

Nissan Renault Financial Services India Private Limited

January 31, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) Programme	200.00	200.00	[ICRA]AAA (Stable); reaffirmed
Commercial Paper	300.00	300.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

Rationale

The rating reaffirmation factors in Nissan Renault Financial Services India Private Limited's (NRFSI) strong parentage, with Nissan Motor Company Limited (Nissan; *rated A2/Negative by Moody's*) holding a 70% stake in NRFSI through its wholly owned subsidiary Nissan International Holdings B.V., while the remaining 30% is held by RCI Banque (RCI; *rated Baa1/Positive/P-2 by Moody's*), a wholly owned subsidiary of Renault S A (Renault; *rated Baa3/Positive/P-3 by Moody's*). NRFSI has access to operational, managerial and financial support (both debt and equity) from its shareholders. The ratings also factor in the company's commensurate risk management systems and comfortable capitalisation (gearing of 2.2 times as of September 2018). The ratings also take into account NRFSI's limited track record of operations, with the entity being a relatively late entrant in the highly competitive auto financing industry, and the modest seasoning of its portfolio. ICRA takes note of the impact on NRFSI's profitability (net profit/average managed assets declined to 1.4% in H1 FY2019 compared to 2.1% in FY2018) due to an increase in credit costs. Ability to keep the credit and operating costs under control would be crucial for incremental profitability as NRFSI is expected to face margin pressure because of competitive intensity and increase in the cost of funds.

Outlook: Stable

The Stable outlook factors in the committed support from the parent entities. The outlook may be revised if there is a downward revision in the credit profile, adverse change in the ownership structure or a significant deterioration in the company's asset quality, profitability or capitalisation profile.

Key rating drivers

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 Nissan, Datsun and Renault branded 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 dealer network, which make NRFSI a critical element of the overall India business strategy of the Group. NRFSI has received Rs. 710-crore equity from the parent companies since inception, and also enjoys adequate funding lines from Group companies at favourable terms. The company also has adequate board representation with three Directors from Nissan and one from Renault. Given the strategic importance of NRFSI 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 holding and the Group entities.

ICRA took cognizance of Moody's rating action on Nissan and the removal of the chairman (Mr. Carlos Ghosn) from Nissan's board (covered in a [press release](#) dated December 3, 2018). ICRA notes that Mr. Ghosn has also resigned as the Chairman and Chief Executive Officer of Renault in January 2019. Subsequently, Renault's board appointed Mr. Jean-Dominique Senard as the Director and Chairman with effect from January 24, 2019. Mr. Senard would be Renault's main representative in the Renault-Nissan-Mitsubishi alliance, going forward. ICRA would closely monitor the emerging situation on account of the above-mentioned developments and its impact on NRFSI. Given that ICRA's ratings factor in the strong support of the parent entities, any adverse impact on the credit profile of the parent entities would affect NRFSI's rating.

Comfortable capitalisation profile; adequate for medium term growth plans - NRFSI has a comfortable capitalisation, characterised by a net worth and gearing of Rs. 800 crore (provisional) and 2.2 times (provisional) respectively as of September 2018. ICRA notes that the company may not need significant external capital to achieve a compounded annual growth rate (CAGR) of 25-30% in its portfolio over the next three years (FY2020-FY2022). ICRA expects timely capital support from the parents, if required, given the strategic importance of NRFSI to the Group's Indian operations.

Integrated risk management systems – NRFSI has adequate loan origination, credit appraisal and monitoring systems. The company's systems are integrated with the network of the OEMs as well as the dealers, providing it with adequate scope for monitoring and tracking. Its credit appraisal process includes screening potential customers through basic credit checks and performing a detailed cash flow analysis based on the profile of the customers (salaried/self-employed/dealers). The company has recently initiated the geo-tagging of vehicles financed for the dealers to strengthen its monitoring of their inventory. While NRFSI's risk management systems are adequate for the current scale of operations, they may require some pruning as the business expands and the portfolio seasons, to incorporate India-specific requirements.

Adequate funding support from Group companies at present; need to diversify funding to meet long-term growth plans – NRFSI enjoys funding support from Group companies at competitive rates. Its funding profile predominantly comprises term loans, masala bonds and external commercial borrowings from Group entities (domestic and foreign). 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.

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 commenced operations 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 to Rs. 2,458 crore as of March 2018 (Rs. 2,600 crore as of September 2018) from Rs. 77.3 crore as of March 2015, supported by a rise in penetration levels in the Nissan/Renault/Datsun vehicles. Going forward, the portfolio growth would be contingent on the success of OEM's planned product launches and NRFSI's penetration levels.

Modest portfolio seasoning; critical to contain slippages in wholesale book– NRFSI's gross NPAs (90+ dpd) stood at 1.9% as on September 30, 2018 compared to 1.3% as of March 2018 (1.7% as of March 2017). The portfolio is, however, less seasoned. The moderation in the asset quality in H1 FY2019 was largely on account of a few slippages in the wholesale book (constituted 20% of the overall portfolio as of September 2018), which is essentially finance extended to dealers. Consequently, 90+ in the wholesale book increased to 4.7% as of September 2018 from 2.2% as of March 2018 (3.2% as of March 2017). The company has a conservative provisioning policy reflected in the provision coverage ratio of 91% as of September 2018 (80% as of March 2018). Its ability to contain slippages in the wholesale segment and maintain a good overall asset quality profile would be crucial as the business expands.

Increase in credit provisions impacted profitability - NRFSI's net profitability (PAT/ATA) stood at 2.1% in FY2018 compared with 1.8% in FY2017, supported by stable margins and improvement in operating efficiencies. The company's profitability, however, moderated to 1.4% in H1 FY2019 (provisional) due to an increase in credit costs to 1.7% in H1 FY2019 from 0.8% in FY2018. The sharp rise in credit costs was on account of higher provisions towards the wholesale book, although some recoveries are expected this fiscal. Going forward, the company's ability to maintain adequate margins, augment its fee-based income and keep its credit costs under control would be crucial for incremental profitability.

Liquidity position:

NRFSI's asset-liability maturity (ALM) profile reflects no cumulative mismatches in any of the time buckets (as of December 2018). The company's repayment obligations were about Rs.475 crore during January 2019 – June 2019, which could be comfortably met with loan collections of about Rs 770 crore over the same period and the company's cash and liquid investments of about Rs.70 crore as of December 2018. NRFSI also has access to inter-corporate loans from Group companies and has sizeable undrawn working capital limits from banks (Rs. 775 crore as of December 2018), which are expected to support business growth.

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 assigned to NRFSI factors in the strong operational, managerial and financial support from the parent entities viz., Nissan (A2/Negative) and, RCI (Baa1/Positive/P-2), a wholly owned subsidiary of Renault (Baa3/Positive/P-3).
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 finance company (SI-ND-NBFC). It provides financing for Nissan, Renault and Datsun branded vehicles (retail loans) and also extends term loans and inventory funding facility to automobiles dealers (wholesale loans). The company provides its financing services through 540 sales counters spread across India. The company 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.

Nissan Motor Company Limited, headquartered in Japan, is a leading international automaker with a presence in over 180 countries. Nissan reported a consolidated net income of ¥746.9 billion on net sales of ¥ 12 trillion in FY2017 (correspond to April 2017 to March 2018).

Renault S.A. is a leading international automaker with presence in about 127 countries; the company sold about 37 lakh units in CY2017 (corresponds to period January 2017 – December 2017). Renault reported a consolidated net income of EUR 5.2 billion on total revenues of EUR 58.8 billion in CY2017.

In FY2018, NRFSI reported a net profit of Rs. 47 crore on a total asset base of Rs. 2,580 crore compared with a net profit of Rs. 24 crore on a total asset base of Rs. 1863 crore for FY2017.

Key financial indicators (Audited)

	FY2017	FY2018	H1FY2019 (provisional)
Total Income	162	253	137
Profit after Tax	24	47	19
Net Worth	735	781	800
Managed Portfolio	1,757	2,458	2,600
Total Managed Assets	1,863	2,580	2,724
Return on Average Managed Assets	1.8%	2.1%	1.4%
Return on Average Net worth	3.8%	6.2%	4.8%
Gearing	1.5	2.2	2.2
Gross NPA%	1.7%	1.3%	1.9%
Net NPA%	0.6%	0.3%	0.2%
CAR%	39.2%	29.4%	28.5%

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Current Rating (FY2019)		FY2018	FY2017	FY2017
				Jan 2019	Dec 2018	Dec 2017	Dec 2016	Jul 2016
1	NCD	200.00	200.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Commercial paper	300.00	300.00	[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	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	NCD	13-Feb-17	7.80%	13-Feb-19	100.00	[ICRA]AAA (Stable)
Unutilized	NCD	NA	NA	NA	100.00	[ICRA]AAA (Stable)
NA	Commercial paper	NA	NA	7-365 days	300.00	[ICRA]A1+

Source: NRFSI

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

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