

October 12, 2023

Cholamandalam Investment and Finance Company Limited: Ratings confirmed as final for PTCs issued under a vehicle loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST JULY 2023 - TRANCHE I	PTC Series A	654.14	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	11.45	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In August 2023, ICRA had assigned Provisional [ICRA]AAA(SO) rating to Pass-Through Certificates (PTCs) Series A and Provisional [ICRA]A-(SO) rating to Second Loss Facility issued by PLATINUM TRUST JULY 2023 - TRANCHE I. The PTCs are backed by a pool of Rs. 654.14-crore (pool principal; receivables of Rs. 824.58 crore) vehicle loan receivables originated by Cholamandalam Investment and Finance Company Limited (CFSPL/originator) {CIFCL; rated [ICRA]AA+ (Stable)}. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

A summary of the pool performance till September 2023 payout is shown in the table below:

Parameter	PLATINUM TRUST JULY 2023 - TRANCHE I
Months post securitisation	2
Pool amortisation	5.14%
PTC Series A amortisation	5.14%
Cumulative Prepayment rate	0.75%
Cumulative collection efficiency	98.42%
Loss-cum 0+ days past due (dpd)	3.12%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Established position in the vehicle finance market backed by its strong franchisee base and fairly diverse product portfolio.
- Availability of credit enhancement in the form of excess interest spread (EIS) and Cash Collateral (CC)
- Absence of delinquent contracts in the pool as on the cut-off date

Credit challenges

- Proportion of contracts with loan-to-value (LTV) ratio of more than 80% is high in the initial pool at ~63%.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors. The monthly cash flow schedule comprises promised interest payment to PTC Series A at the pre-determined interest rate on the principal

outstanding and promised principal (100% of the pool principal billed). Any excess interest spread (EIS) after making payments to Series A PTCs will flow back to the originator on a monthly basis. Cash collateral will be used for shortfall in the interest payment in any month and for shortfall in the payment of promised principal.

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 6.75% of the initial pool principal amount (Rs. 44.15 crore). The CC will be split into a first loss facility (FLF), amounting to Rs. 32.71 crore (5.00% of initial pool principal), and an SLF amounting to Rs. 11.45 crore (1.75% of initial pool principal).

There are no overdue in the pool as on the cut-off date. The pool is characterised by contracts with a weighted average seasoning of ~11 months and is well diversified with low obligator concentration as on the cut-off date. It consists of new and used multipurpose utility vehicle (New MUV: ~33% and Used MUV: ~4%), new and used light commercial vehicle (New LCV: ~15% and Used LCV: ~5%), new and used heavy commercial vehicle (New HCV: ~5% and Used HCV: ~6%), new and used construction equipment (New CE: ~13% and Used CE: ~4%) and tractor (15%) loan contracts. It has a high share of contracts with an LTV ratio of more than 80% (~63%) as on the cut-off date. Further, its performance would remain exposed to any macroeconomic shocks/business disruptions.

Past rated pools: ICRA currently has rating outstanding on 13 PTC transactions of CIFCL. The performance of the live pools (which have completed more than three months post securitisation) remained healthy till the September 2023 payouts. Any CC utilisation in the past was fully topped up in subsequent months and there has been no CC utilisation in the past 12 months.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (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 considering the performance of the originator's portfolio 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.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated between 2.00% - 3.00% of the initial pool principal, with certain variability around it. The average prepayment rate for the underlying pool is estimated 12.0% 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 6.75% of the initial 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 six months.

Strong for Second Loss Facility

There is first loss facility available in the transaction amounting to 5.00% of the pool principal amount along with EIS for top up of Second Loss facility if needed as per the defined waterfall mechanism.

Rating sensitivities

Positive factors – Not applicable for the PTC; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool contracts, resulting in an increase in the credit enhancement cover available for the SLF.

Negative factors – Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pool (monthly collection efficiency of <90% on a sustained basis), 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 financial company, is a part of the Chennai-based Murugappa Group of companies. Incorporated in 1978, it operates through 1,204 branches across 29 states and Union Territories (UTs) with assets under management (AUM) of Rs. 1,14,796 crore as of June 2023. The company's core business segments include vehicle finance (62%) and LAP loans (20%). It has housing loan (8%) and small and medium enterprise (SME) loan (10%) segments, which largely constitute the rest of the portfolio. CIFCL has forayed into three new business divisions in the consumer and SME ecosystem, namely CSEL, SBPL and SME. The share and performance of these segments in the overall portfolio remains to be observed.

As of March 2023, CIFCL had two wholly-owned subsidiaries, Cholamandalam Home Finance Limited and Cholamandalam Securities Limited, a joint venture with Payswift Technologies Private Limited, and the following associate entities – Vishvakarma Payments Private Limited and Paytail Commerce Private Limited. In FY2023, CIFCL (standalone) reported a net profit of Rs. 2,666 crore on a AUM of Rs. 1,06,498 crore compared Rs. 2,147 crore and Rs. 76,907 crore, respectively in FY2022.

Key financial indicators (audited)

CIFCL (standalone)	FY2022	FY2023	Q1FY2024
Total income	10,139	12,978	4,134
Profit after tax	2,147	2,666	726
Assets under management (AUM)	76,907	1,06,498	1,14,796
Gross stage 3	4.37%	3.01%	3.06%
Net stage 3	2.64%	1.62%	1.67%

Source: Company & ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRAs: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					October 12, 2023	August 01, 2023			
1	PLATINUM TRUST JULY 2023 - TRANCHE I	PTC Series A	654.14	654.14	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	
		Second Loss Facility	11.45	11.45	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Simple
Second Loss Facility	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
PLATINUM TRUST JULY 2023 - TRANCHE I	PTC Series A	July 2023	7.89%	January 2029	654.14	[ICRA]AAA(SO)
	Second Loss Facility		-		11.45	[ICRA]A-(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.

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