

November 02, 2017

Toyota Financial Services India Limited

Summary of rated instruments

Commercial Paper programme	500.00	[ICRA]A1+ / Assigned
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**Instrument details are provided in Annexure-1*

Rating action

ICRA has assigned the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs.500.00 crore commercial paper programme of Toyota Financial Services India Limited TFSIN¹.

Rationale

The rating takes into account TFSIN's strong parentage being a wholly owned subsidiary of Toyota Financial Services Corporation (TFSC, the parent; *rated Aa3 (Stable) by Moody's*) which in turn is a wholly owned subsidiary of Toyota Motor Corporation (TMC; *rated Aa3 (Stable) / P-1 by Moody's*). By virtue of its parentage, the company receives significant operational, financial and management support from TFSC and TMC. The company's board of directors and senior management team has representatives from TFSC and the local manufacturing arm of TMC - Toyota Kirloskar Motors Private Limited (TKM). This, together with its shared brand name with the parent is reflective of the extent of integration with and significance of TFSIN to its global parent.

The rating also takes note of the company's adequate risk management and loan management systems, its comfortable capitalization profile and its fairly diversified funding mix. In line with the past trends, ICRA expects the company to maintain a healthy capitalization levels supported by timely capital infusion by TFSC. The rating also takes into account limited track record of TFSIN's operations being a relatively late entrant in the highly competitive domestic auto-financing landscape, limited seasoning of its portfolio and subdued profitability. Going forward, any material changes in the credit profiles of the parent companies or in their shareholdings in TFSIN and any significant changes in India focus, in the overall global business strategies of the parent companies would be key rating monitorable.

Key rating drivers

Credit strengths

- **Strong parentage** - By virtue of its parentage, being a wholly owned subsidiary of TFSC and wholly owned step-subsiary of TMC, the company derives substantial operational, financial and management support from the group. TFSIN's MD & CEO and senior management team are deputed by TFSC which is reflective of its significance to the group. Regular operational reporting and monitoring by the regional head quarters of TFSC in Thailand, periodic reviews and senior management meetings indicate high level of integration with the parent. Also, the company receives regular guidance from TFSC in matters pertaining to treasury and risk management.
- **Experienced and diverse board composition and senior management team** – The company's six-member board of directors comprises of two representatives each from TSFC and TKM and two Independent directors with diverse experience in financial services, automotive, information technology (IT) and manufacturing sectors. The company also has a strong senior management team with significant experience across banking, audit, sales and marketing, treasury, IT and human resources. This team takes care of the day to day business of TFSIN and most members of the team have been associated with the company since the commencement of operations. Additionally, the company benefits from the management support from and regular guidance from its parent.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

- **Adequate risk management and loan management systems** – TFSIN has adequate loan origination, monitoring and collection systems in place. The company uses information from credit bureaus to screen the credit history of potential customers and undertakes credit appraisal from its regional processing centres located in Delhi and Bengaluru. The company has adequate risk management policies which draws support from TFSC's global best practices. TFSIN's risk management committee conducts monthly meetings to evaluate various risks and in line with changing dynamics; the company's policies are evolving and are updated regularly.
- **Comfortable capitalization profile** – TFSIN's capitalization remains comfortable with capital adequacy ratio (CRAR) of 17.55% as on March 31, 2017 supported by regular equity infusion by TSFC. TSFC has infused equity capital of Rs.1290 crore in TFSIN so far, of which Rs.160 crore was infused during H1FY2018; the company is likely to infuse additional capital to support TFSIN's growth plans over the medium term. TSFC is closely involved in the business planning of TFSIN and accordingly in line with the envisaged growth, the parent capitalizes TFSIN well in advance to support growth. The company's gearing is moderate at 4.4x as on March 31, 2017.
- **Fairly diversified funding mix, strong banking relationships support liquidity** - The company's borrowing profile is fairly diversified with non-convertible debentures and commercial papers accounting for 66.2% and 23.3% of its total debt respectively as on March 31, 2017. This has enabled the company in progressively reducing its overall blended cost of funds. TFSIN enjoys relationships with many banks (international banks, public sector banks and private banks) and has un-availed sanction to the tune of Rs.3,628 crore as on September 30, 2017. TFSIN's liquidity policy is to maintain sufficient undrawn facilities for its near-term liquidity contingency. With monthly disbursements in the range of Rs.220-250 crore and adequate undrawn limits, the company's liquidity profile is expected to remain comfortable.

Credit weaknesses

- **Limited track record of operations in India; relatively late entrant in a highly competitive financing environment** – TFSIN was incorporated in May 2011 and commenced operations in June 2012. The company is a relatively late entrant in a highly competitive auto-financing space which is dotted by large number of banks and non-banking finance companies. While the company draws support from the experience of TKM in the Indian market, its business growth would remain closely linked to TKM's performance. During the period FY2014 to FY2017, the company has reported steep compounded annual growth rate of 71.6% taking the total portfolio size to Rs.6,215 crore as on March 31, 2017. However, the company's growth is expected to moderate during the current fiscal in the face of increasing competition and subdued volume performance of TKM. During H1 FY2018, TKM reported a domestic market share of 4.2%; however, given that 22-25% of TKM's sales are financed by TFSIN, the company's medium term business growth is expected to draw support from the planned product launches driving TKM's market share going forward.
- **Portfolio yet to season; ability to grow the portfolio while maintaining minimal delinquencies will need to be monitored** – Given the robust portfolio growth over the period FY2014- FY2017 the company's portfolio is expected to be less seasoned. As on March 31, 2017, TFSIN's gross non-performing assets (GNPA, based on 90 days past due) stood at 1.22%. Ability of the company to control incremental slippages and maintain good asset quality would remain a key rating sensitivity.
- **Subdued profitability** – Pricing pressure on account of competition has suppressed TFSIN's profitability. For FY2017, the company's return on average assets (PAT/ATA)² and return on net worth stood at 0.93% and 4.95% respectively. The company's ability to enhance operational efficiencies and contain credit costs would remain crucial to support profitability metrics in a market characterized by competitive pricing. The company's return on net worth is likely to remain modest

² Profit after tax / average total assets



over the medium term given the low net profitability from the lending operations. TFSIN's ability to diversify earnings profile would be key for incremental profitability.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the Company:

Toyota Financial Services India Limited is a non-deposit taking non-banking finance company – asset financing company (NBFC - AFC) - registered with the Reserve Bank of India and is primarily engaged in retail financing of 'Toyota' branded cars. Additionally, TFSIN also 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 (*rated Aa3 (Stable) by Moody's*) which is in turn a wholly owned subsidiary of Toyota Motor Corporation (*rated Aa3 (Stable) by Moody's*).

The company commenced its operations in FY2013 and currently has presence in about 84% of the dealerships of TKM. TFSIN's gross loan portfolio stood at Rs.6,215 crore as on March 31, 2017 spread across about 84,500 active accounts.

During FY2017, TFSIN reported net profit of Rs.48.9 crore on portfolio of Rs.6,215 crore as against net profit of Rs.47.3 crore on portfolio of Rs.4,152 crore during FY2016,

About the Parent:

TFSC is a wholly owned subsidiary of Toyota Motor Corporation and acts as a holding company for the group's captive finance companies in various regions. TFSC has business in 36 countries at present.

Toyota Motor Corporation - established in 1937 and headquartered in Japan – is Japan's largest and auto manufacturer with global retail sales volumes of 10.3 million during FY2017. TMC manufactures cars, trucks and buses and has a geographically diversified operations across North America, Europe, Latin America and Southeast Asia. During FY2017, TMC reported net profit of JPY 1,831.1 billion on net revenues of JPY 27,597.1 billion.

Key Financial Indicators - TFSIN:

Fiscal	FY2016	FY2017
Total Income	428.64	601.36
Net interest income	185.87	254.50
Profit before tax	42.20	75.60
Profit after tax	47.27	48.96
Total Managed advances	4,152.05	6,215.07
Total assets	4,237.26	6,302.66
Net worth	834.68	1,143.64
% Tier 1	18.92%	17.17%
% CRAR	19.30%	17.55%
Gearing	3.99	4.36
% Return on average assets	1.36%	0.93%
% Return on Managed Advances (ROMA)	1.36%	0.93%
% Return on net worth	6.51%	4.95%
% Gross NPAs	1.07%	1.22%
% Net NPAs	0.43%	0.64%
Net NPA/Net worth	2.14%	3.45%

Amounts in Rs. crore

Source: Company results, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table: Rating history

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Nov 2017	FY2017	FY2016	FY2015
1	Commercial Paper	Short Term	500.00	[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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	-	-	-	500.00	[ICRA]A1+

Source: the 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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