

December 05, 2024

Cholamandalam Investment and Finance Company Limited: Provisional [ICRA]AAA(SO) assigned to PTC Series A1 backed by vehicle loan receivables issued by PLATINUM TRUST NOV 2024 - TRANCHE I

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
PLATINUM TRUST NOV 2024 - TRANCHE I	PTC Series A1	822.25	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
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Rationale

The pass-through certificates (PTCs) are backed by a pool of vehicle loan receivables originated by Cholamandalam Investment and Finance Company Limited {CIFCL/Originator; rated [ICRA]AA+ (Positive)} with an aggregate principal outstanding of Rs. 903.57 crore (pool receivables of Rs. 1,201.03 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected 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 A1 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.00% of the initial pool principal, amounting to Rs. 27.11 crore, to be provided by the Originator, (ii) subordination of 9.00% of the initial pool principal for PTC Series A1, and (iii) the EIS of 18.38% of the initial pool principal for PTC Series A1.

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 four 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 36,194 contracts, with the top 10 obligors forming only 1.36% 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 ~8 months with no delinquent contracts as on the cut-off date. This reflects the relatively better credit profile of the borrowers, 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 ~62% (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 3.00% 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 rating for the instrument.

Liquidity position: Superior

The liquidity for PTC Series A1 is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~6.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating 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 rating.

Analytical approach

The rating action is based on the analysis of the performance of CIFCL’s portfolio till June 2024, 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 ratings

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 ratings 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 1,508 branches across 29 states and Union Territories (UTs) with net assets under management (AUM) of Rs. 1,64,642 crore as of September 2024. Its core business segments include vehicle finance (56%) and home equity (HE) loans (20%). CIFCL has forayed into three new business divisions in the consumer and small and medium enterprise (SME) ecosystem, namely Consumer & Small Enterprise Loan (CSEL), Secured Business & Personal Loans (SBPL) and SME, which contributed 14% to the AUM while housing finance accounted for the rest (10%). As of September 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 in FY2024 on a managed asset base of Rs. 1,60,194 crore compared with a net profit of Rs. 2,666 crore on a managed asset base of Rs. 1,17,607 crore in FY2023. In Q1 FY2025, it reported a provisional net profit of Rs.942 crore on a managed asset base of Rs.1,76,516 crore.

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	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; Amount in Rs. crore

Status of non-cooperation with previous CRA: 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
				Dec 05, 2024	-	-	-
PLATINUM TRUST NOV 2024 - TRANCHE I	PTC Series A1	822.25	822.25	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	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](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
PLATINUM TRUST NOV 2024 - TRANCHE I	PTC Series A1	November 28, 2024	8.12%	April 20, 2031	822.25	Provisional [ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Kumar Pramanik

+91 22 6114 3400

sumit.pramanik@icraindia.com

Rushabh Gohel

+91 22 6114 3450

rushabh.gohel@icraindia.com

Abhishek Jena

+91 22 6114 3432

abhishek.jena@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar

+91 22 6114 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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