

July 11, 2019

Cholamandalam Investment and Finance Company Limited: Ratings confirmed as final for pass through certificates (PTCs) and second loss facility issued under a vehicle loan securitisation transaction

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Platinum Trust January 2019	PTC Series A	252.86	Provisional rating of [ICRA]AAA(SO) confirmed as final
	Second Loss Facility	12.52	Provisional rating of [ICRA]BBB+(SO) confirmed as final

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed the provisional ratings assigned to Pass through certificates (PTCs) and Second Loss Facility, issued by Platinum Trust January 2019 trust, as final, as tabulated above. The PTCs are backed by receivables from a Rs. 252.86 crore pool of vehicle loans originated by Cholamandalam Investment and Finance Company Limited (CIFCL).

In January 2019, ICRA had assigned Provisional [ICRA]AAA(SO) and Provisional [ICRA]BBB+(SO) rating to PTC Series A and Second Loss Facility respectively. 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 Credit Collateral;
- Pool is devoid of any delinquent contracts as on the pool cut-off date;
- Low obligor concentration with the top 10 obligors together accounting for only ~2.02% of the overall pool principal amount;
- Well diversified pool with top 3 states accounting for 25.89% of the overall pool principal.
- Moderately high seasoned pool with average seasoning of around 11.85 months.

Credit Challenges

- Proportion of contracts with LTV>80% is high at 64.90% in the pool resulting in a weighted average LTV of ~82%.

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 scheduled PTC payouts is the subordination of EIS in the structure. Further credit support in the transaction is available through a Credit Collateral (CC) of 8.25% of the pool principal amount. The credit collateral will be split into First Loss Facility (FLF) amounting to Rs. 8.34 crore and Second Loss Facility (SLF) amounting to Rs. 12.52 crore. The SLF would be utilised only after the FLF has been exhausted.

The pool is characterised by moderately high seasoned contracts (weighted average seasoning of around 11.85 months). The pool does not have any overdue contracts as on the pool cut-off date. The pool is well diversified with top 10 obligors accounting to around 2% of the overall pool principal. The pool is also geographically diversified with around

26% of the pool emanating from Assam, Andhra Pradesh and Rajasthan. The pool has a weighted average LTV of around 82%. This is because 66% of the underlying contracts in the pool belong to the “new prime” category of CIFCL. The pool comprises of New MHCV (around 12% share in the pool), New LCV (around 41% share in the pool) and New MUV (around 13% share in pool) loan contracts.

Key Rating Assumptions

ICRA’s cash flow modelling for rating of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for loss and the Coefficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator’s portfolio and rated pools, and also the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

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

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Platinum Trust January 2019	2.5%-3.5%	8%-12% p.a.

Liquidity Position

There is credit collateral (cash reserve and BG) available in the transactions amounting to more than 8.25% of the initial pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 4 months of PTC payouts in full for transaction.

Analytical approach

The rating action is based on the analysis of the past performance of CIFCL’s portfolio and previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

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 891 branches across 27 states with assets under management of Rs. 54,279 crore as of March 2019. The company’s core business segments include vehicle finance (74%) and Home Equity (HE) loans (21%). It has a housing loan, SME loan and agriculture loan portfolio, which largely constitutes the rest of the portfolio. The proportion of the portfolio in the new segments is expected to remain modest over the next three years as the company is expected to concentrate on the vehicle finance and HE 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 FY2019, CIFCL (standalone) reported a net profit of Rs. 1,186 crore on a managed asset base of Rs. 59,097 crore (IndAS basis) compared to a net profit of Rs. 918 crore on a managed asset base of Rs. 44,761 crore in FY2018.

Key financial indicators

CIFCL (standalone and audited)	FY2017	FY2018	FY2019
	IGAAP	IndAS	IndAS
Total Income	4,660	5,480	6,993
Profit after Tax	719	918	1,186
Net Worth	4,285	5,098	6,176
Managed Portfolio	34,167	42,924	54,279
Total Managed Assets	36,858	44,761	59,097
Return on Managed Assets	2.1%	NA	2.3%
Return on Net Worth	18.1%	NA	21.0%
Gearing (reported)	5.6	7.6	8.2
Gross NPA%	4.7%	2.9%	2.3%
Net NPA%	3.2%	1.7%	1.1%
CAR%	18.6%	18.4%	17.6%

Amount in Rs. crore; Gross and net NPA as per IGAAP

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No	Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating July 2019	Date & Rating in FY2019 February 2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Platinum Trust January 2019	PTC Series A	252.86	252.86	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	N. A.	N. A.
		Second Loss Facility	12.52	12.52	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	N. A.	N. A.

Complexity level of the rated instrument: Highly Complex

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

Detail of Instruments

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ¹)	Current Rating
Platinum Trust January 2019	PTC Series A	January 2019	8.20%	May 2023	252.86	[ICRA]AAA(SO)
	Second Loss Facility	January 2019	N.A.	May 2023	12.52	[ICRA]BBB+(SO)

per annum payable monthly

¹ 100 lakh = 1 crore = 10 million

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