August 17, 2020

Cholamandalam Investment and Finance Company Limited: Ratings confirmed as final for PTCs and SLF issued by Platinum Trust February 2020

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Platinum Trust February 2020	PTC Series A	304.76	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	15.24	[ICRA]BBB+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In February 2020, ICRA had assigned provisional ratings to the pass-through certificates (PTCs) and the second loss facility (SLF) issued under a securitisation transaction originated by Cholamandalam Investment and Finance Company Limited (CIFCL). The PTCs are backed by receivables from a Rs. 304.76-crore pool of medium and heavy commercial vehicle (MHCV), light commercial vehicle (LCV) and multi utility vehicle (MUV) loans. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and Cash Collateral (CC)
- Absence of delinquent contracts in the pool as on the cut-off date
- High granularity of pool contracts with top 10 obligors together accounting for only 2.53% of the pool principal
- Moderately high seasoning of pool contracts with average seasoning of around 13.7 months

Credit challenges

- Proportion of contracts with loan-to-value (LTV) ratio of more than 80% is high at 76.38% leading to high weighted average LTV of ~85%
- Moderately low CC utilisation in the pools after Jun-20 payouts
- High share of contracts in the pool under moratorium

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be transferred at par to a special purpose vehicle (SPV) and the trust will issue a single series of PTCs backed by the same. The first line of support for meeting the scheduled PTC payouts is the subordination of the EIS in the structure. Further credit support is available through a CC of 8.00% of the pool principal amount. The CC will be split into a first loss facility (FLF) amounting to Rs. 9.14 crore and an SLF amounting to Rs. 15.24 crore. The SLF would be utilised only after the FLF has been exhausted.

The pool is characterised by highly seasoned contracts (weighted average seasoning of around 13.7 months). The pool does not have any overdue contracts as on the cut-off date. It is well diversified with the top 10 obligors accounting for 2.53% of the overall pool principal. The pool is also geographically diversified with around 34% emanating from

Maharashtra, Andhra Pradesh and Odisha. It has a high weighted average LTV of ~85%. The pool comprises new MHCV (~30%), new LCV (~50%), new MUV (~6%), used MHCV (~8%), used LCV (~5%) and used MUV (~1%) loan contracts. ICRA notes that high share of contracts in the underlying pool remain under moratorium. Repayment behaviour after the moratorium period will be a key monitorable.

ICRA notes that the investor in the transaction has provided approval for the extension of the moratorium for the underlying contracts for six months (March to August collections), in line with the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI). As per the investor approval, for April 2020 to September 2020 payouts, credit enhancement would not be used to meet promised interest payouts to PTC Series A. Further the maturity date for the pool would be revised depending on how borrowers in the underlying pool opt for moratorium.

Past pool performance

ICRA has rated 38 pools so far, backed by vehicle and tractor loan receivables originated by CIFCL and had ratings outstanding on six pools as on May 31, 2020. The performance of the pools has been good till the payout month of April 2020, with cumulative collection efficiencies of more than 95% for all the pools. Consequently, the asset quality remains robust with the loss-cum-90+ dpd and loss-cum-180+ dpd levels remaining below 1.7% and 1.1%, respectively, across the pools after the June 2020 payouts. There has been moderately low CC utilisation in the pools after Jun-20 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts. ICRA notes that the disruptions caused by the Covid-19 pandemic could result in a higher-than-expected spike in delinquencies in the near term.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is given in the table below.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Platinum Trust February 2020	2.5-3.5%	8-12% p.a.

Liquidity position

Superior for PTC Series A

The liquidity of the rated transaction is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of a credit collateral amounting to 8.00% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the scheduled PTC payouts for a period of five months.

Adequate for SLF

A first loss facility is available in the transaction amounting to 3.00% of the pool principal amount along with the EIS for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive triggers – The ratings of SLF can be upgraded, provided there is sustained strong collection performance of the underlying pool contracts to pre-lockdown levels, resulting in an increase in the credit enhancement cover available for SLF.

Negative triggers – Pressure on the ratings could emerge if the collection performance of the underlying pool remains weak (monthly collection efficiency of <90%) after the moratorium is over, leading to higher-than-expected delinquency levels and CE utilization levels

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

CIFCL, a non-banking finance company, is a part of the Chennai-based Murugappa Group of companies. Incorporated in 1978, CIFCL operates through 1,091 branches across 29 states and Union Territories (UTs) with net assets under management (AUM) of Rs. 60,549 crore as of March 2020. The company's core business segments include vehicle finance (73%) and home equity (HE) loans (21%). It has a housing loan and SME loan portfolio, which largely constitutes the rest of the portfolio. The proportion of the portfolio in the SME segment is expected to remain modest over the next three years as the company is expected to concentrate on the vehicle finance, HE and housing finance segments. CIFCL has two wholly-owned subsidiaries, viz. Cholamandalam Home Finance Limited (erstwhile Cholamandalam Distribution Services Limited) and Cholamandalam Securities Limited, and an associate entity – White Data Systems India Private Limited (31% stake). Cholamandalam Home Finance Limited is awaiting a licence from National Housing Bank for the commencement of mortgage lending operations.

In FY2020, CIFCL (standalone) reported a net profit of Rs. 1,052 crore on an AUM of Rs. 60,549 crore (IndAS) compared to a net profit of Rs. 1,186 crore on an AUM of Rs. 54,297 crore (IndAS) in FY2019.

Key financial indicators

CIFCL (standalone and audited)	FY2019	FY2020
	IndAS	IndAS
Total Income	6,993	8,653
Profit after Tax	1,186	1,052
Assets Under Management	54,279	60,549
Gross NPA%	2.7%	3.8%
Net NPA%	1.7%	2.2%

Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Initial Amount Rated	Amount Outstanding	Date & Rating	FY2020	FY2019	FY2018
					17-Aug-20	11-Mar-20	-	-
1	Platinum Trust February 2020	PTC Series A	304.76	304.76	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	NA	NA
		Second Loss Facility	15.24	15.24	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	NA	NA

Amounts 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 I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate#	Scheduled Maturity Date	Amount Rated (Rs. crore[1])	Current Rating
Platinum Trust February 2020	PTC Series A	February 2020	7.05%	July 2024	304.76	[ICRA]AAA(SO)
	Second Loss Facility	February 2020	NA	July 2024	15.24	[ICRA]BBB+(SO)

 # Per annum payable monthly

[1] *100 lakh = 1 crore = 10 million*

Analyst Contacts

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Ayush Agarwal
+91 22 6114 3417
ayush.agarwal@icraindia.com

Sushant Vanmali
+91 22 6114 3436
sushant.vanmali@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999