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September 28, 2017

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor
Plot No.C/1, G Block
Bandra-Kurla Complex
Bandra (E), Mumbai 400 051.

BSE Limited
Corporate Relationship Department
1st Floor, New Trading Ring, Rotunda Building,
Phiroze Jeejeebhoy Towers, Dalal Street, Fort
Mumbai 400 001.

Dear Sir,

Sub: Credit Rating for Commercial Paper – CARE Rating Limited

We wish to inform you that Care Rating Limited vide their letter dated today have assigned the credit rating for Commercial Papers for Rs.5000 crores as CARE A1+.

The Press Release being released for publication by Care Rating Limited is enclosed for reference.

Kindly take the above information on record and acknowledge receipt.

Thanking you,

Yours faithfully,
For Cholamandalam Investment and Finance Company Limited

D Arul Selvan
Executive VP & CFO

Encl.: As above

Cholamandalam Investment and Finance Company Ltd.

Dare House, 2, N.S.C. Bose Road, Parrys, Chennai 600001, India.

Tel : 91.44.30007172 / Fax : 91.44.25346464

Website : www.cholamandalam.com

CIN – L65993TN1978PLC007576



murugappa

Annexure Press Release

Ratings

Instrument	Amount (Rs. crore)	Ratings ²	Rating Action
Commercial Paper Issue	5,000 (Rupees Five Thousand crore only)	CARE A1+ (A One Plus)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial Paper issue of Cholamandalam Investment and Finance Company Limited (CIFCL) factors in the strong parentage of Murugappa group, established track record of CIFCL in the commercial vehicle financing supported by established pan-India branch network, geographically diversified loan portfolio, comfortable liquidity profile and diversified funding profile. The rating also factors in the continuous improvement in financial performance of the company in the last three years ended March 31, 2017, supported by significant growth in AUM and relatively stable asset quality on comparable basis (90+ dpd & 120+ dpd basis). The rating takes note of moderation in asset quality in Home Equity Segment wherein 90+ dpd has increased from 2.4% as on March 31, 2015 to 5.7% as on March 31, 2017, whereas 90+dpd of Vehicle Finance segment improved from 5.9% to 3.6% during the corresponding period resulting in improvement in 90+dpd of 4.2% of AUM as on March 31, 2017 as against 4.8% as on March 31, 2015.

Going forward, the ability of the company to maintain asset quality in Vehicle Finance segment and improve asset quality in Home equity segment, improve capitalisation and maintain profitability levels while growing its loan portfolio are the key rating sensitivities

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of Murugappa group

The Murugappa group is a well-diversified group in India with presence in several sectors like bicycles, fertilisers, sugar, abrasives, refractors, steel tubes, financial services, etc. The group operates in 28 business lines, with manufacturing facilities spread across 13 states in India. The Murugappa group holds around 53.08% (as on June 30, 2017) in CIFCL. The group companies of CIFCL include Tube Investments of India Limited, EID Parry (India) Limited, Coromandel International Limited and Carborundum Universal Limited. The Group recorded a turnover of Rs.30,023 crore during FY17 (refers to the period April 01 to March 31), with EBIDTA of Rs.4,065 crore and PBT of Rs.2,973 crore.

Established track record of CIFCL supported by established pan-India branch network

CIFCL has an experienced key management team which has been with the group for more than a decade, on an average. Mr N. Srinivasan, MD has experience of more than three decades in the industry and was earlier non-executive director in the board of CIFCL since 2006. With more than three decades of existence, CIFCL has built up a strong franchise across India.

² Complete definition of the ratings assigned are available at www.careratings.com

Geographically diversified loan portfolio

During FY17, the company has expanded its branch network from 534 to 703. With addition of these new branches across geographies, Southern India accounts for 29 % of branch network followed by Northern India (24%), Western India (24%) and Eastern India (23%). In terms of portfolio outstanding, top 4 states contribute around 42% of AUM as on March 31, 2017 (PY: 42%) with top state contributing 11.2% as on same date.

Continuous improvement in financial performance supported by significant improvement size

During the period from FY15-FY17, total income grew at CAGR of 13% supported by growth in AUM. The total income has increased from Rs.3,691 crore in FY15 to Rs.4,660 crore in FY17. During the same period, AUM and loan portfolio witnessed CAGR of 14%. Growth in this period was supported by equity infusion and internal accruals with net worth growing at CAGR of 23% while total debt growing at CAGR of 10% during the period under reference. Same has resulted in improvement in leverage and Tier-I CAR with, Tier-I CAR improving from 13.02% as on March 31, 2015 to 13.61% as on March 31, 2017.

Profitability parameters have also seen continuous improvement with NIM and ROTA improving continuously. NIM remained at 8.29% in FY17 (PY: 8.29%) with decrease in cost of borrowings in line with drop in yield during the period. During FY17, there has been an increase in employee expenses due to the expansion of branches from 534 in FY16 to 703 in FY17. ROTA improved from 2.21% during FY16 to 2.48% during FY17 on account of lesser credit costs.

During Q1FY18, the company generated total income of Rs.1,235 crore registering growth of 11% and PAT of Rs.207 crore as against Rs.165 crore during Q1FY17 (Y-o-Y growth of 25%).

Adequate capitalisation levels and comfortable liquidity profile

As on March 31, 2017, CAR and Tier-I CAR stood at 18.64% and 13.61% as against 19.68% and 13.26% as on March 31, 2016 respectively. CIFCL has been able to attract equity infusion from promoters and various investors in the past (Rs.250 crore in FY11, Rs.212 crore in FY12, Rs.300 crore in FY13 and Rs.500 crore in FY15). ALM stood comfortable with no cumulative mismatches in any of the time buckets.

Diversified funding profile

CIFCL's bank borrowings are diversified with borrowings from various banks which include a good mix of both public and private sector banks. Bank borrowing as a % of total borrowing has declined from 49% as on March 31, 2016 to 32% as on March 31, 2017, whereas the borrowings from NCD has increased from 22% as on March 31, 2016 to 43% as on March 31, 2017. As a result, the average cost of borrowings decreased from 9.75% in FY16 to 9.54% in FY17. CIFCL has also been mobilising funds through securitisation route.

Relatively stable asset quality on comparable basis; while HE segment witnessed moderation in asset quality vehicle finance shown improvement in asset quality

During FY17, CIFCL has changed its NPA recognition from 120+ DPD to 90+ DPD which resulted in moderation in reported asset quality. GNPA and NNPA (90+ DPD) stood at 4.66% and 3.19% (on AUM

basis) as on March 31, 2017. On a comparable basis considering 120+ dpd, GNPA and NNPA stood at 3.54% (PY: 3.55%) and 2.17% (PY: 2.14%) as on March 31, 2017.

90+ DPD for vehicle finance has improved from 4.4% of AUM as on March 31, 2016 to 3.5% of AUM as on March 31, 2017. While the asset quality has improved in vehicle finance segment, the same has been off-set by increase in NPAs in Home Equity. Though, the level of NPA is in increasing trend in HE segment, there have been no losses in the segment as the loans are backed by adequate collateral which are predominantly self-occupied residential property and the average LTV is lower in the segment. With focus on asset quality, CIFCL has slowed down the disbursement in HE during FY17.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial Ratios-Financial Sector

CARE's Rating Methodology for Non-Banking Finance Companies (NBFCs)

About the Company

CIFCL is a Non-Banking Finance Company promoted by the Chennai-based Murugappa group, having a track record of over three decades. As on June 30, 2017, the promoter group held 53.08% stake in CIFCL. At present, CIFCL has major presence in the segments such as Vehicle Financing (VF, mainly new Commercial Vehicles), Home Equity (HE, which is Loan against Property – Retail), Home loans and MSME. The share of VF & HE segments accounted for around 97% of the total AUM of the company as on March 31, 2017. The company also lends Home loans and Agricultural loans, however share of these segments in total AUM was negligible as on March 31, 2017.

The company has 703 branches as on March 31, 2017 (PY: 534 branches) spread across 25 states/UTs across India with AUM of Rs.34,678 crore, of which share of Vehicle Finance was 69% and Home Equity was 28% as on March 31, 2017.

Brief Financials (Rs.crore)	FY16(A)	FY17(A)
Total Income	4,193	4,660
PAT	568	719
Interest coverage(times)	1.42	1.50
Total Assets	27,607	30,406
Net NPA (%)	2.14\$	3.19#
ROTA (%)	2.21	2.43

A-Audited \$based on 120+dpd; #based on 90+dpd

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr P Sudhakar
Tel: 044-2850 1003
Mobile: 9442228580
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.