

July 22, 2024

Cholamandalam Investment and Finance Company Limited: Rating 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 APR 2024-TRANCHE III	PTC Series A	897.29	[ICRA]AA+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In May 2024, ICRA had assigned a provisional rating to the pass-through certificate (PTCs) issued by PLATINUM TRUST APR 2024-TRANCHE III. The PTCs are backed by a pool of vehicle loan and construction equipment loan receivables originated by Cholamandalam Investment and Finance Company Limited {CIFCL/Originator; rated [ICRA]AA+ (Positive)} with an aggregate principal outstanding of Rs. 897.29 crore (pool receivables of Rs. 1,126.10 crore).

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 rating has now been confirmed as final.

Pool performance summary

Parameter	PLATINUM TRUST APR 2024-TRANCHE III
Payout month	June 2024
Months post securitisation	2
Pool amortisation	7.22%
PTC Series A amortisation	7.22%
Cumulative prepayment rate	0.80%
Cumulative collection efficiency	96.85%
Loss-cum-0+ days past due (dpd)	6.21%
Loss-cum-30+ dpd	0.28%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and the principal payout (100% of the pool principal billed). Any surplus excess interest spread (EIS), after meeting the promised payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of PTC Series A principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 5.00% of the initial pool principal (Rs. 44.86 crore) provided by the Originator, and (ii) the EIS of 13.30% of the initial pool principal (Rs. 119.38 crore) in the structure for PTC Series A.

Key rating drivers and their description

Credit strengths

Track record of originator – The Originator, which would also be servicing the loans in the transaction, has an established track record of more than 10 years in the lending business with adequate underwriting policies and collection procedures.

Granular pool, supported by presence of credit enhancement – The pool is granular, consisting of 13,883 contracts, with the top 10 obligors forming only 1.3% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC and EIS would absorb some part of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool – The pool has a moderate seasoning of 10.2 months with no delinquent contracts as on the cut-off date. This reflects the borrowers’ relatively better credit profile, which is a credit positive.

Credit challenges

High LTV contracts – The proportion of contracts with a loan-to-value (LTV) ratio of more than 80% is high at ~78% (in terms of the principal amount outstanding on the cut-off date). Borrowers with high LTV loans are more likely to default and are sensitive to economic downturns.

Risks associated with lending business – The pool’s performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA’s cash flow modelling for rating securitisation 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 assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 3.25% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	PLATINUM TRUST APR 2024-TRANCHE III
Originator	Cholamandalam Investment and Finance Company Limited
Servicer	Cholamandalam Investment and Finance Company Limited
Trustee	IDBI Trusteeship Services Limited
CC holding bank	ICICI Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Strong

The liquidity for the instruments is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~3.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency of more than 95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – Pressure on the rating could emerge due to the sustained weak collection performance of the underlying pool (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 (CIFCL) could also exert pressure on the rating.

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 1,387 branches across 29 states and Union Territories (UTs) with assets under management (AUM) of Rs. 1,45,572 crore as of March 2024. The company's core business segments include vehicle finance (58%) and loan against property (21%). The small and medium enterprise (SME) loan (12%) and housing loan (9%) segments 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 loans (SBPL) and SME. The share and performance of these segments in the overall portfolio remains to be observed.

As of March 2024, 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.

Key financial indicators (audited)

CIFCL	FY2022	FY2023	FY2024
Total income	10,139	12,978	19,216
Profit after tax	2,147	2,666	3,423
Total managed assets ¹	85,244	1,15,389	1,57,908
Gross stage 3	4.4%	3.0%	2.5%
CRAR	19.6%	17.1%	18.6%

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

¹ Total assets (as per balance sheet) + assignment book; for FY2024, total managed assets = Rs. 1,56,686 crore + Rs. 1,222 crore = Rs. 1,57,908 crore

Status of non-cooperation with previous CRAs: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jul 22, 2024	May 07, 2024			
PLATINUM TRUST APR 2024- TRANCHE III	PTC Series A	897.29	897.29	[ICRA]AA+(SO)	Provisional [ICRA]AA+(S O)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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*	Current Rated Amount (Rs. crore)	Rating
PLATINUM TRUST APR 2024-TRANCHE III	PTC Series A	April 30, 2024	8.65%	April 22, 2029	897.29	[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.

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Branches



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