

April 13, 2020

Nissan Renault Financial Services India Private Limited: Long-term rating downgraded to [ICRA]AA-(Negative); Short-term rating reaffirmed

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-(Negative); Revised from [ICRA]AA+(Negative)
Commercial Paper	400.00	400.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action considers the further weakening in the credit profile of Nissan Motor Company Limited¹ (Nissan), which holds a 70% stake in Nissan Renault Financial Services India Private Limited (NRFSI) through its wholly-owned subsidiary, Nissan International Holdings B.V. The remaining stake (30%) is held by RCI Banque² (RCI), a wholly-owned subsidiary of Renault SA³ (Renault). NRFSI's ratings remain strongly linked to the expectation of continued support from Nissan (parent), which along with Renault, has extended capital, funding, management and operational support in the past. Going forward, ICRA will continue to monitor the movement in Nissan's credit risk profile and will take an appropriate rating action on NRFSI as the company's ratings are underpinned by its parentage.

The ratings continue to factor in NRFSI's comfortable capitalisation (gearing of 2.3 times as of December 2019; provisional), stable profitability and commensurate risk management systems. The ratings, however, take note of the company's limited track record of operations as it is a relatively late entrant in the highly competitive auto financing industry. The ratings also factor in the higher slippages in the company's wholesale portfolio and the modest seasoning of its retail portfolio.

The Negative outlook reflects the weakening in Nissan's credit risk profile, which, in turn, impacts NRFSI.

Key rating drivers and their description

Credit strengths

Strong parentage; adequate operational, financial and managerial support from Nissan and Renault – NRFSI is a 70:30 joint venture (JV) between Nissan International Holdings B.V., a wholly-owned subsidiary of Nissan, and RCI, a wholly-owned subsidiary of Renault. The company is the captive financing arm for the Nissan, Datsun and Renault brand of cars manufactured by Renault Nissan Automotive India Private Limited (RNAIPL). The ratings take note of the India-focused initiatives of the parent, including new product launches and expansion of the dealer network, which make NRFSI a critical part of the Nissan-Renault Group's overall India business strategy. NRFSI has received Rs. 710-crore equity from the shareholders since inception and enjoys adequate funding lines from Group companies at favourable terms in relation to the market borrowings. It also has adequate board representation with three Directors from Nissan and one

¹ Moody's revised the long-term ratings of Nissan to Baa3 from Baa1; the ratings were placed under review for further downgrade

² Moody's has placed RCI Banque's long-term debt rating of Baa1 under review for downgrade

³ Moody's has placed Renault SA's long-term rating of Ba1 under review for downgrade

from Renault. Given its strategic importance to the Group, the common branding and strong ownership, ICRA expects NRFSI to continue to benefit from the operational, financial and management support from the shareholders and Group entities.

Comfortable capitalisation profile; adequate for medium-term growth plans – NRFSI has a comfortable capitalisation profile, characterised by a net worth and gearing of Rs. 896 crore (provisional) and 2.3 times (provisional), respectively, as of December 2019. ICRA notes that the company may not need significant external capital to achieve a medium-term compounded annual growth rate (CAGR) of 15-20%. 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 at present; needs to diversify funding to meet long-term growth plans – NRFSI enjoys funding support from its Group companies at competitive rates. Its funding profile predominantly comprises inter-corporate loans, masala bonds and external commercial borrowings from its Group entities (domestic and foreign). As of December 2019, about 80% of the borrowings were from Group companies, followed by commercial paper (13%) and working capital loans from banks (7%). The company also raises funds from some international banks, leveraging its parentage and the Group's established relationships. Going forward, it would be critical to diversify and secure funds at competitive rates to support business expansion and improve profitability.

Stable profitability – NRFSI's net profitability stood at 2.0% (as per Ind-AS; provisional) in 9M FY2020, largely in line with the level reported in the prior two financial years. The profitability is supported by adequate margins and improvement in operating efficiencies. However, its credit cost was moderately high at 1.1% in FY2019 vis-à-vis 0.8% in FY2018 due to slippages in the wholesale book, where the exposures to this segment are lumpy in nature. This, however, reduced to 0.4% in 9M FY2020 (provisional) due to better collections in the retail segment and recoveries from a few dealers. Going forward, NRFSI's ability to keep the credit cost under control, while maintaining adequate margins and augmenting the fee-based income, would be crucial for incremental profitability.

Credit challenges

Limited track record of operations; portfolio growth contingent on new product launches and finance penetration levels – NRFSI was incorporated in October 2013 and received an NBFC licence in June 2014. It faces competition in the highly competitive auto financing market from established players including banks and NBFCs. Notwithstanding this, NRFSI's overall portfolio grew at a CAGR of 52% during FY2017-2019 and stood at Rs. 2,798 crore as of March 2019 (Rs. 2,929 crore as of December 2019), supported by a rise in the penetration level of Nissan/Renault/Datsun vehicles. Going forward, the portfolio growth would be contingent on the success of the OEMs' planned product launches and NRFSI's penetration levels.

Critical to contain slippages in wholesale book; modest portfolio seasoning in retail segment – NRFSI's asset quality weakened with the 90+ dpd increasing to 3.0% (as per Ind-AS) as of September 2019 from 2.0% as of March 2019 (1.3% as of March 2018; as per IGAAP). The moderation in the asset quality during FY2019-H1 FY2020 was due to slippages in the wholesale book (constituted about 14% of the overall portfolio as of September 2019), which is essentially finance extended to the dealers. The retail portfolio, on the other hand, has relatively lower delinquencies with a 90+ dpd of 1.8% as of September 2019 (1.3% as of December 2019) vis-à-vis 1.0% in March 2019. Nevertheless, the portfolio is less seasoned, given the limited track record of the company and the steep growth observed in the past. NRFSI's ability to contain slippages in the wholesale segment and maintain a good overall asset quality profile would be crucial as the business expands.

Liquidity position: Strong

NRFSI had cash and liquid investments of Rs. 121 crore as on March 31, 2020 with repayment obligations of Rs. 650 crore during April 2020-June 2020. A sizeable portion of the repayments (~Rs. 500 crore) fall due in April 2020, including a masala bond (Rs. 400 crore) subscribed by a Group entity, which would be repaid. The remaining Rs. 100 crore comprises inter-Group loans provided by a domestic Group entity, which is expected to be rolled over. ICRA notes that the

company's collections, like other NBFCs, would be adversely impacted because of the Covid-19 related lockdown. However, access to undrawn inter-Group loans (about Rs. 100 crore as of March 31, 2020) and sizeable undrawn lines from banks (about Rs. 730 crore as of March 31, 2020) provide support to the company's near-term liquidity profile.

Rating sensitivities

Positive triggers – Considering the Negative outlook, an upgrade is unlikely. The outlook would be revised to Stable if Nissan's credit profile improves.

Negative triggers – The ratings would remain sensitive to any change in the credit profile of the parents. Any adverse change in NRFSI's ownership structure or lower-than-expected support from the parent entities would affect the ratings. A substantial deterioration in NRFSI's asset quality, impacting 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	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	The ratings factor in the high likelihood of financial support from the shareholders because of the close business linkages. ICRA also expects the shareholders to be willing to extend financial support to NRFSI to protect their reputation from the consequences of a Group entity's distress. The Group also has a consistent track record of extending timely financial support (both debt and equity) to NRFSI, whenever required.
Consolidation/Standalone	The ratings are based on the standalone financial statements of NRFSI.

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 Nissan, Renault and Datsun vehicles (retail loans) and extends term loans and inventory funding facilities to automobile dealers (wholesale loans) for Nissan, Renault and Datsun vehicles. The company provides its financing services through more than 500 sales counters spread across India. 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.

In FY2019, NRFSI reported a net profit of Rs. 50 crore on a total asset base of Rs. 2,796 crore compared with a net profit of Rs. 43 crore on a total asset base of Rs. 2,530 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2018	FY2019
	IGAAP	Ind-AS	Ind-AS
Total Income	253	238	276
Profit after Tax	47	43	50
Net Worth	781	801	851
Portfolio	2,458	2,437	2,759
Total Assets	2,580	2,530	2,796
Return on Average Managed Assets	2.1%	2.0%	1.9%
Return on Average Net Worth	6.2%	5.5%	6.1%
Gearing (times)	2.2	2.1	2.2
Gross NPA%	1.3%	1.28%	2.0%
Net NPA%	0.3%	0.3%	0.2%
CAR%	29.36%	29.36%	28.9%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current	FY2020			FY2019	FY2018
					13-Apr-20	27-Feb-20	30-Aug-19	9-Aug-19	31-Jan-19	22-Dec-17
1	NCD	Long Term	100	100	[ICRA]AA- (Negative)	[ICRA]AA+ (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Commercial Paper	Short Term	400	400	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Unutilised	NCD	NA	NA	NA	100.00	[ICRA]AA-(Negative)
NA	Commercial paper	NA	NA	7-365 days	400.00	[ICRA]A1+

Source: NRFSI

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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