December 19, 2024

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)	2,977.5	4,227.5	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount
Non-convertible debentures	4,450.0	4,450.0	[ICRA]AAA (Stable); reaffirmed
	400.0	0.0	[ICRA]AAA (Stable); reaffirmed and withdrawn
	0.0	1,000.0	[ICRA]AAA (Stable); assigned
Commercial paper	1,500.0	1,500.0	[ICRA]A1+; reaffirmed
Total	**9,327.5**	**11,177.5**	

**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 (Positive) 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, its robust underwriting practices and risk management policies, and its diversified borrowing profile. However, the margins remain under pressure on account of the competitive scenario and the rising interest rates. This led to the net profitability {profit after tax/average managed assets (PAT/AMA)} remaining lower at 0.1% in H1 FY2025 (0.5% in FY2024) vis-à-vis 1.4% in FY2023. Incrementally, TFSIN's profitability is likely to become steady in FY2026, in line with the expected stabilisation of the cost of funds.

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 support of the TMC Group.

ICRA has simultaneously reaffirmed and withdrawn the long-term rating outstanding on the Rs. 400-crore non-convertible debentures (NCDs) as the instruments have been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

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 18.4% as on September 30, 2024, supported by timely equity infusions from TFSC. TFSC has infused equity capital of Rs. 2,600 crore in the company since its inception, of which Rs. 350 crore was received in H1 FY2025 and Rs. 610 crore in FY2024. 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 4.5 times as on September 30, 2024 (4.3 times as on March 31, 2024 and 3.7 times as on March 31, 2023).

The company has strong growth plans for the near term and is expected to raise additional equity capital in H2 FY2025. ICRA expects TFSIN to maintain comfortable capitalisation over the near-to-medium term.

Adequate asset quality – TFSIN's gross and net stage 3 assets remained stable at 3.0% and 1.4%, respectively, as of September 2024 vis-à-vis 3.0% and 1.3%, respectively, as of March 2024 (4.1% and 1.9%, respectively, as on March 31, 2023), due to the relatively controlled slippages in the retail as well as dealer financing segments. The company follows an outsourced collection model with the in-house collection team closely monitoring the outsourced agencies.

TFSIN's overall provisions declined to 2.5% of the loan book as of September 2024 from 2.6% as of March 2024 and 3.3% as of March 2023, in line with the reduction in delinquencies; however, the provisions remain adequate. 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 FY2024. Toyota Kirloskar Motors (TKM) also recorded a 41.8% increase in sales volume in the past one year. TFSIN has increased its financing penetration to around 18% during H1 FY2025 up from 16% in FY2024 and given the increasing ticket size, its loan book grew by 51.8% year-on-year (YoY) to Rs. 13,587.3 crore as of March 2024. Further, TFSIN's assets under management (AUM) grew by 19% on a sequential basis in H1 FY2025 to Rs. 16,185.4 crore as of September 2024. The company would continue to scale up its loan book at a healthy pace in the near-to-medium term, supported by the strong traction witnessed for Toyota's existing models as well as the planned launch of new variants by TKM. TFSIN is also expected to diversify its presence to used cars loans, though the AUM derived from this segment would remain modest in the near-to-medium term. It is also expected to derive benefits 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. The return on average managed assets (RoMA) was declined to 0.1% in H1 FY2025 from 0.5% in FY2024 and 1.4% in FY2023, predominantly on account of a decline in the interest margins. The operating expenses were under control and stood at 1.8% in FY2024 vis-à-vis 2.2% in FY2023; the company will continue to invest to support its incremental digitisation initiatives. Going forward, TFSIN's ability to improve 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 September 30, 2024, reflected positive cumulative mismatches up to one year. As on September 30, 2024, TFSIN's liquidity position remained strong, supported by free cash and liquid investments of Rs. 560.6 crore and unutilised sanctioned funding lines of Rs. 3,987.3 crore. The company has debt repayments of Rs. 3,306.7 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, 2024, the total borrowing of Rs. 13,303.4 crore was fairly diversified across bank lines (37%), NCDs (31%), external commercial borrowing loans (25%) and commercial paper (8%).

Rating sensitivities

Positive factors – Not applicable

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 Policy on Withdrawal of Credit Ratings
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, it offers financing for 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	FY2023	FY2024	H1 FY2025*
Total income	740.7	1,035.8	693.2
Profit after tax	124.0	54.7	10.6
Total managed assets	9,632.8	14,567.8	17,092.9
Return on assets	1.4%	0.5%	0.1%
Gross gearing (times)	3.7	4.3	4.5
Gross stage 3	4.1%	3.0%	3.0%
CRAR	22.1%	19.4%	18.4%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Provisional; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)					Chronology of rating history for the past 3 years					
	FY2025			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	19-Dec-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term / short term-others-fund based	Long Tem/Short Term	4227.5	[ICRA]AAA (Stable)/[ICRA] A1+	25-JUN-2024	[ICRA]AAA (Stable)/[ICRA]A1+	11-MAY-2023	[ICRA]AAA (Stable)/[ICRA] A1+	20-DEC-2022	[ICRA]AAA (Stable)/[ICRA] A1+	-	-
				-	-	01-AUG-2023	[ICRA]AAA (Stable)/[ICRA] A1+	24-FEB-2023	[ICRA]AAA (Stable)/[ICRA] A1+	-	-
				-	-	27-DEC-2023	[ICRA]AAA (Stable)/[ICRA] A1+	-	-	-	-
Commercial paper	Short Term	1500.0	[ICRA]A1+	25-JUN-2024	[ICRA]A1+	11-MAY-2023	[ICRA]A1+	20-DEC-2022	[ICRA]A1+	30-JUL-2021	[ICRA]A1+
				-	-	01-AUG-2023	[ICRA]A1+	24-FEB-2023	[ICRA]A1+	27-DEC-2021	[ICRA]A1+
				-	-	27-DEC-2023	[ICRA]A1+	-	-	-	-
Non-convertible debentures	Long Term	5450.0	[ICRA]AAA (Stable)	25-JUN-2024	[ICRA]AAA (Stable)	11-MAY-2023	[ICRA]AAA (Stable)	20-DEC-2022	[ICRA]AAA (Stable)	30-JUL-2021	[ICRA]AAA (Stable)
				-	-	01-AUG-2023	[ICRA]AAA (Stable)	24-FEB-2023	[ICRA]AAA (Stable)	27-DEC-2021	[ICRA]AAA (Stable)
				-	-	27-DEC-2023	[ICRA]AAA (Stable)	-	-	-	-

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	4,277.5	[ICRA]AAA (Stable)/[ICRA]A1+
INE692Q07340	NCD	Jun-30-21	5.68%	Jun-28-24	200.0	[ICRA]AAA (Stable); withdrawn
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); withdrawn
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)
INE692Q07480	NCD	Jan-19-24	8.36%	Mar-19-27	325.0	[ICRA]AAA (Stable)
INE692Q07472	NCD	Jan-19-24	8.32%	Jan-19-29	150.0	[ICRA]AAA (Stable)
INE692Q07498	NCD	Feb-26-24	8.30%	Jan-25-27	200.0	[ICRA]AAA (Stable)
INE692Q07506	NCD	May-31-24	8.17%	May-21-27	265.0	[ICRA]AAA (Stable)
INE692Q07514	NCD	Jul-16-24	8.20%	Jul-16-29	125.0	[ICRA]AAA (Stable)
INE692Q07522	NCD	Sep-29-24	8.18%	Sep-29-27	300.0	[ICRA]AAA (Stable)
-	NCD – Proposed	-	-	-	2,060.0	[ICRA]AAA (Stable)
INE692Q14BC9	CP	Apr-22-24	NA	Feb-27-25	75.0	[ICRA]A1+
INE692Q14BH8	CP	Jul-12-24	NA	Jan-27-25	225.0	[ICRA]A1+
INE692Q14BI6	CP	Jul-18-24	NA	Jun-30-25	200.0	[ICRA]A1+
INE692Q14BC9	CP	Sep-06-24	NA	Feb-27-25	25.0	[ICRA]A1+
INE692Q14BK2	CP	Sep-19-24	NA	Aug-25-25	100.0	[ICRA]A1+
INE692Q14BL0	CP	15-Oct-24	NA	15-Oct-25	300.0	[ICRA]A1+
INE692Q14BM8	CP	18-Oct-24	NA	19-Sep-25	100.0	[ICRA]A1+
INE692Q14BN6	CP	07-Nov-24	NA	07-Feb-25	275.0	[ICRA]A1+
	CP – Proposed				200.0	[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

ANALYST CONTACT

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Ajay Bathija
+91 22 6114 3448
ajay.bathija@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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