June 12, 2020

Fullerton India Credit Company Limited: Ratings reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Fullerton India Credit Company Limited's (FICCL) strong parentage of Fullerton Financial Holdings Pte Ltd (FFH), which is a step-down subsidiary of Temasek Holdings Private Limited, in terms of capital infusion, strong inter linkages, and the strategic importance of the company in the Fullerton Group's business in India. The ratings also factor in the diversified product profile, strong liquidity position, FICCL's 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. The asset quality, which had stabilised to pre-demonetisation levels in March 2019, marginal fall in December 2019 with the weakening economic operating environment across the sectors. ICRA also notes the company's foray into new product segments like loan against shares and developer funding, which are relatively risky in the current environment though they accounted for less than 0.7% of the portfolio as on December 31, 2019 and are non-material, at present. This will be further tested in the current fiscal due to the ongoing Covid-19 pandemic and the enforced lockdown and its economic impact on borrowers, which, in ICRA's view, may result in a deterioration of the asset quality and a rise in its credit costs in line with industry. Going forward, FICCL's ability to attain healthy collection levels post the extended moratorium, absorb the credit shocks in the near term and maintain sufficient liquidity buffers to tide over the period of volatility will remain key monitorable's.

Key rating drivers and their description

Credit strengths

Strong parentage – FICCL is a wholly-owned subsidiary of FFH which, in turn, is a wholly-owned subsidiary of Temasek Holdings, Singapore (fully owned by the Singapore Government; rated Aaa/Stable by Moody's Investors Service). The strategic importance of the company to its parent follows from the fact that it fits in with the parent's focus on small and medium enterprises (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 FICCL's strategy, financial planning and execution and has three representatives on the company's board. It provides capital infusion as and when required, as evidenced by the infusion of Rs. 800 crore in the last five years, including Rs. 300 crore in 9M FY2020 (of which Rs. 200 crore was infused in the housing finance subsidiary). This is further established by the sizeable capital infusion of Rs. 750 crore (USD 100 million) in May 2020, which will further improve the company's capital buffer and capitalisation in order to absorb the credit shocks in the current fiscal.

Adequate capitalisation levels – FICCL's capitalisation levels have remained adequate and well above the regulatory requirement, mainly supported by healthy internal accruals over the last few years supplemented by capital infusions from the promoters. The capital adequacy ratio stood at 19.5% as of December 2019 (Tier I capital ratio of 16.1%) compared to 19.6% as on March 31, 2019 (Tier I capital ratio of 14.2%), well above the regulatory requirement of 15% (Tier I of 10%) with a net capital infusion of Rs. 100 crore in 9M FY2020. While the adjusted gearing (borrowings divided by net owned funds[1]) was 5.6 times as on March 31, 2019 (5.4 times as on March 31, 2018), it marginally eased to 5.1 times as on December 31, 2019. In FY2021, the latest round of equity infusion is expected to maintain the gearing below 5 times. In ICRA's view, the parent is expected to be forthcoming in infusing capital in the entity to support its capitalisation for the growth envisaged in the coming years.

Access to diversified funding profile – FICCL maintains a diversified lender base, low reliance on short-term funding and an adequate internal cash buffer. It has a diversified funding base, which includes banks, insurance companies, pension funds, mutual funds and development financial institutions. ICRA also notes the wide array of debt instruments in the liability mix, which includes debentures, market linked debentures, bank loans, commercial paper, masala bonds, external commercial borrowings (ECBs) and subordinated debt. FICCL successfully raised maiden ECB via loans of Rs. 1,790 crore in August 2019 and via Singapore Dollar bonds Rs. 774 crore equivalent in October 2019 further diversifying its funding sources. ICRA also notes the low share of commercial paper borrowings in the borrowing profile at 11% as of December 2019. The average duration of the liabilities is around 34 months, in line with the average duration of the assets (around 38 months).

Operating profitability supported by strong margins but susceptible to rise in credit costs – The return on average assets (RoA) improved to 3.7% in FY2019 from 2.2% in FY2018 owing to the steady growth in the loan book, improvement in yields with focus on rural loans and urban personal loans, stable borrowing costs and improving credit costs. The credit costs improved in FY2019 on account of better asset quality while the operating costs have streamlined due to the increasing scale of operations. In 9M FY2020, the RoA reduced marginally to 3.2%, largely because of the increase in the credit costs. However, the improving cost efficiencies and healthy margins aided in partly offsetting the impact. The net profit was also impacted by Rs. 67 crore in 9M FY2020 due to the implementation of the new corporate tax rates, which resulted in the remeasurement of the deferred tax assets. In Q4 FY2020, the profitability is expected to be lower with accelerated provisioning on the portfolio to partly control the credit costs post the lifting of the lockdown in H1 FY2021. A strong control of the operating and borrowing costs will be key to profitability, given the lower growth prospects and high credit costs in FY2021.

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

Efficient and tested risk management systems and underwriting processes – The company has overhauled its internal processes and controls after the large delinquencies seen during FY2008-09. Over the years, it has developed efficient risk management systems and processes (pre-disbursal to collections), evident from its active use of technology to understand the product-level and region-level lifetime profitability under stressed scenarios and its effort to proactively alter the portfolio mix. In FY2020, FICCL adopted several steps to improve the quality of the underwritten assets like an increase in threshold income, control on the ticket size, escalation of the approving authorities, etc. At present, the company uses a scorecard framework for almost all the product segments. In ICRA's view, FICCL's risk management systems and processes are adequate for its current scale of operations and future growth plans, and the strong oversight from FFH, which has adequate experience in emerging markets, provides comfort. The company follows a more stringent provisioning policy than the regulatory norms.

Credit challenges

Higher unsecured nature of lending operations heightens credit risk during economic shocks including current lockdown – A large proportion of the unsecured loans in the portfolio (59% as of September 2019) makes the asset quality more susceptible to economic cycles. This is owing to the lower 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 post-moratorium recovery levels remain to be seen. The company also has a high share of cash collections in its rural portfolio, which formed 37% of the portfolio as on December 31, 2019. In the urban segment, the cash flows of small businesses are expected to be significantly affected due to restricted business activities during the lockdown due to Covid-19 pandemic. The unsecured portfolio comprises personal loans to salaried and self-employed individuals in the urban space, and group and personal loans in the rural space. Over the past few years, there has been an increased focus on the secured segment with a higher proportion of disbursements towards micro and small mortgage loans in the rural and urban segments and two-wheeler loans. As a result, the share of secured assets in the portfolio increased to ~41% as of September 2019 vis-à-vis ~32% as of March 2012.

The Covid-19 lockdown has resulted in a near-complete freeze on economic activities across the country in April and May 2020. In ICRA's view this would severely impact the repayment capacity of the unorganised sector, which would form the bulk of the customer base for FICCL. The company has been in contact with a large section of its customer base and educated them on the moratorium and its impact. Approximately 50% of the customers have availed the first moratorium for March, April and May 2020 in urban space and approximately 95% in rural space as of April 2020. ICRA notes that the event will affect the business growth plans for FY2021 and elevate the credit costs. The collection efficiencies in Q3 and Q4 would be key monitorables.

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 outweigh the benefits of these products. ICRA notes the small scale of lending in these segments at present (0.7% of the portfolio as on December 31, 2019). ICRA also notes that the company's systems and processes and its investments in technology in ensuring underwriting standards and collection efficiency have helped maintain a steady asset quality and contain the impact of demonetisation on its portfolio. FICCL also has a 100% provisioning policy on its unsecured and two-wheeler loans at 120 days past due (dpd), which is more stringent than the regulatory norms. The secured assets are fully provisioned at 720 dpd.

Increasing pressure on asset quality – The gross and net NPA levels increased marginally to 2.6% and 1.3%, respectively, in December 2019 from 2.0% and 1.0% in line with Industry, respectively, in March 2019 with the slowdown in the economy, inching closer to post-demonetisation levels. FICCL's experience in weathering the impact of demonetisation is expected to help it manage the risks in the current period of uncertainty though the recent turn of events is likely to have a more severe impact on the economy. The diversification of the portfolio, in terms of product segments and geographies, the implementation of more stringent underwriting norms and the consistent track record of support from the promoters are expected to help the company handle the asset quality pressure in the current fiscal.

Liquidity position: Strong

As on May 31, 2020, the company had Rs. 3,475 crore of debt maturing by October 2020, against which it has cash and liquid investments of Rs. 5,600 crore, unutilised bank and ECB lines of Rs. 2,998 crore. The liquidity buffer is strong enough to meet the debt repayments falling due over the period from May to October 2020, even assuming no collections from portfolio. 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 resulting in a funding squeeze may lead to negative pressure on rating or
- 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 Holdings 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. In FY2019, FICCL reported a net profit of Rs. 775 crore on a total asset base of Rs. 23,975 crore compared to a net profit of Rs. 350 crore on total assets of Rs. 17,377 crore in FY2018 (PAT of Rs. 214 crore on total assets of Rs. 14,673 crore in FY2017). In 9M FY2020, the company reported a net profit of Rs. 631 crore on a total asset base of Rs. 27,925 crore.

[2] *Wholly-owned subsidiary of Temasek Holdings, Singapore*

Key financial indicators

	FY2017	FY2018	FY2019	9M FY2020
Net interest income	1,479	1,613	2,526	2,351
Operating income	1,577	1,724	2,659	2,472
Profit before tax	331	527	1,194	955
Profit after tax	214	350	775	631
Total assets under management	11,597	15,776	21,542	24,700
Net worth	2,504	2,731	3,652	4,588
Total assets	14,673	17,377	23,975	27,925
% Tier I	16.3%	14.0%	14.2%	16.1%
% CRAR	22.5%	18.8%	19.6%	19.5%
Gearing	4.5	5.1	5.3	4.7
Adjusted gearing	4.7	5.4	5.6	5.1
% Net profit/average total assets (annualised)	1.5%	2.2%	3.7%	3.2%
% Return on net worth	9.4%	13.4%	24.3%	20.4%
% Gross NPAs[3]	3.3%	2.4%	2.0%	2.6%
% Net NPAs	2.3%	1.4%	1.0%	1.3%
Net NPA/Net worth	10.2%	8.0%	5.7%	7.0%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[3] *FICCL classifies NPAs at 90 dpd*

Rating history for last three years

S. No.	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years							
						FY2020		FY2019			FY2018		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	12-Jun-20	16-Dec-19	30-Jul-19	01-Oct-18	19-Sep-18	27-Aug-18	07-Mar-18	10-Nov-17
1	Commercial Paper Programme	Short Term	4,500	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Retail Non-convertible Debenture	Long Term	2,000	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-
3	Non-convertible Debenture	Long Term	8,464	3,160	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Issuer Rating	Long Term	NA	NA	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5	Long-term Bank Lines	Long Term	8,000	6,960	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6	Subordinated Debt Programme	Long Term	888	388	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
7	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+

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
INE535H07282	Non-convertible Debenture	29-Apr-13	10.60%	28-Apr-23	75	[ICRA] AAA(Stable)
INE535H07308	Non-convertible Debenture	22-May-13	9.85%	22-May-23	40	[ICRA] AAA(Stable)
INE535H07357	Non-convertible Debenture	05-Nov-13	10.45%	03-Nov-23	25	[ICRA] AAA(Stable)
INE535H07449	Non-Convertible Debenture	14-Oct-14	9.85%	14-Apr-20	60	[ICRA] AAA(stable)
INE535H07456	Non-convertible Debenture	14-Oct-14	10.00%	30-Dec-21	90	[ICRA] AAA(Stable)
INE535H07597	Non-convertible Debenture	21-May-15	9.20%	28-May-21	150	[ICRA] AAA(Stable)
INE535H07704	Non-convertible Debenture	19-Nov-15	9.05%	28-Nov-20	150	[ICRA] AAA(Stable)
INE535H07738	Non-convertible Debenture	15-Dec-15	IDFC MCLR rate (8.90%)	15-Dec-20	300	[ICRA] AAA(Stable)
INE535H07753	Non-convertible Debenture	30-Dec-15	9.05%	30-Dec-20	150	[ICRA] AAA(Stable)
INE535H07902	Non-Convertible Debenture	02-Aug-16	8.35%	02-Aug-19	150	[ICRA] AAA(stable)
INE535H07951	Non-Convertible Debenture	30-Mar-17	8.00%	30-Apr-20	125	[ICRA] AAA(stable)
INE535H07985	Non-convertible Debenture	13-Oct-17	8.00%	13-Apr-21	80	[ICRA] AAA(Stable)
INE535H07AA9	Non-convertible Debenture	13-Nov-17	7.65%	20-Dec-19	25	[ICRA] AAA(stable)
INE535H07AL6	Non-convertible Debenture	21-Jun-18	8.85%	22-Jul-21	500	[ICRA] AAA(Stable)
INE535H07AV5	Non-convertible Debenture	11-Jan-19	9.20%	09-Jul-21	500	[ICRA] AAA(Stable)
INE535H07AW3	Non-convertible Debenture	31-Jan-19	9.30%	31-Jan-22	750	[ICRA] AAA(Stable)
INE535H07BH2	Non-convertible Debenture	14-Ma-20	7.85%	12-May-23	350	[ICRA] AAA(Stable)
NA	Non-convertible Debenture*	-	-	-	4,944	[ICRA] AAA(Stable)
INE535H08520	Subordinated Debt	14-Sep-12	11.40%	14-Sep-22	48	[ICRA] AAA(Stable)
INE535H08546	Subordinated Debt	28-Sep-12	11.40%	28-Sep-22	40	[ICRA] AAA(Stable)
INE535H08553	Subordinated Debt	30-Oct-12	11.40%	28-Oct-22	50	[ICRA] AAA(Stable)
INE535H08579	Subordinated Debt	28-Oct-13	10.50%	27-Oct-23	50	[ICRA] AAA(Stable)
INE535H08587	Subordinated Debt	26-Dec-14	9.60%	26-Dec-24	50	[ICRA] AAA(Stable)
INE535H08637	Subordinated Debt	13-Oct-15	9.50%	13-Oct-25	100	[ICRA] AAA(Stable)
INE535H08645	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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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.

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