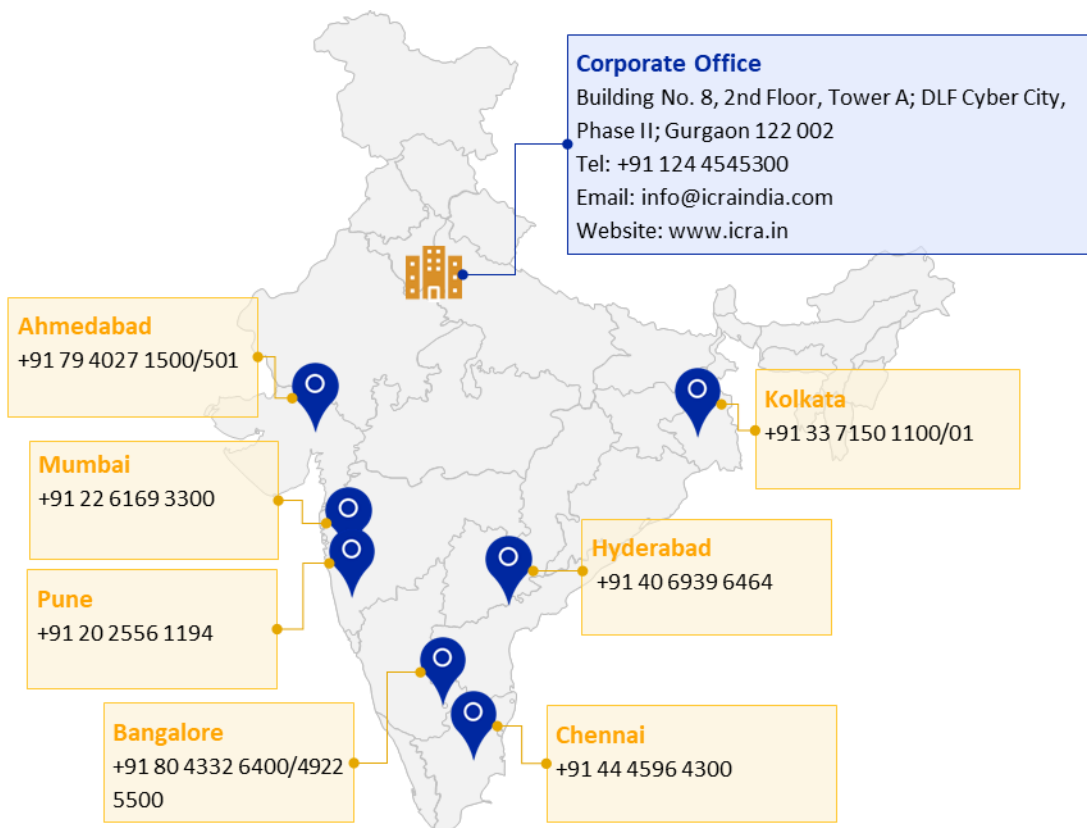
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