January 31, 2022

Nissan Renault Financial Services India Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture	100.00	100.00	[ICRA]AA- reaffirmed; outlook revised to Stable from Negative
Commercial Paper	400.00	400.00	[ICRA]A1+; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook of Nissan Renault Financial Services India Private Limited (NRFSI) takes into consideration the improvement in the credit risk profile of Nissan Motor Company Limited[1] (Nissan), which holds 70%[2] in the company through its wholly-owned subsidiary, Nissan International Holdings B.V. NRFSI's ratings remain strongly linked to the expectation of continued support from Nissan, which along with Renault Group via RCI Banque (RCI), has extended capital, funding, management and operational support in the past. Nissan is a global automobile manufacturer with a presence in major auto markets including North America, Japan, and China. ICRA notes that Nissan's financial profile has witnessed an improvement in recent quarters; it reported a net income of 168.6 billion yen in H1 FY2021[3] vis-à-vis (448.7) billion yen in FY2020[4].

The ratings continue to factor in NRFSI's comfortable capitalisation (gearing of 2.6 times as of September 2021; provisional), range-bound asset quality and commensurate risk management systems. The ratings, however, take note of the company's limited track record of operations as it is a relatively late entrant in the highly competitive auto financing industry, which limits the scope to expand its business margins. This, along with the provision and credit costs on account of the disruptions caused by the Covid-19 pandemic, led to a moderation in its earnings profile.

Key rating drivers and their description

Credit strengths

Strong parentage with Nissan holding 70% stake via its wholly-owned subsidiary – 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 the Nissan, Datsun and Renault brand of cars manufactured by Renault Nissan Automotive India Private Limited (RNAIPL). The ratings take note of the India-focused initiatives of Nissan and Renault, including new product launches and expansion of the dealer network, which make NRFSI a critical part of the Nissan-Renault Group's (the Group) overall India business strategy.
NRFSI has received Rs. 710-crore equity from the shareholders since inception and enjoys adequate funding lines from Group companies at favourable terms. It also has board representation with Directors from Renault/Nissan. Given its strategic

[1] Moody's has a Baa3 issuer credit rating with a stable outlook for Nissan Motor Company Limited
[2] The balance (30%) is held by RCI Banque (RCI), a wholly-owned subsidiary of Renault SA (Renault). Moody's has a Baa2 rating with a negative outlook for the senior unsecured debt instruments of RCI Banque
[3] 6-month period ending September 2021
[4] 12-month period ending March 2021

importance 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 shareholders and Group entities.

Comfortable capitalisation profile – NRFSI has a comfortable capitalisation profile, characterised by a net worth and gearing of Rs. 973 crore (provisional) and 2.6 times (provisional), respectively, as of September 2021. ICRA notes that the company may not need significant external capital to achieve a medium-term compound annual growth rate (CAGR) of 15-20%. ICRA expects timely capital support from the shareholders, if required, given the strategic importance of NRFSI to the Group's Indian operations.

Adequate funding support from Group companies at present; need to diversify funding mix to meet long-term growth plans – NRFSI enjoys funding support from its Group companies at competitive rates. Its funding profile predominantly comprises inter-corporate loans from RNAIPL. As of September 2021, about 45% of the borrowings was from RNAIPL, followed by external commercial borrowings from banks (28%), working capital loans from banks (22%), term loans from banks (4%) and commercial papers (1%). The company raises funds from a few 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 to improve profitability.

Range-bound asset quality profile; critical to contain incremental slippages in view of the pandemic – NRFSI's asset quality, while remaining at moderate levels overall, weakened marginally with 90+ days past due (dpd) of 2.8% (provisional) as of September 2021 compared to 2.3% as of March 2021 (2.6% as of March 2020). The asset quality of its wholesale book has largely stabilised as fresh slippages from this book (loans to dealers constituting 11.2% of the overall portfolio as of September 2021; 90+dpd of 6.6% as of September 2021 vis-à-vis 8.1% as of March 2021) were contained. However, the 90+dpd in the retail book increased to 2.3% as of September 2021 from 1.6% as of March 2021 due to the impact of the second wave of the pandemic. While the performance of the wholesale segment is a monitorable as the company looks to increase its share in the overall portfolio going forward, its ability to contain slippages in the retail segment in the near term, in view of further disruptions that could be caused the pandemic, remains a monitorable in the near to medium term.

Credit challenges

Moderate track record of operations; portfolio growth contingent on new product launches and finance penetration levels – NRFSI was incorporated in October 2013 and received a non-banking financial company (NBFC) licence in June 2014. Its overall portfolio grew at a CAGR of 15% during FY2017-H1 FY2022 and stood at Rs. 3,342 crore as of September 2021 (Rs. 3,209 crore as of March 2021), supported by a rise in its financing penetration level for Nissan/Renault/Datsun. The company, however, faced competition from established players including banks and other large NBFCs and witnessed a moderation in its market share in the last 18 months as its share in the overall financed sales of Nissan and Renault dipped to about 22% in H1 FY2022 from 28% in FY2020. Going forward, the portfolio growth would be contingent on the growth in the sales of Nissan and Renualt vehicles, success of their planned new product launches and improvement in NRFSI's share in the financed sales of Nissan and Renault vehicles.

Moderate profitability levels – NRFSI reported moderate net profitability of 0.9% in FY2021 vis-à-vis 1.5-2.0% in FY2019 and FY2020. Its margins faced pressure amid the competitive lending environment and it witnessed higher credit costs due to the pandemic. The credit costs increased to 1.8% in FY2021 from 1.5% in FY2020 and 1.1% in FY2019, with incremental provisions being created to a large extent for the slippages in the retail portfolio during this period. NRFSI reported net profitability of 2.1% in H1 FY2022 on the back of lower credit costs, though the sustainability of the same remains to be seen.
Going forward, NRFSI's ability to keep the operating expenses as well as credit costs under control in view of the continuing pandemic scenario, while maintaining adequate margins and augmenting the fee-based income, would be crucial for incremental profitability.

Liquidity position: Strong

NRFSI had cash and liquid investments of Rs. 378 crore as on December 31, 2021 and about Rs. 1,121 crore of sanctioned credit lines from banks. It has repayment obligations on working capital demand loans amounting to Rs. 275 crore during January 2022-June 2022. The loans received from Group entities as well as the working capital demand loans are generally rolled over on maturity. Further, access to commensurate funding lines and expected timely support from the Group provide comfort from a liquidity perspective.

Rating sensitivities

Positive factors – The rating would be upgraded or the outlook revised to Positive in case of an improvement in Nissan's risk profile.

Negative factors – The ratings would remain sensitive to any weakening in Nissan's risk profile or lower-than-expected support from Nissan. A substantial deterioration in NRFSI's asset quality, impacting the earnings, or a steady weakening in its liquidity and capitalisation profile would also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach – Implicit Parent or Group Support
Parent/Group Support	The ratings factor in the high likelihood of financial support from Nissan because of the close business linkages.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Incorporated in October 2013, NRFSI is a systemically important, non-deposit taking non-banking financial company (SI-ND-NBFC). It provides financing for the Nissan, Renault and Datsun brand of vehicles (retail loans) and extends term loans and inventory funding facilities to automobile dealers (wholesale loans) for the Nissan, Renault and Datsun brand of vehicles. The company provides its financing services through more than 500 sales counters spread across India. NRFSI 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.

In FY2021, NRFSI reported a net profit of Rs. 28.9 crore on total managed assets of Rs. 3,377.9 crore while it reported a net profit of Rs. 44.2 crore on total managed assets of Rs. 3,125.3 crore in FY2020. In H1 FY2022, the company reported a net profit of Rs. 35.4 crore (provisional) on total managed assets of Rs. 3,540.3 crore.

Key financial indicators (IndAS)

Standalone	FY2020	FY2021	H1 FY2022
Total income (Rs. crore)	322.7	323.4	179.4
Profit after tax (Rs. crore)	44.2	28.9	35.4
Net worth (Rs. crore)	903.7	936.9	973.1
Loan book (Rs. crore)	2,879.2	3,209.1	3,342.5
Total managed assets (Rs. crore)	3,125.3	3,377.9	3,540.3
Return on managed assets (%)	1.5%	0.9%	2.1%
Return on net worth (%)	5.0%	3.1%	7.4%
Managed gearing (times)	2.4	2.5	2.6
Gross stage 3 (%)	2.6%	2.3%	2.8%
Net stage 3 (%)	1.2%	1.0%	1.2%
Solvency (Net stage 3/Net worth)	3.9%	3.5%	4.2%
CRAR (%)	30.8%	28.1%	27.7%

Source: *Company, ICRA Research; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019	
					Jan 31, 2022	May 31, 2021	Apr 13, 2020	Feb 27, 2020	Aug 30, 2019	Aug 09, 2019	Jan 31, 2019	Dec 3, 2018
1	NCD	Long Term	100	100	**[ICRA]AA- (Stable)**	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA+ (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	CP	Short Term	400	400	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Very Simple
CP	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Not Issued	NCD	NA	NA	NA	100.00	[ICRA]AA- (Stable)
INE566V14227	CP	24-Dec-2021	4.51%	28-Feb-2022	25.00	[ICRA]A1+
Not Issued	CP	NA	NA	NA	375.00	[ICRA]A1+

Source: *Company*

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

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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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