March 01, 2024

Cholamandalam Investment and Finance Company Limited: Provisional [ICRA]AAA(SO) assigned to PTC Series A backed by vehicle loan receivables issued by PLATINUM TRUST FEB 2024 – TRANCHE I

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST FEB 2024 – TRANCHE I	PTC Series A	1,713.14	Provisional [ICRA]AAA(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

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Cholamandalam Investment and Finance Company Limited {CIFCL/originator; rated [ICRA]AA+(Positive)}. The PTCs are backed by a pool of Rs. 1,882.57-crore (pool principal; receivables of Rs. 2,368.48 crore) vehicle loan and construction equipment loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, CIFCL's track record in the vehicle loan business and the credit enhancement available in the form of (i) a cash collateral (CC) of 3.00% of the initial pool principal (Rs. 56.48 crore) to be provided by the originator, (ii) the excess interest spread (EIS) of 13.86% of the initial pool principal (Rs. 260.94 crore) in the structure, (iii) subordination (equity tranche) of 9.00% of the initial 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

- Established position in vehicle finance market backed by strong franchisee base and diverse product portfolio
- Availability of credit enhancement in the form of subordination, EIS and 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 ~57%
- Performance of the pool would remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (May 05, 2030). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to the PTCs, will be used to make the expected principal payouts to PTC Series A. However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The loan pool receivables will be assigned at par to the PTC investors. The first line of support for PTC Series A in the transaction is in the form of subordination of 9.00% of the initial pool principal, as an equity tranche. The originator's claim on the EIS in the transaction is subordinated to the PTC payouts. Thus, the EIS acts as a source of credit enhancement in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. However, on the occurrence of a PTC default or any other predefined acceleration event, the residual EIS every month shall be utilised for accelerating the principal payment due to the subscribers of PTC Series A.

A CC equivalent to 3.00% of the initial pool principal (Rs. 56.48 crore) also acts as credit enhancement in the transaction. The CC would be in the form of a fixed deposit maintained with a designated bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the EIS first, followed by the CC, to meet the shortfall.

There were no overdues in the pool as on the pool cut-off date (January 31, 2024). The pool is characterised by contracts with a weighted average seasoning of ~16 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: ~42% and used MUV: ~17%), new and used light commercial vehicle (new LCV: ~5% and used LCV: ~5%), new and used heavy commercial vehicle (new HCV: ~2% and used HCV: ~4%), construction equipment (new: ~2%) and two-wheeler (~25%) loan contracts. It has a high share of contracts with an LTV ratio of more than 80% (~57%) as on the cut-off date. Further, the performance of the pool would remain exposed to macroeconomic shocks/business disruptions.

Past rated pools: ICRA had ratings outstanding on 18 vehicle finance PTC transactions of CIFCL as of February 2024. The performance of the live pools (which have completed at least three months post securitisation) remained healthy till the January 2024 payouts. Any CC utilisation in the past was fully topped up in subsequent months and no CC has been utilised 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.25-3.25% of the initial pool principal, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 12.0% p.a.

Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be 6.5 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of CIFCL's portfolio till September 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 final 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 originator

CIFCL, a non-banking financial company, is a part of the Chennai-based Murugappa Group of companies. Incorporated in 1978, it operates through 1,267 branches across 29 states and Union Territories (UTs) with assets under management (AUM) of Rs. 1,45,037 crore as of December 2023. The company's core business segments include vehicle finance loans (61%) and loan against property (20%). It also provides housing loans (9%) and small and medium enterprise (SME) loans (10%), which largely constitute the rest of the portfolio. CIFCL has forayed into three new business divisions in the consumer and SME ecosystem, namely consumer & small enterprise loan (CSEL), secured business & personal loan (SBPL) and SME. The share and performance of these segments in the overall portfolio remains to be observed.

CIFCL has two wholly-owned subsidiaries, Cholamandalam Home Finance Limited and Cholamandalam Securities Limited, a joint venture with Payswiff Technologies Private Limited, and the following associate entities – Vishvakarma Payments Private Limited and Paytail Commerce Private Limited.

Key financial indicators (audited)

CIFCL	FY2022	FY2023	9M FY2024
Total income	10,139	12,978	13,724
Profit after tax	2,147	2,666	2,365
Total managed assets[1]	85,128	1,15,278	1,45,037
Return on managed assets	2.6%	2.7%	2.4%
Managed gearing (times)	6.1	6.9	6.7
Gross stage 3	4.4%	3.0%	2.8%
CRAR	19.6%	17.1%	19.4%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	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
					March 01, 2024	-	-	-
1	**PLATINUM TRUST FEB 2024 – TRANCHE I**	PTC Series A	1,713.14	1,713.14	**Provisional [ICRA]AAA(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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

[1] *Total assets (as per balance sheet) + assignment book; for 9M FY2024, total managed assets = Rs. 1,43,718 crore + Rs. 1,319 crore = Rs. 1,45,037 crore*

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 FEB 2024 – TRANCHE I	PTC Series A	February 2024	8.40%	May 2030	1,713.14	Provisional [ICRA]AAA(SO)

** Scheduled PTC 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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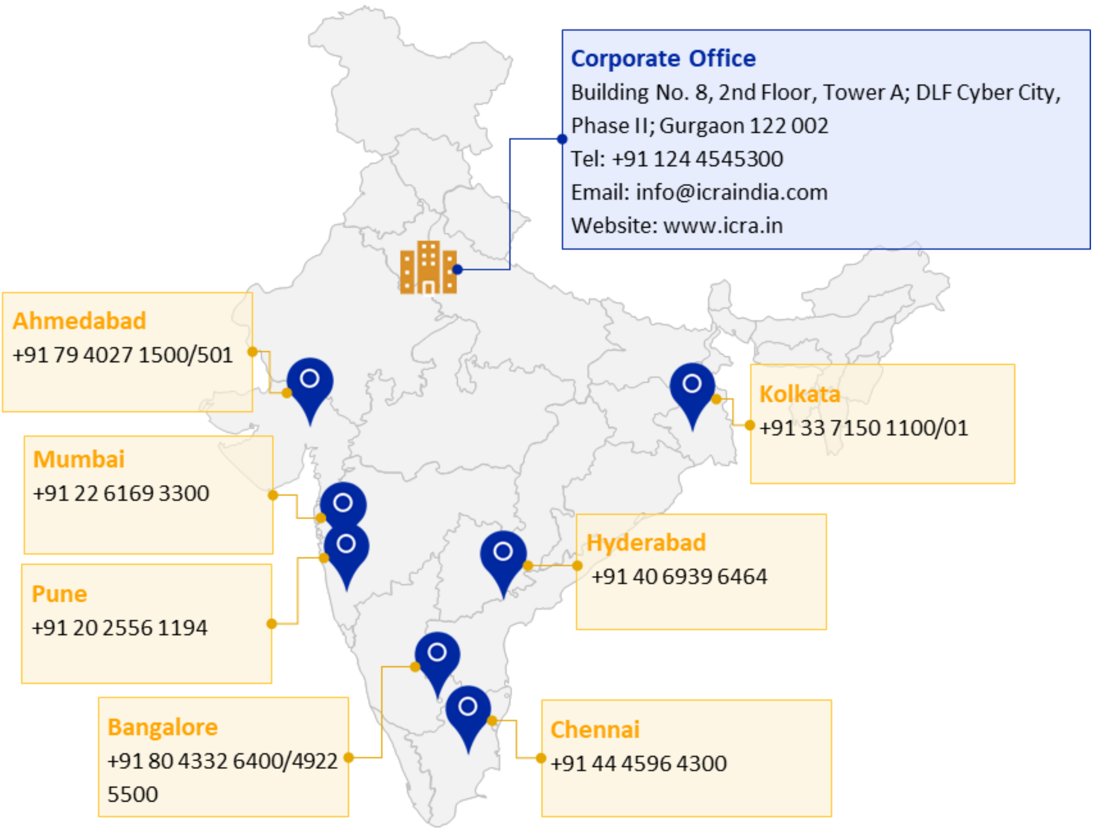

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