December 27, 2023

# Toyota Financial Services India Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Bank facilities – Long term/Short term (fund based – others) | 1,872.50 | 1,872.50 | [ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed |
| Non-convertible debentures | 3,350.00 | 3,350.00 | [ICRA]AAA (Stable); reaffirmed |
| | 0.00 | 1,500.00 | [ICRA]AAA (Stable); assigned |
| Commercial paper | 1,000.00 | 1,000.00 | [ICRA]A1+; reaffirmed |
| | 0.00 | 500.00 | [ICRA]A1+; assigned |
| **Total** | **6,222.50** | **8,222.50** | |

**Instrument details are provided in Annexure I*

## Rationale

The ratings consider Toyota Financial Services India Limited's (TFSIN) strong parentage, given its position as a wholly-owned subsidiary of Toyota Financial Services Corporation (TFSC), which is a wholly-owned subsidiary of Toyota Motor Corporation (TMC/ultimate parent; rated A1 (Stable) by Moody's). TFSIN receives significant financial and management support from TFSC and TMC by virtue of its parentage. Its board of directors and senior management team have representatives from TFSC. This, together with the shared brand name and integration with the TMC Group, reflects TFSIN's significance to the Group.

The ratings also factor in TFSIN's comfortable capitalisation profile, supported by timely equity support from the parent, robust underwriting practices and risk management policies, and diversified borrowing profile. However, its margins are expected to remain under pressure on account of the competitive scenario and the rising interest rates as witnessed in H1 FY2024. Going forward, the company's ability to grow its loan book, while maintaining prudent underwriting standards and hence asset quality indicators, in a competitive market would be a key monitorable.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion on TFSIN's comfortable capitalisation and strong liquidity position and the expectation that it would continue to benefit from the strong support of the TMC Group.

## Key rating drivers and their description

### Credit strengths

**Strong parentage with track record of support** – TFSIN derives substantial financial and management support from TFSC and TMC owing to its parentage (wholly-owned subsidiary of TFSC and wholly-owned step-down subsidiary of TMC). TFSC exercises managerial control in TFSIN, which reflects its significance to the Group. Regular operational reporting and monitoring by TFSC's regional headquarters in Singapore, periodic reviews and senior management engagement indicate a high level of integration within the Group. Moreover, TFSIN receives regular guidance from TFSC in matters pertaining to treasury, debt raising and risk management. It has adequate risk management policies and benefits from TFSC's global best practices.

**Comfortable capitalisation profile** – TFSIN's capitalisation remains comfortable with a capital adequacy ratio (capital-to-risk weighted assets ratio; CRAR) of 18.10% as of September 30, 2023 and 22.07% as on March 31, 2023, supported by timely equity infusions from TFSC. TFSC has infused equity capital of Rs. 1,880 crore in TFSIN since its inception, of which Rs. 350 crore was received in January 2023 and Rs. 240 crore was received in October 2023. ICRA notes the track record of timely aid from TFSC to keep TFSIN comfortably capitalised well in advance to support the loan book growth. TFSIN's gearing stood at 5.0 times as on September 30, 2023 and 3.7 times as on March 31, 2023 (3.9 times as on March 31, 2022).

The company has strong growth plans for FY2024 and is expected to raise additional equity capital in Q4 FY2024/Q1 FY2025. ICRA expects TFSIN to maintain comfortable capitalisation over the near-to-medium term.

**Improving asset quality; sustained performance a monitorable** – TFSIN's gross and net stage 3 assets stood at 3.3% and 1.5%, respectively, as of September 2023 compared to 4.1% and 1.9%, respectively, as of March 2023, and 5.4% and 2.4%, respectively, as of March 2022 due to the growth in the loan book during this period as well as controlled slippages in the retail segment. The company follows an outsourced collection model with the in-house collection team closely monitoring the outsourced agencies.

TFSIN has maintained adequate provisions, which stood at 2.9% of the loan book as of September 2023 and 3.3% of the loan book as of March 2023 vis-à-vis 4.6% in March 2022. Given its strong growth plans for the near-to-medium term, the company's ability to maintain strict underwriting standards, and hence asset quality indicators, would be monitored.

## Credit challenges

**Competitive business segment and modest profitability** – The domestic passenger vehicle sales volume witnessed a healthy pickup in FY2023. Toyota Kirloskar Motors (TKM) also recorded a 44.0%[1] increase in sales volume in the past one year. With TFSIN maintaining its financing penetration at around 15% and given the increasing ticket size, its loan book grew by 26.5% year-on-year (YoY) to Rs. 8,950.5 crore as of March 2023 (portfolio declined by 0.9% in FY2022 and grew by 0.3% in FY2021). The loan book (net of provisions) grew further by 45.6% in H1 FY2024 vis-à-vis H1FY2023 to Rs. 10,874.8 crore as of September 2023. Going forward, TFSIN is expected to scale up its loan book through the existing models as well as the launch of new variants by TKM. It is expected to derive further benefit from its agreement with Maruti Suzuki India Limited (MSIL), under which it has been providing financial services to MSIL's retail customers in select locations.

The auto financing space is highly competitive and comprises large banks and non-banking financial companies. This has resulted in modest lending spreads over the years. Going forward, TFSIN's ability to offer lending services at competitive rates would be a key monitorable.

TFSIN's net profitability remains modest with a return on average managed assets (RoMA) of 0.7% (annualised) in H1 FY2024 and 1.4% in FY2023 (1.1% in FY2022), given the tight net interest margin of 2.8% in H1 FY2024 compared to 3.2% in FY2023 and 3.6% in FY2022. The operating expenses stood at 1.9% in H1 FY2024 vis-à-vis 2.2% in FY2023 and 2.1% in FY2022; the company will continue to invest to support its incremental digitisation initiatives. Going forward, TFSIN's ability to maintain its margins while keeping the operating expenses and credit costs under control, amid steep portfolio growth expectations, would be crucial.

## Liquidity position: Strong

The company's asset-liability management statement, as on October 31, 2023, reflected positive cumulative mismatches up to one year. As on November 30, 2023, TFSIN's liquidity position remained strong, supported by free cash and liquid investments of Rs. 558.7 crore and unutilised sanctioned funding lines of Rs. 4,054.2 crore. The company has debt repayments of Rs. 1,668.2 crore within the next six months. TFSIN also enjoys strong financial flexibility for mobilising funding at competitive rates on the back of its track record and strong parentage.

As on September 30, 2023, the total borrowing of Rs. 9,907.8 crore was fairly diversified across bank facilities (36.7%), non-convertible debentures (NCDs; 36.9%), commercial paper (8.2%) and external commercial borrowing (18.1%).

## Rating sensitivities

**Positive factors –** Not applicable

[1] *Source: Society for Indian Automobile Manufacturers (SIAM) data as of November 2023*

**Negative factors –** A significant deterioration in the credit profile of the TMC Group or lower-than-expected support from the Group could lead to a rating downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Rating Methodology for Non-banking Finance Companies<br>Rating Approach – Implicit Parent or Group Support |
| **Parent/Group support** | Support from Toyota Motor Corporation Group |
| **Consolidation/Standalone** | The ratings are based on the standalone financial statements of the company |

## About the company

Toyota Financial Services India Limited (TFSIN) is a non-deposit taking non-banking financial company registered with the Reserve Bank of India and is primarily involved in the retail financing of Toyota cars. Additionally, TFSIN offers financing to Toyota dealers in the form of inventory funding and infrastructure term loans. TFSIN is a wholly-owned subsidiary of Toyota Financial Services Corporation, which is a wholly-owned subsidiary of Toyota Motor Corporation (TMC). The company commenced operations in FY2013. TMC is one of the world's leading automobile manufacturers with a strong brand and products across categories including cars, trucks and buses. Headquartered in Japan, TMC has a diversified global presence across Asia, Europe and the US.

### Key financial indicators (audited)

| Toyota Financial Services India Limited | FY2021 | FY2022 | FY2023 | H1 FY2024* |
|---|---|---|---|---|
| **Total income** | 690.1 | 678.2 | 740.7 | 472.6 |
| **Profit after tax** | 52.2 | 84.1 | 124.0 | 37.5 |
| **Net worth** | 1,404.3 | 1,488.1 | 1,961.8 | 1,999.2 |
| **Loan book** | 7,142.0 | 7,077.9 | 8,950.5 | 10,874.8# |
| **Total assets** | 7,574.8 | 7,828.8 | 9,632.8 | 12,182.9 |
| **Return on assets** | 0.7% | 1.1% | 1.4% | 0.7% |
| **Return on net worth** | 3.8% | 5.8% | 7.2% | 3.8% |
| **Gross gearing (times)** | 4.1 | 3.9 | 3.7 | 5.0 |
| **Gross NPA / Gross stage 3** | 320.3 | 380.4 | 370.6 | 367.8 |
| **Net NPA / Net stage 3** | 140.0 | 165.2 | 165.8 | 165.7 |
| **Gross stage 3** | 4.5% | 5.4% | 4.1% | 3.3% |
| **Net stage 3** | 1.9% | 2.4% | 1.9% | 1.5% |
| **CRAR** | 19.5% | 20.1% | 22.1% | 18.1% |

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Based on abridged financials for H1 FY2024.*
*# loan book net of provisions*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | | Current rating (FY2024) | | | | | | Chronology of rating history for the past 3 years | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument | 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 | | | |
| | | | | | Dec 27, 2023 | Aug 01, 2023 | May 11, 2023 | Feb 24, 2023 | Dec 20, 2022 | Dec 27, 2021 | Jul 30, 2021 | Mar 23, 2021 | Feb 15, 2021 | Oct 05, 2020 | Jun 22, 2020 |
| 1 | Bank facilities – Long term/Short term (fund based – others) | Long term / Short term | 1,872.5 | 1,872.5 | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | - | - | - | - | - | - |
| 2 | Bank facilities – Long term | Long Term | - | - | - | - | - | - | -* | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 3 | Bank facilities – Short term | Short term | - | - | - | - | - | - | -* | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 4 | Non-convertible debentures | Long term | 4,850.0 | 3,100.0 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 5 | Commercial paper | Short term | 1,500.0 | 375.0 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

**Change in limits*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Bank facilities – Long term/Short term (fund based – others)** | Simple |
| **Non-convertible debentures** | Simple |
| **Commercial paper** | 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: [Click Here]

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Bank facilities – Long term/Short term (fund based – others) | NA | NA | NA | 1,872.5 | [ICRA]AAA (Stable) /[ICRA]A1+ |
| INE692Q07316 | NCD | Feb-24-21 | 5.70% | Feb-7-24 | 300.0 | [ICRA]AAA (Stable) |
| INE692Q07324 | NCD | Mar-12-21 | 5.74% | Mar-12-24 | 275.0 | [ICRA]AAA (Stable) |
| INE692Q07340 | NCD | Jun-30-21 | 5.68% | Jun-28-24 | 200.0 | [ICRA]AAA (Stable) |
| INE692Q07365 | NCD | Jan-31-22 | 5.88% | Jan-31-24 | 100.0 | [ICRA]AAA (Stable) |
| INE692Q07373 | NCD | Sep-26-22 | 7.55% | Sep-26-25 | 150.0 | [ICRA]AAA (Stable) |
| INE692Q07381 | NCD | Oct-21-22 | 7.83% | Oct-21-24 | 200.0 | [ICRA]AAA (Stable) |
| INE692Q07415 | NCD | Apr-28-23 | 8.10% | May-28-26 | 300.0 | [ICRA]AAA (Stable) |
| INE692Q07407 | NCD | Mar-20-23 | 8.35% | Jun-19-26 | 150.0 | [ICRA]AAA (Stable) |
| INE692Q07423 | NCD | Jul-05-23 | 8.00% | Jul-03-26 | 375.0 | [ICRA]AAA (Stable) |
| INE692Q07431 | NCD | Jul-28-23 | 8.09% | Jul-28-28 | 250.0 | [ICRA]AAA (Stable) |
| INE692Q07449 | NCD | Sep-07-23 | 8.15% | Sep-07-26 | 500.0 | [ICRA]AAA (Stable) |
| INE692Q07456 | NCD | Nov-21-23 | 8.25% | Jan-21-26 | 150.0 | [ICRA]AAA (Stable) |
| INE692Q07464 | NCD | Nov-21-23 | 8.25% | Nov-21-28 | 150.0 | [ICRA]AAA (Stable) |
| - | NCD – Proposed | - | - | - | 1,750.0 | [ICRA]AAA (Stable) |
| INE692Q14AY5 | CP | Aug-10-23 | NA | Mar-07-24 | 50.0 | [ICRA]A1+ |
| INE692Q14BA3 | CP | Sep-22-23 | NA | Dec-22-23 | 125.0 | [ICRA]A1+ |
| INE692Q14AU3 | CP | May-25-23 | NA | May-24-24 | 200.0 | [ICRA]A1+ |
| | CP – Proposed | | | | 1,125.0 | [ICRA]A1+ |

*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:

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

## ICRA Limited

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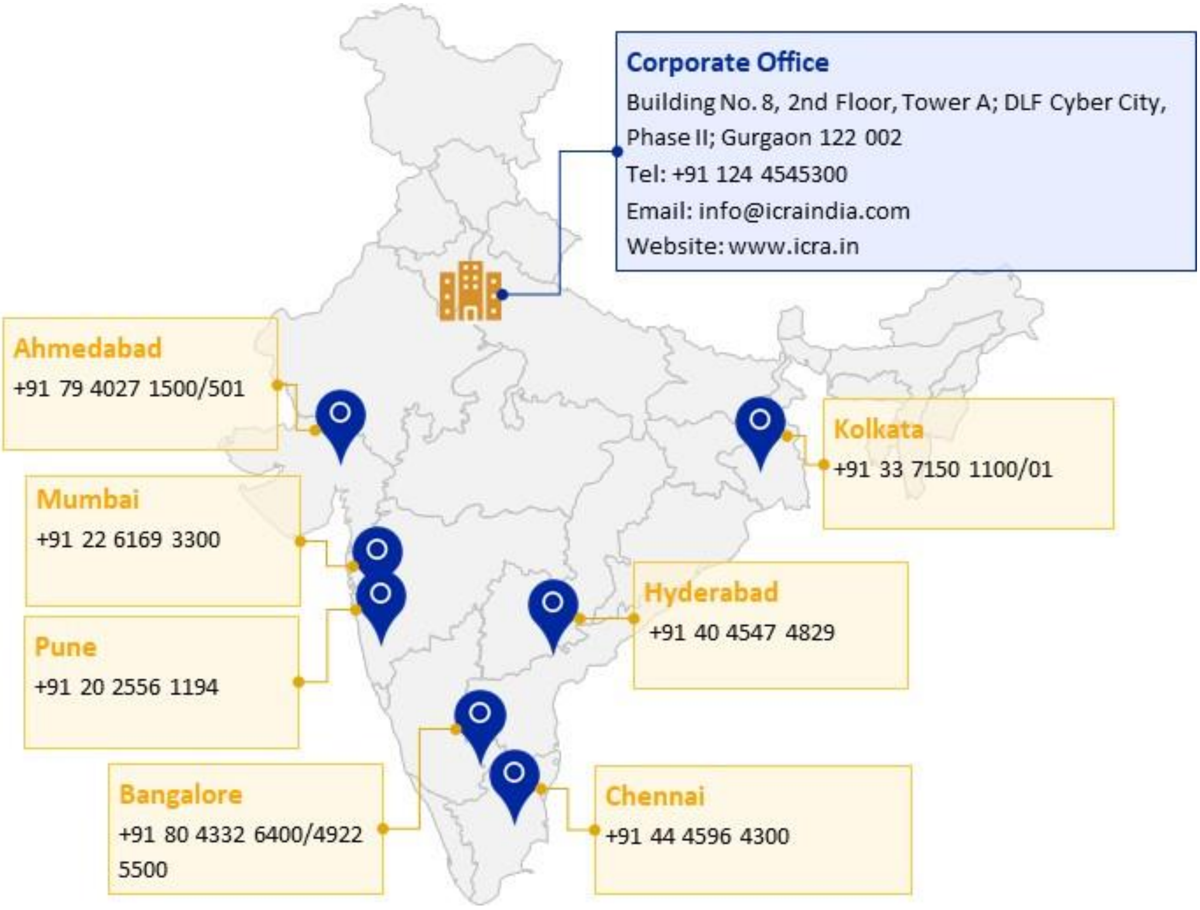




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