

October 18, 2024

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

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST AUG 2024 - TRANCHE III	PTC Series A	998.06	997.90	[ICRA]AAA(SO); provisional rating confirmed as final
	Second loss facility	14.97	14.97	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In August 2024, ICRA had assigned provisional ratings to the pass-through certificates (PTCs) issued by PLATINUM TRUST AUG 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. 997.90 crore (pool receivables of Rs. 1,248.57 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 ratings have now been confirmed as final.

Pool performance summary

Parameter	PLATINUM TRUST JUL 2024 – TRANCHE II
Payout month	September 2024
Months post securitisation	1
Pool amortisation	2.66%
PTC Series A amortisation	2.66%
Cumulative prepayment rate	0.35%
Cumulative collection efficiency ¹	92.92%
Loss-cum-0+ days past due (dpd) ²	7.49%
Loss-cum-30+ dpd ³	0.00%
Loss-cum-90+ dpd ⁴	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

¹ Cumulative collections till date including advance collections but excluding prepayments / Cumulative billings till date + Opening overdues

² POS on contracts aged 0+ dpd + Overdues / Initial POS on the pool

³ POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

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 6.50% of the initial pool principal, amounting to Rs. 64.87 crore, provided by the Originator, and (ii) the EIS of 9.87% of the initial pool principal for PTC Series A. The CC will be split into a first loss facility (FLF), amounting to Rs. 49.90 crore (5.00% of initial pool principal), and a second loss facility (SLF) amounting to Rs. 14.97 crore (1.50% of initial pool principal).

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 three decades 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 12,101 contracts, with the top 10 obligors forming only 1.47% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool – The pool has moderate seasoning of ~11 months with no delinquent contracts as on the cut-off date, reflecting 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 ~64% (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 2.75% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18.0% 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 ratings for the instruments.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	PLATINUM TRUST JUL 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	IndusInd Bank Limited
Collection and payout account bank	IndusInd Bank Limited

Liquidity position: Strong

The liquidity for PTC Series A is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.00 times the estimated loss in the pool.

The liquidity for the SLF is strong after factoring in the FLF available for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

Rating sensitivities

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

Negative factors – Pressure on the ratings could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency of <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 ratings.

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 originator

CIFCL, a non-banking financial company, is a part of the Chennai-based Murugappa Group of companies. Incorporated in 1978, it operates through 1,438 branches across 29 states and Union Territories (UTs) with net assets under management (AUM) of Rs. 1,55,442 crore as of June 2024. Its core business segments include vehicle finance (57%) and home equity (HE) loans (21%). CIFCL has forayed into three new business divisions in the consumer and small and medium enterprises (SME) ecosystem, namely Consumer & Small Enterprise Loan (CSEL), Secured Business & Personal Loans (SBPL) and SME, which contributed 13% to the AUM while housing finance accounted for the rest (9%). As of June 2024, CIFCL had two wholly-owned subsidiaries, Cholamandalam Home Finance Limited and Cholamandalam Securities Limited, a joint venture with Payswiff Technologies Private Limited, and an associate entity – Vishvakarma Payments Private Limited.

CIFCL (standalone) reported a net profit of Rs. 3,423 crore on a managed asset base of Rs. 1,60,194 crore in FY2024 compared with Rs. 2,666 crore and Rs. 1,17,607 crore, respectively, in FY2023. It reported a provisional net profit of Rs. 942 crore on a managed asset base of Rs. 1,76,516 crore in Q1 FY2025.

CIFCL (consolidated) reported a net profit of Rs. 3,411 crore on a managed asset base of Rs. 1,60,429 crore in FY2024 compared with Rs. 2,677 crore and Rs. 1,17,718 crore, respectively, in FY2023.

Key financial indicators (audited)

CIFCL	FY2023	FY2024	Q1 FY2025
Total income	12,978	19,216	5,829
Profit after tax	2,666	3,423	942
Total managed assets ⁵	1,17,607	1,60,194	1,76,516
Gross stage 3	3.0%	2.5%	2.6%
CRAR	17.1%	18.6%	18.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Oct 18, 2024	Sep 03, 2024			
PLATINUM TRUST AUG 2024 - TRANCHE III	PTC Series A	998.06	997.90	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
	Second loss facility	14.97	14.97	[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](#)

⁵ Total assets (as per balance sheet) + Assignment book+ Impairment loss allowance; for Q1 FY2025, total managed assets = Rs. 1,72,680.5 crore + Rs. 1,127.6 crore + Rs. 2,780.0 crore = Rs. 1,76,516 crore

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 AUG 2024 - TRANCHE III	PTC Series A	August 30, 2024	8.32%	August 25, 2029	997.90	[ICRA]AAA(SO)
	Second loss facility		-		14.97	[ICRA]A-(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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