

BMW India Financial Services Private Limited

December 28, 2018

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,500	1,500	[ICRA] A1+; reaffirmed
Total	1,500	1,500	

Rationale

The rating is underpinned by BMW India Financial Services Private Limited's (BIFSP) ultimate parentage in the form of BMW AG (rated A1 (Stable)/P-1 by Moody's Investors Service), the parent company that would extend timely support to BIFSP, whenever required. Any change in the credit profile of BMW AG, a change in the ownership pattern of BIFSP or the Group's support to BIFSP, might warrant a rating change for the entity. ICRA has also considered the shared brand name, BIFSP's adequate capitalisation with gearing of 2.6 times (net worth of Rs. 940 crore) as on March 31, 2018, and good risk management systems that draw from the Group's global risk management policies. ICRA also takes note of the good financial flexibility of the company as a result of it being a part of the BMW Group and having relationships with multitude of banks and financial institutions operating globally thereby providing it access to funding at competitive rates.

ICRA also takes note of BIFSP's moderation in the company's portfolio growth with a portfolio of Rs. 3,394 crore as on March 31, 2018 (though there has been a modest growth in H1FY2019 with portfolio of the company at Rs. 3,442 crore as on September 30, 2018) as against Rs. 3,725 crore as on March 31, 2017 owing to increased competitive pressure and company adopting a strategy of cautious growth while maintaining margins. ICRA has also taken note of the deterioration in the asset quality indicators for the company with Gross NPA at around 6.49% ¹of the gross advances as on September 30, 2018 (4.39% as on March 31, 2018) owing to increased slippages in the commercial finance segment and modest profitability indicators with the return on average assets of 0.8% in FY2018 as against 1.5% in FY2017 as a result of increased credit costs. Going forward, the company's ability to profitably increase business volumes while maintaining a prudent capitalisation profile and improving its asset quality indicators would be a key rating monitor able.

Key rating drivers

Credit strengths

Strong parentage with operational and management support -The company by virtue of being a part of the BMW Group gets operational and management support from the parent. The operational synergies with the parent also enable the company to have good risk management systems in line with the Group's global risk management parameters, thereby providing strength to the credit appraisal process. ICRA expects the support from the parent to be forthcoming, as and when required.

Adequate capitalisation levels-BIFSP has an adequate capitalisation profile with a net worth of Rs. 940 crore, gearing of 2.6x and CRAR of 26.9% as on September 30, 2018 (against Rs. 820 crore, 3.5x and 21.3%, respectively, as on March 31, 2017) supported by an equity infusion of Rs. 90 crore in Q1FY2018. ICRA expects the company's gearing to increase gradually over the medium term with incremental business growth being funded out of fresh borrowings. However, the gearing is expected to remain below 4 times over the medium term. Given the strategic importance of the company

¹ The H1FY2019 numbers are unaudited

given that it is captive financier of BMW group in India, ICRA expects the company to receive timely capital support from the Group for its growth plans while maintaining prudent capitalisation levels as per the requirement.

Good Financial Flexibility—BIFSPL's has a good financial flexibility by virtue of being a part of the BMW Group having relationships with financial institutions working globally thereby providing the entity access to funds at competitive rates. The company also had liquidity back up lines from the parent that can be utilised in case of need.

Credit challenges

Moderation in portfolio growth -The company's portfolio de-grew to Rs. 3,394 crore as on March 31, 2018 (Rs.3,442 crore on September 30, 2018) against Rs. 3,725crore as on March 31, 2017. The decline was on account of the strong competition faced by the company from the banks due to excess liquidity in the banking system during the year as a result of demonetization and company adopting a strategy of cautious growth while maintaining margins. Going forward, BIFSPL's ability to scale up business operations while improving the asset quality will be a key rating monitorable.

Deterioration in asset quality indicators owing to slippages in the commercial finance segment—The gross NPA of the company deteriorated to 6.49% of the gross advances as on September 30, 2018 as against 3.85% on March 31, 2017 owing to increased slippages in the commercial finance segment. However, ICRA notes that majority of the loans are secured by collaterals in the form of bank guarantee and immovable properties (in some cases) thereby keeping the ultimate losses low.

Modest profitability indicators owing to the increase in credit cost- The Net interest margins of the company improved moderately from 4.1% in FY2017 to 4.4% in FY2018, however the same was offset by the increase in the credit costs owing to the asset quality slippage; leading to a decline in the return indicators with return on average assets of the company declining from 1.5% in FY2017 to 0.8% in FY2018 and return on equity declining from 6.6% to 3.4% during this period.

Liquidity position

Even though there are some gaps in the short-term bucket as per the company's ALM as on March 31, 2018, it has sufficient cover in form of sanctioned and unutilized bank lines of Rs. 200 crore as on November 30, 2018 in addition to the availability of within group funding to the tune of Rs. 600 crore callable on demand to plug the gaps, further being a part of the BMW Group and with a shared brand name, ICRA expects the support from the parent to be forthcoming, if required, to support the credit profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Company
Parent/Group Support	BMW AG (rated A1 (Stable)/P-1 by Moody's Investor's Service) The rating is underpinned by BIFSPL's parentage in the form of BMW AG (rated A1 (Stable)/P-1 by Moody's Investors Service) and the expectation of timely support from the parent company, whenever required.
Consolidation/Standalone	Standalone

About the company

BMW India Financial Services Private Limited (BIFSPL) was incorporated in 2009 as a private limited company. BIFSPL is a non-deposit taking non-banking finance company registered with the Reserve Bank of India. The company is a subsidiary of BMW International Holding B.V., Netherlands which is in turn held by is in turn held by BMW A.G. As part of restructuring within the BMW Group, shareholding of BIFSPL was transferred from BMW International Investment B.V., Netherlands to BMW International Holding effective from 26th December 2016. The company is in a business of financing

automobiles. It provides financing against vehicles to its retail and corporate customers (retail loans) and also provides working capital/term loan and inventory funding facility to automobiles dealers ('wholesale loans').

The company reported a profit after tax (PAT) of Rs. 29.7 crore on a total asset base of Rs. 3,613.4 crore in FY2018 compared with PAT of Rs. 52.8 crore on a total asset base of Rs. 3,822.8 crore in FY2017. The overall portfolio of the company as on September 30, 2018 constituted of and indicative bifurcation of retail loans (75%) and commercial finance (25%).

Key financial indicators

In Rs. Crore	FY2017(Audited)	FY2018(Audited)
PAT	52.8	29.7
Net Worth	820.4	940.4
Assets under Management	3,725.0	3,393.6
Total Assets	3,822.8	3,613.4
Return on Average Assets	1.5%	0.8%
Return on Average Equity	6.6%	3.4%
Gearing (times)	3.5	2.6
CRAR	21.3%	26.9%
Gross NPA%	3.9%	4.4%
Net NPAs %	2.6%	1.3%
Net NPA/Net Worth %	11.5%	4.5%

Source: BIFSPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	December 2018	FY2018	FY2017	FY2016
					November 2017		
1 Commercial Paper	Short Term	1,500	1,500	[ICRA]A1+	[ICRA]A1+	N/A	N/A

Source: ICRA research

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
N/A <i>Source: BIFSPL</i>	Commercial Paper	N/A	N/A	7-365 days	1,500	[ICRA]A1+

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