

January 02, 2023

Fullerton India Credit Company Limited: Provisional [ICRA]AA+(SO) assigned to Series A1 PTC backed by personal loan receivables issued by PL PTC TRUST 01

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PL PTC TRUST 01	Series A1 PTC	88.37	Provisional [ICRA]AA+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Fullerton India Credit Company Limited {FICCL; rated [ICRA]AAA (Stable)}. The PTCs are backed by a pool of Rs. 98.19 crore (pool principal; receivables of Rs. 124.51 crore) of personal loan (PL) receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 12.50% of the pool principal to be provided by FICCL (originator), (ii) subordination of 10.0% of the pool principal for Series A1 PTC, and (iii) the entire excess interest spread (EIS) in the structure (15.64% of pool principal), as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date
- High weighted average seasoning of ~22 months and pre-securitisation amortisation of ~33%
- All contracts in the pool have CIBIL score of 750 or greater

Credit challenges

- Exposed to inherent credit risk associated with the unsecured nature of the asset class; pool's performance would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, both the interest amount and the principal amount (90% of pool principal billing) is promised to the Series A1 PTC holders on a monthly basis. All the collections from the pool, after making the promised payouts to Series A1 PTC, will be passed on to the Originator every month.

The CE in the transaction for Series A1 PTC is in the form of an over-collateralisation of 10.0% of the pool principal and EIS of 15.64% of the pool principal. A CC of 12.50% of the initial pool principal (Rs. 12.27 crore), to be provided by FICCL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month (post utilisation of over-collateralisation and EIS), the trustee will utilise the CC to meet the shortfall.

The weighted average seasoning of the pool remains high at 22.15 months as on the pool cut-off date (November 30, 2022). There are no overdue contracts in the pool as on the cut-off date and all contracts in the pool have been regular since origination (i.e. demonstrated nil peak dpd). Furthermore, all the contracts in the pool have CIBIL score of 750 or greater at the time of origination, provides comfort. However, pool's performance would remain exposed to any macro-economic shocks/business disruptions, if any.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the Originator's loan portfolio. ICRA notes FICCL's credit quality experience and ICRA's expectation of the credit quality for the asset classes involved. The company had witnessed a moderation in the asset quality at the portfolio level post the pandemic, resulting in the build-up of delinquencies. However, the recent originations (post June 2022) have demonstrated a healthy performance, but with a limited track record so far. The pool's performance is expected to remain exposed to the underlying credit risks inherent in the asset class and macro-economic shocks/business disruptions.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.50-5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 3.2-12.0% with a mean of 8.0% per annum.

Liquidity position: Strong

As per the transaction structure, both the interest amount and the principal amount (90% of pool principal billing) is promised to the Series A1 PTC holders on a monthly basis. Assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the promised cash flows to the PTCs for a period of approximately twelve months. Overall, the cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the payouts to the Series A1 PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of the FICCL's PL portfolio till September 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Fullerton India Credit Company Limited (FICCL) commenced its operations in January 2006, caters primarily to individual and self-employed borrowers. Post the transaction between Fullerton Financial Holdings Pte Ltd (FFH) and Sumitomo Mitsui Financial Group (SMFG) in November 2021, the shareholding changed with SMFG holding a 74.9% stake in FICCL and Angelica Investments and its nominees holding 25.1%. FICCL's secured lending portfolio consists of mortgage loans to retail customers and small and medium enterprises (SMEs), commercial vehicle (CV) loans and secured rural loans such as two-wheeler loans, CV and mortgage loans. The unsecured portfolio comprises personal loans to salaried and self-employed individuals, and group and individual loans in the rural space.

The company had 631 branches as of FY2022. In FY2022, FICCL reported a net profit of Rs. 58 crore on a total asset base of Rs. 23,490 crore compared to a net loss of Rs. 1,157 crore on total assets of Rs. 23,782 crore in FY2021. In H1 FY2023, the company reported a net profit of Rs. 281 crore on a total asset base of Rs. 29,524 crore.

Key financial indicators

	FY2021	H1 FY2022 [^]	H1 FY2023 [^]
Total income	4,758	1,775	2,149
PAT	-1,157	-455	281
Net worth	4,244	3,783	4,884
Assets under management	20,858	18,400	25,066
Gross stage 3 / Gross advances	10.2%	10.2%	4.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; [^] Unaudited financial results for H1 FY2022 and H1 FY2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				January 02, 2023	-	-	-
PL PTC TRUST 01	Series A1 PTC	88.37	88.37	Provisional [ICRA]AA+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PL PTC TRUST 01	Moderately Complex

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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PL PTC TRUST 01	Series A1 PTC	Dec 2022	8.35%	October 2026	88.37	Provisional [ICRA]AA+(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure II: 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.

For more information, visit www.icra.in

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