

November 24, 2023

Nissan Renault Financial Services India Private Limited: [ICRA]AA- (Stable) assigned to bank facilities; Ratings reaffirmed and Commercial paper limit reduced

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- (Stable); reaffirmed
Commercial paper	400.00	100.00**	[ICRA]A1+; reaffirmed
Term loans	0.00	100.00	[ICRA]AA- (Stable); assigned
Total	500.00	300.00	

*Instrument details are provided in Annexure I; **Reduced from Rs. 400 crore

Rationale

The ratings take into consideration Nissan Renault Financial Services India Private Limited's (NRFSI) strong parentage in the form of Nissan Motor Company Limited¹ (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 (parent), which, along with Renault SA (Renault), 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 improved over the past two years; it reported an adjusted EBITDA³ of 657.0 billion yen for the 12 months ending June 2023 vis-à-vis 594.6 billion yen in FY2023 (242.6 billion yen in FY2022). Going forward, ICRA will continue to monitor the movement in Nissan's credit risk profile and will take appropriate rating action on NRFSI as its ratings are underpinned by its parentage.

The ratings continue to factor in NRFSI's comfortable capitalisation (gearing of 2.4 times as of September 2023) and asset quality. The ratings, however, take note of the company's moderate track record of operations with a predominant reliance on the financing of Nissan/Renault-branded passenger vehicles as it is a captive financier. The ratings also consider the highly competitive nature of the auto financing industry, which limits the company's scope to expand its business margins.

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 Banque (RCI), a wholly-owned subsidiary of Renault. The company is the captive financing arm for the Nissan and Renault brand of cars manufactured by Renault Nissan Automotive India Private Limited (RNAIPL). The ratings take note of the India-focused initiatives of the parent, 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 in the form of two directors from Renault/Nissan. Given its

¹ Moody's Investors Service has a Baa3 issuer rating with a stable outlook for Nissan Motor Company Limited

² The balance (30%) is held by RCI Banque, a wholly-owned subsidiary of Renault SA (Renault). Moody's has a Baa1 rating with a stable outlook for the senior unsecured debt instruments of RCI

³ Adjusted for pensions, operating leases, unusual and non-standard adjustments

strategic importance to the Group, the common branding and strong ownership, ICRA expects NRFSI to continue benefitting from the operational, financial and management support from the shareholders and Group entities.

Comfortable asset quality – NRFSI’s portfolio delinquencies remained stable in H1 FY2024, with the 90+ days past due (dpd) remaining at 1.7% as of September 2023 and March 2023, marginally supported by write-offs during this period. The company wrote off Rs. 9.2 crore of loans in its wholesale book, resulting in an improvement in this segment’s 90+dpd to 1.4% as of September 2023 from 7.4% as of March 2023 (loans to dealers constituted 6.8% and 6.5%, respectively, of the overall portfolio as of September 2023 and March 2023). The 90+dpd in the retail book, however, deteriorated slightly to 1.7% as of September 2023 from 1.3% as of March 2023 as the company increased its exposure towards the self-employed category of customers. Incrementally, ICRA expects NRFSI to maintain its portfolio delinquencies in a range-bound manner in the near term, supported by tight control on its underwriting in the wholesale segment and steady collection efforts in the retail segment.

Comfortable capitalisation profile – NRFSI has a comfortable capitalisation profile, characterised by a net worth and gearing of Rs. 1,112 crore and 2.4 times, respectively, as of September 2023. ICRA notes that the company may not need significant external capital to achieve a medium-term compound annual growth rate (CAGR) of 8-10% for its portfolio. 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; however, funding diversification at competitive rates required for long-term growth plans – NRFSI’s funding profile predominantly comprises inter-corporate loans from RNAIPL. As of September 2023, about 41% of the borrowings was from RNAIPL, followed by term loans from banks (34%), working capital loans from banks (18%), external commercial borrowings from banks (4%) and securitisation (3%). The company raises funds from a few international banks, leveraging its parentage and the Group’s established relationships. Although the company currently enjoys favourable funding rates from its Group companies, ICRA notes that the same could get refinanced on maturity at higher rates, which would impact its average cost of funding over the near-to-medium term. Going forward, it would be critical to diversify and secure funds at competitive rates to support business expansion and improve profitability.

Credit challenges

Moderate track record of operations – NRFSI was incorporated in October 2013 and received a non-banking financial company (NBFC) licence in June 2014. Its overall portfolio increased at a CAGR of 10% during FY2018-FY2023 and stood at Rs. 3,878 crore as of March 2023 (Rs. 3,876 crore as of September 2023). The company continues to focus on the sale of new vehicles of the Nissan and Renault brands. NRFSI’s assets under management (AUM) is expected to reach Rs. 4,000 crore by March 2024, largely supported by the uptick in the average loan ticket size.

Competitive business segment – NRFSI faces competition from established players, including banks and other large NBFCs. Although its finance penetration improved to 25% in H1 FY2024 and 24% in FY2023 from 21% in FY2022, the moderation in the market share of original equipment manufacturers (OEMs) impacted volumes and disbursements were subdued in H1 FY2024. Going forward, the portfolio growth would be contingent on the success of the OEMs’ planned product launches, revision in vehicle prices and NRFSI’s penetration levels.

Moderate profitability levels – NRFSI’s net profitability moderated to 1.5% and 1.6% in H1 FY2024 and FY2023, respectively, from 2.1% in FY2022 (0.9% in FY2021) on account of lower margins. Margins were impacted as the company was unable to meaningfully pass on the increase in funding costs amid the competitive intensity in the segment. However, credit costs remained under control at 0.5% in H1 FY2024 as well as FY2023 and FY2022. This was aided by the higher credit provisioning created during FY2020-FY2022, which supported the overall provision levels notwithstanding the write-offs in the wholesale book. This supported the net profitability to an extent. Going forward, improving interest margins and higher fee-based income would be crucial for incremental profitability.

Liquidity position: Strong

NRFSI had cash and liquid investments of Rs. 34 crore as on September 30, 2023 and about Rs. 889 crore of sanctioned credit lines from banks. It has repayment obligations of Rs. 450 crore to RNAIPL (inter-corporate loans) during October 2023 – December 2023, working capital demand loan (WC DL) borrowings amounting to Rs. 487 crore and term loans from banks of Rs. 31 crore over the same period. The WC DL facilities are typically rolled over. The company's collections remain relatively stable and access to commensurate funding lines provides comfort from a liquidity perspective.

Rating sensitivities

Positive factors – NRFSI's rating could be upgraded or the outlook could be revised to Positive in case of a significant 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	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. ICRA also expects the parent to be willing to extend financial support to NRFSI to protect its reputation from the consequences of a Group entity's distress. There is a track record of timely financial support (both debt and equity) to NRFSI, whenever required.
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 (NBFC-ND-SI), classified under the middle layer of the Reserve Bank of India's (RBI) scale-based regulations. It provides financing for the Nissan and Renault brand of vehicles (retail loans) and extends inventory funding facilities to the automobile dealers (wholesale loans) of the above-mentioned 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 FY2023, NRFSI reported a net profit of Rs. 61.4 crore on a total asset base of Rs. 4,069.3 crore compared with Rs. 71.1 crore and Rs. 3,481.6 crore, respectively, in FY2022. In H1 FY2024, it reported a provisional net profit of Rs. 30.5 crore on a total asset base of Rs. 3,880.6 crore.

Key financial indicators (Ind-AS)

Standalone	FY2022	FY2023	H1 FY2024 (P)
Total income	367.6	384.6	201.6
Profit after tax	71.1	61.4	30.5
Net worth	1,016.1	1,080.3	1,112.3
Loan book (On Balance sheet)	3,365.8	3,787.3	3,787.6
Total managed assets	3,481.6	4,069.3	3,880.6
Return on managed assets	2.1%	1.6%	1.5%
Return on net worth	7.3%	5.9%	5.6%

Standalone	FY2022	FY2023	H1 FY2024 (P)
Managed gearing (times)	2.4	2.7	2.4
Gross stage 3	2.2%	1.7%	1.7%
Net stage 3	0.9%	0.5%	0.5%
Solvency (Net stage 3/Net worth)	3.1%	1.6%	1.6%
CRAR	29.4%	27.6%	28.7%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; P – Provisional; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating In FY2024		Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021
				Nov-24-23	Sep-15-23	Sep-30-22	Jan-31-22	May-31-21	Apr-13-20	
1 Non-convertible debenture	Long term	100.00	0.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	
2 Commercial paper	Short term	100.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3 Term loans	Long term	100.00	100.00	[ICRA]AA-(Stable)	-	-	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture	Not Applicable
Commercial paper	Very Simple
Long-term fund-based term loans	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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	Non-convertible debenture	NA	NA	NA	100.00	[ICRA]AA- (Stable)
Yet to be placed	Commercial paper	NA	NA	NA	100.00	[ICRA]A1+
NA	Term loans	Oct-20-23	NA	Nov-20-26	100.00	[ICRA]AA- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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About ICRA Limited:

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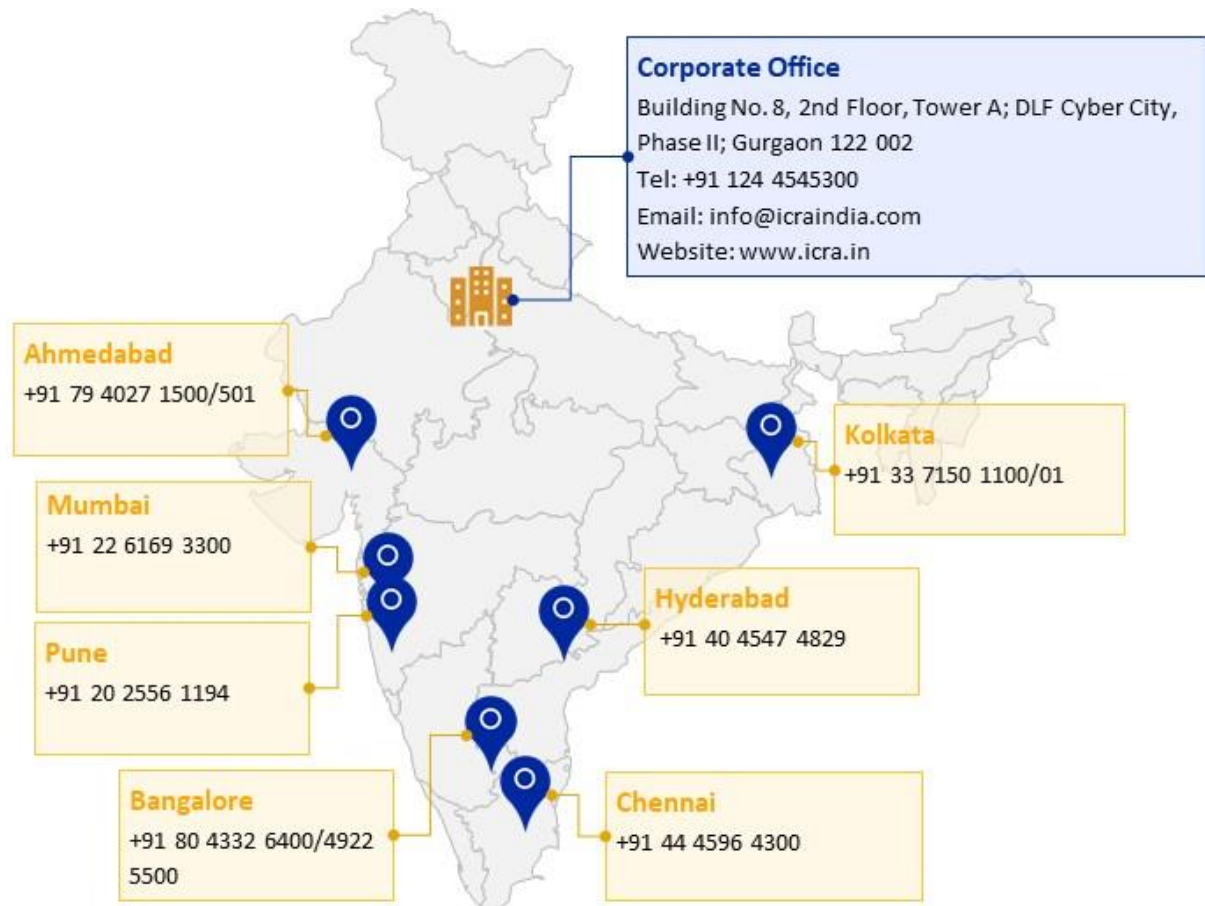
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