December 16, 2019

Fullerton India Credit Company Limited: Rating assigned for fresh non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	-	5,000	[ICRA]AAA(stable); assigned
Retail non-convertible debenture programme	2,000	2,000	[ICRA]AAA(stable); outstanding
Commercial paper programme	4,500	4,500	[ICRA]A1+; outstanding
Long-term bank lines	8,000	8,000	[ICRA]AAA(stable); outstanding
Issuer Rating	NA	NA	[ICRA]AAA(stable); outstanding
Non-convertible debenture programme	3,464	3,464	[ICRA]AAA(stable); outstanding
Subordinated debt programme	888	888	[ICRA]AAA(stable); outstanding
Short-term debt programme	1,000	1,000	[ICRA]A1+; outstanding
Total	**19,852**	**24,852**	

*Instrument details are provided in Annexure-1

Rationale

The ratings draw comfort from the parent, Fullerton Financial Holdings Pte Ltd (FFH), which is a step-down subsidiary of Temasek Holdings Private Limited, in terms of capital infusion, level of involvement in the company's operations, and the strategic importance of the company in the Group's business in India. The rating also factors in the diversified product profile, its pan India presence in urban and rural markets, adequate capitalisation levels, diversified funding profile, good recovery levels, sound provisioning policy, proven risk management processes and data analytics capability. Asset quality, which had stabilized back to pre-demonetisation levels in March 2019, has seen marginal deterioration in September 2019. ICRA notes the foray into new product segments like loan against shares and developer funding, which are relatively risky, in the current environment though they aggregate to less than 0.6% of the portfolio as on September 30, 2019 and is non-material, at present. ICRA notes the increased competition in the retail lending segment, where the company primarily operates, and the higher share of the unsecured lending business in considering its profitability prospects but recognizes that this portfolio has performed reasonably well through various macro conditions.

Key rating drivers

Credit strengths

Strong parentage – FICCL is a wholly-owned subsidiary of Fullerton Financial Holding Pte Limited (FFH) which, in turn, is a wholly-owned subsidiary of Temasek Holdings, Singapore (rated Aaa/Stable by Moody's Investors Service) - fully owned by the Singapore Government. The strategic importance of the company to its parent follows from the fact that it fits in with the parent's focus on the SME and the mass market customer segments across Asia. FICCL also benefits from the parent's strong brand franchise and close association with its operations. FFH (the immediate parent) is involved in strategy, financial planning and execution in FICCL and also has three representatives in the company's Board of Directors. It provided capital infusion as and when required, as evidenced by the Rs. 800-crore infused in the last five years including the Rs. 300 crore in H1 FY2020.

Adequate capitalisation levels – The company's capitalisation levels have remained adequate and well above regulatory requirement, mainly supported by healthy internal accruals over the last few years supplemented by capital infusion from promoters. FICCL has raised equity of Rs. 300 crore in H1 FY2020, of which Rs. 200 crore was invested in the HFC subsidiary. Subsequently, the capital adequacy ratio has improved to 20.1% as on September 2019 (tier I capital ratio of 15.2%) from 19.6% as on March 31, 2019 (tier I capital ratio of 14.2%) with net capital infusion of Rs. 100 crore in H1 FY2020, which are much above the regulatory requirement of 15% (Tier 1 of 10%). While the adjusted gearing (borrowings divided by net owned funds[1]), which was 5.64 times as on March 31, 2019 (5.37 times as on March 31, 2018), has marginally eased to 5.57 as on September 30, 2019. The gearing is expected to mildly increase in line with controlled growth by end of the current fiscal to ~ around 6.0. Historically, the adjusted gearing has largely been maintained at ~5.60. In ICRA's view the parent is expected to be forthcoming in infusing capital in the entity in the coming years to support its capitalisation for the growth envisaged in the coming years.

Access to a diversified funding profile – FICCL maintains a diversified lender base, low reliance on short-term funding and an adequate internal cash buffer. FICCL has a diversified funding base which includes banks, insurance companies, pension and mutual funds, in addition ICRA also notes the wide array of debt instruments in its liability mix, which includes debentures, bank loans, commercial paper, Masala Bonds, external commercial borrowings (ECB) and subordinated debt. The company has successfully raised ECB funds of Rs. 1,790 crore in August 2019 and Rs. 774 crore equivalent in October 2019. ICRA also notes the mild increase of commercial paper borrowings to 16% of overall borrowings, though primarily in longer tenor segment, in September 2019, from 14% in September 2018 in line with asset profile.

Operating profitability improves in FY2019 –Return on average assets (ROA) has improved to 3.7% in FY2019 from 2.2% in FY2018, owing to steady growth in loan book, improvement in yields with focus on rural loans and urban personal loans, stable borrowing costs and improving credit costs. The credit costs have seen an improvement in FY2019, on account of better asset quality, while the operating costs have streamlined due to increasing scale of operations. In H1 FY2020, RoA has marginally reduced to 3.3%, largely attributable to reduction in net interest margin and increase in credit costs. However, improving cost efficiencies aided in partly offsetting the impact to an extent. Net profit of H1 FY2020 was also impacted by the implementation of new corporate tax rates, which resulted in remeasurement of deferred tax assets with an impact of Rs. 67.4 crore in results of H1 FY2020. Excluding this, PAT would have been Rs. 504 crore with a RoA and RoE of 3.81% and 24.86% respectively.

Strong risk-management systems and underwriting processes – Over the years, the company has developed strong risk management systems and processes, evident through its active use of technology to understand product-level and region-level life-time profitability under stressed scenarios and its effort to proactively alter the portfolio mix. In ICRA's view, the risk management systems and processes of FICCL are adequate for its current scale of operations and future growth plans. The company follows a more stringent provisioning policy than the regulatory norms.

Credit challenges

Higher unsecured nature of lending operations makes portfolio vulnerable to economic cycles – Large proportion of unsecured loans in the portfolio (59% as of September 2019) makes the asset quality susceptible to economic cycles, owing to the less recoverability compared to secured loans, wherein the collateral can be liquidated. Although on a risk adjusted basis, the returns from these unsecured assets have performed well and supported the earnings profile. The unsecured portfolio comprises personal loans to salaried and self-employed individuals, and group and personal loans in

[1] *Net owned funds is calculated as net worth less investment in subsidiaries exceeding 10% of net worth*

the rural space. Over the past few years, there has been an increased focus on the secured segment with higher proportion of disbursements towards the micro & small mortgage loan under rural & urban segments and two-wheeler loans, resulting in an increase in the share of secured assets in the portfolio to ~41% as on September 2019 vis -à -vis ~32% as on March 2012. The recent foray into new product segments like loan against shares and developer funding has been to diversify the portfolio mix and increase the mix of secured assets in the book. However, the inherent risks in these businesses, especially in the current credit environment, partly outweighs the benefits of these products. ICRA will monitor the growth in the new book and risk management controls set up by the company (especially as wholesale lending is a new segment for Fullerton). However, ICRA notes the small scale of lending in these segments at present (0.6% of portfolio as on September 30, 2019), but these risk management systems and asset quality will be key monitorables going forward, as the book expands. ICRA notes that the systems and processes laid out by the company and its investments in technology in ensuring underwriting standards and collection efficiency, has helped it maintain a steady asset quality and contain the impact of demonetisation on its portfolio. The company also has a 100% provisioning policy on its unsecured and two-wheeler loans at 120 days past due, which is more stringent than the regulatory norms.

Asset quality stabilizes to pre-demonetization levels; urban LAP NPA level remains elevated – Gross and net NPA levels stood at 2.0% and 1.0% as of March 2019, as against 2.4% and 1.4% as of March 2018. The credit strengths of the company were temporarily affected by the one-time impact of demonetisation on the asset quality of the rural portfolio. However, FICCL had, at that time, taken a pre-emptive step to provide fully for the rural loans, where delinquencies were increasing, and freeze the lending. The company saw elevated credit costs levels during 2017-2018. In FY2018, FICCL was able to recover ~58% of the written-off accounts (in FY2017), indicating a strong recovery process (especially in rural portfolio). In FY2019 the collection efficiency of the rural portfolio improved to 98%, however, the urban LAP portfolio collections were lower at 86% (the primary driver for gross NPA's at the overall level). Further, asset quality of rural mortgage loans on seasoning remains to be seen. In September 2019, the gross and net NPA levels have increased to 2.33% and 1.12% respectively.

Liquidity Position: Strong

As on September 30, 2019, the company had Rs. 3,983 crore of debt maturing by March 2020, against which it has cash and liquid investments of Rs. 1,419 crore, unutilised bank and ECB lines of Rs. 3,652 crore, and scheduled customer inflows of Rs. 4,730 crore. The liquidity buffer is strong enough to meet the debt repayments falling due over the period from October 2019 to March 2020. ICRA does not foresee any liquidity risk in the near term.

Rating Sensitivities

Positive triggers: Not applicable

Negative triggers: Material change in expected level of support or material deterioration of credit risk profile of ultimate parent could warrant a rating downgrade. Negative pressure on rating could arise if, there is a deterioration in solvency levels (net stage 3 assets divided by net worth) remaining higher than 15% on a sustained basis or material deterioration in adjusted gearing from current levels on a sustained basis or material deterioration in net profit over average assets on a sustained basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA's Credit Rating Methodology for Non-Banking Finance Companies] [Impact of Parent or Group Support on an Issuer's Credit Rating]
Parent/Group Support	Ultimate Parent / Investor: Temasek Holdings (Private) Limited (rated Aaa by Moody's) ICRA factors in the strategic fit and importance of FICCL for the Fullerton group, which is demonstrated in the strong capital, operational and managerial support from the parent.
Consolidation / Standalone	The ratings are based on the standalone financial statements of the issuer.

About the company

Fullerton India Credit Company Limited (FICCL) commenced its operations in January 2006, catering primarily to self-employed borrowers. It is a wholly-owned subsidiary of Fullerton Financial Holding Pte Limited (FFH)[2]. FICCL's secured lending portfolio consists of mortgage loans to retail customers and small and medium enterprises (SMEs), commercial vehicle (CV) loans and secured rural loans such as two-wheeler loans, CV and mortgage loans. The unsecured portfolio comprises personal loans to salaried and self-employed individuals, and group and individual loans in the rural space. The company operates out of 626 branches. During FY2019, FICCL reported a net profit of Rs. 775 crore on a total asset base of Rs. 23,975 crore as compared to a net profit of Rs. 350 crore on a total assets of Rs. 17,377 in FY2018 (PAT of Rs. 214 crore on a total assets of Rs. 14,673 crore in FY2017). In H1 FY2020, the company reported a net profit of Rs. 436 crore as compared with a net profit of Rs. 339 crore in H1 FY2019.

Key financial indicators

	FY2017	FY2018	FY2019	H1 FY2020
Net interest income	1,479	1,613	2,526	1,536
Operating income	1,577	1,724	2,659	1,619
Profit before tax	331	527	1,194	683
Profit after tax	214	350	775	436
Total assets under management	11,597	15,776	21,542	24,121
Net worth	2,504	2,731	3,652	4,388
Total assets	14,673	17,377	23,975	28,000
% Tier 1	16.3%	14.0%	14.2%	15.4%
% CRAR	22.5%	18.8%	19.6%	20.1%
Gearing	4.5	5.1	5.3	5.1
Adjusted gearing	4.7	5.4	5.6	5.6
% Net profit/average total assets (annualised)	1.5%	2.2%	3.7%	3.3%
% Return on net worth	9.4%	13.4%	24.3%	21.7%
% Gross NPAs[3]	3.3%	2.4%	2.0%	2.3%
% Net NPAs	2.3%	1.4%	1.0%	1.1%
Net NPA/Net worth	10.2%	8.0%	5.7%	5.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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[2] Wholly owned subsidiary of Temasek Holdings, Singapore

[3] FICCL classifies NPAs at 90 dpd

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)			FY2019			FY2018		FY2017	
					16-Dec-19	30-Jul-19	01-Oct-18	19-Sep-18	27-Aug-18	07-Mar-18	10-Nov-17	12-Oct-16	13-Apr-16
1	Non-Convertible Debenture	Long Term	5,000	-	[ICRA]AAA (stable)	-	-	-	-	-	-	-	-
2	Commercial Paper Programme	Short Term	4,500	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Retail non-Convertible Debenture	Long Term	2,000	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-	-	-	-	-	-
5	Non-Convertible Debenture	Long Term	3,464	3,170	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
6	Issuer Rating	Long Term	NA	NA	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
7	Long Term Bank Lines	Long Term	8,000	6,282	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)

S. No.	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years						
							FY2019			FY2018		FY2017	
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	16-Dec-19	30-Jul-19	01-Oct-18	19-Sep-18	27-Aug-18	07-Mar-18	10-Nov-17	12-Oct-16	13-Apr-16
8	Subordinated Debt Programme	Long Term	888	388	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
9	Short Term Debt Programme	Short Term	1,000	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE535H 07282	Non-Convertible Debenture	29-Apr-13	10.60%	28-Apr-23	75	[ICRA] AAA(stable)
INE535H 07308	Non-Convertible Debenture	22-May-13	9.85%	22-May-23	40	[ICRA] AAA(stable)
INE535H 07357	Non-Convertible Debenture	5-Nov-13	10.45%	3-Nov-23	25	[ICRA] AAA(stable)
INE535H 07449	Non-Convertible Debenture	14-Oct-14	9.85%	14-Apr-20	60	[ICRA] AAA(stable)
INE535H 07456	Non-Convertible Debenture	14-Oct-14	10.00%	30-Dec-21	90	[ICRA] AAA(stable)
INE535H 07597	Non-Convertible Debenture	21-May-15	9.20%	28-May-21	150	[ICRA] AAA(stable)
INE535H 07704	Non-Convertible Debenture	19-Nov-15	9.05%	28-Nov-20	150	[ICRA] AAA(stable)
INE535H 07738	Non-Convertible Debenture	15-Dec-15	IDFC MCLR rate (8.90%)	15-Dec-20	300	[ICRA] AAA(stable)
INE535H 07753	Non-Convertible Debenture	30-Dec-15	9.05%	30-Dec-20	150	[ICRA] AAA(stable)
INE535H 07902	Non-Convertible Debenture	2-Aug-16	8.35%	2-Aug-19	150	[ICRA] AAA(stable)
INE535H 07951	Non-Convertible Debenture	30-Mar-17	8.00%	30-Apr-20	125	[ICRA] AAA(stable)
INE535H 07985	Non-Convertible Debenture	13-Oct-17	8.00%	13-Apr-21	80	[ICRA] AAA(stable)
INE535H 07AA9	Non-Convertible Debenture	13-Nov-17	7.65%	20-Dec-19	25	[ICRA] AAA(stable)
INE535H 07AL6	Non-Convertible Debenture	21-Jun-18	8.85%	22-Jul-21	500	[ICRA] AAA(stable)
INE535H 07AV5	Non-Convertible Debenture	11-Jan-19	9.20%	9-Jul-21	500	[ICRA] AAA(stable)
INE535H 07AW3	Non-Convertible Debenture	31-Jan-19	9.30%	31-Jan-22	750	[ICRA] AAA(stable)
NA	Non-Convertible Debenture*	-	-	-	5,294	[ICRA] AAA(stable)
INE535H 08520	Subordinated Debt	14-Sep-12	11.40%	14-Sep-22	48	[ICRA] AAA(stable)
INE535H 08546	Subordinated Debt	28-Sep-12	11.40%	28-Sep-22	40	[ICRA] AAA(stable)
INE535H 08553	Subordinated Debt	30-Oct-12	11.40%	28-Oct-22	50	[ICRA] AAA(stable)

INE535H 08579	Subordinated Debt	28-Oct-13	10.50%	27-Oct-23	50	[ICRA] AAA(stable)
INE535H 08587	Subordinated Debt	26-Dec-14	9.60%	26-Dec-24	50	[ICRA] AAA(stable)
INE535H 08637	Subordinated Debt	13-Oct-15	9.50%	13-Oct-25	100	[ICRA] AAA(stable)
INE535H 08645	Subordinated Debt	13-Oct-15	9.40%	13-Oct-22	50	[ICRA] AAA(stable)
NA	Subordinated Debt*	-	-	-	500	[ICRA] AAA(stable)
NA	Long Term Bank Lines	2014-2015	-	2023-2024	6,960	[ICRA] AAA(stable)
NA	Long Term Bank Lines*	-	-	-	1,040	[ICRA] AAA(stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA] AAA(stable)
NA	Short Term Debt Programme	-	-	7-365 days	1,000	[ICRA]A1+
NA	Commercial Paper Programme	-	-	7-365 days	4,500	[ICRA]A1+
NA	Retail non-convertible debenture programme*	-	-	-	2,000	[ICRA] AAA(stable)

*Proposed; Source: Company

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