

India Ratings Affirms Fullerton India and its NCDs at 'IND AA+' / Stable

Ind-Ra-Mumbai-08 January 2018: India Ratings and Research (Ind-Ra) has affirmed Fullerton India Credit Company Limited's (FICCL) Long-Term Issuer Rating at 'IND AA+' with a Stable Outlook. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures* (NCDs)	-	-	-	INR3.25	IND AA+/Stable	Affirmed
Subordinated debt*	-	-	-	INR4.25	IND AA+/Stable	Affirmed
Short-term debt	-	-	-	INR2.50	IND A1+	Affirmed

*details in Annexure

KEY RATING DRIVERS

Support-driven Rating: FICCL's ratings factor in the expected support from its parent Fullerton Financial Holdings (FFH), a wholly owned subsidiary of Temasek Holdings Ltd - a sovereign wealth fund of the government of Singapore. The parent has provided regular capital support to FICCL. FFH infused around INR7.4 billion of equity capital into FICCL during FY10-FY17. The capital support has been forthcoming not just to meet the growth requirements but also to strengthen stressed balance sheet (in FY10). Ind-Ra expects the parent to continue to provide funding support for FICCL and the housing finance business. The parent's representation on the board is marked by the CEO of FFH who is the chairman of FICCL. The senior management team from the parent regularly participates in FICCL's monthly reviews of liabilities and credit risks through appropriate committees.

Comfortable Liquidity: FICCL's asset liability profile is well matched, given the higher proportion of long-term bank loans and NCDs. The company also maintains adequate on-balance sheet liquidity sufficient to meet a minimum of three months of outflows. FICCL restricts short-term funding and prefers nine to 12 months commercial papers instead of very short-tenor papers to better match its assets and liabilities. FICCL has banking limits from a diverse set of banks and has access to over 150 institutional lenders, comprising pension funds, insurance companies and mutual funds. In FY17, FICCL also raised funds by way of masala bonds in a bid to diversify the funding sources. FICCL has also focussed on increasing its funding from development financial institutions which do not have capital constraints. FICCL plans to further diversify, by raising funds through retail bonds in FY19-FY20.

Adequately Capitalised: FICCL has healthy capitalisation buffers (Tier I; 1HFY18: 16.4%, FY17: 16.3%). FICCL received a capital infusion of INR2 billion in FY17 from the parent to support growth of the housing finance business. Management expects a further round of capital infusion in FY19 to meet the business requirements of FICCL and housing finance business. FICCL's overall gearing stood at 4.73x on 31 March 2017 (FY16: 5.07x). At the current level of capitalisation, in Ind-Ra's view, FICCL can grow its portfolio at around 20% without any further capital infusion.

Demonetisation-led Rise in Credit Costs in Rural Segment: FICCL witnessed a rise in credit costs in the loan against property (LAP) and rural segments which together accounted for 60% of assets under management in 1HFY18 (September 2017; LAP: 32%, rural: 26%), as delinquencies increased. The company continues to report high delinquency in these segments (rural segment; 1HFY18: gross and net NPA: 2.3% and 1.1%, FY16: 0.08% and 0.06%, LAP; 1HFY18: gross and net NPA: 7.0% and 4.6%, FY16: 3.5% and 2.3%). Operating profit buffers declined due to a rise in credit cost (1HFY18: 1.4x, average for FY13-FY16: 3.1x). It incurred a loss of INR486 million in 1QFY18; however, made a profit of INR1.2 billion in 2QFY18. FICCL maintains that collection efficiency has improved in rural areas barring some geographies which were more impacted

(accounting for 2% of the total portfolio), however its favourable impact on credit cost remains to be seen. In Ind-Ra's view, SME segment continues to be under pressure which can delay the recovery in the LAP portfolio.

Focus to Shift towards Product Extensions: The company is planning to introduce new products and increase the proportion of secured products (micro LAP, two wheeler financing) in rural areas. While the granularity and secured nature of these products may prove to be helpful, these segments are also marked by competition.

Impact on Profitability: FICCL's profitability was subdued in FY17 and 1HFY18 due to a rise (primarily due to demonetisation) in credit cost (average for FY13-FY16: 2.1%, FY17: 3.1%, 1HFY18: 4.1%). However, FICCL has consistently maintained net interest margins above 9%. Operating cost are on the higher side (1HFY18: 6.1%, FY17: 5.6%) but may reduce with increased digitisation, more focus on in-house sourcing and benefits of operating leverage. Hardening of interest rates would lead to a rise in incremental funding rates though the mix of fixed and floating rate liabilities would cushion the impact to some extent. As per Ind-Ra's estimates, profitability will remain low in FY18 and control on credit cost and saving of operating cost would drive the profitability over the medium term.

RATING SENSITIVITIES

Positive: Growth in the scale of operations resulting in an established franchisee while maintaining through-the-cycle operating and capital buffers could lead to a positive rating action.

Negative: A change in the ownership structure or decline in support expectation from FFH could lead to a negative rating action.

RATING CRITERIA

'Financial Institutions Rating Criteria', and 'Rating FI Subsidiaries and Holding Companies' all dated 1 December 2015, are available at www.indiaratings.co.in.

COMPANY PROFILE

FICCL is a systemically important deposit-taking NBFC, established in 2005. It is a wholly owned subsidiary of FFH. At end-FY17, it had an AUM of INR116 billion, comprising personal loans, loan against property, commercial vehicle loans and rural lending. On 31 March 2017, FICCL had a network of 526 branches, covering 48,000 villages and catering to 1.7 million customers. In FY17, FICCL made a net profit after tax of INR2.1 billion on a total income of INR26.4 billion.

FINANCIAL SUMMARY

Particulars	FY17	FY16
Total assets (INR billion)*	141.3	131.8
Total equity (INR billion)	23.2	20.1
Net income after tax (INR billion)	2.1	4.0
Return on average assets* (%)	1.57	3.43
Tier 1 capital (%)	16.28	16.14
Source: Annual report and Ind-Ra analysis		
*adjusted for deferred tax assets and intangible assets		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	21 December 2016	24 November 2015	1 December 2014

Issuer rating	Long-term/Short term	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+
NCDs	Long-term	INR3.25	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+
Subordinated debt	Long-term	INR4.25	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+
Short-term debt	Long-term	INR2.50	IND A1+	IND A1+	IND A1+	IND A1+

ANNEXURE

NCDs

ISIN	Date Of Issue	Coupon (%)	Date Of Maturity	Issue size (billion) on 30 September 2017	Rating/Outlook	Rating Action
INE535H07308	22 May 2013	9.85	22 May 2023	INR0.40	IND AA+/Stable	Affirmed
INE535H07316	14 June 2013	9.30	14 June 2018	INR0.50	IND AA+/Stable	Affirmed
INE535H07357	5 November 2013	10.45	3 November 2023	INR0.25	IND AA+/Stable	Affirmed
INE535H07712	30 November 2015	9.10	29 November 2019	INR0.40	IND AA+/Stable	Affirmed
INE535H07720	30 November 2015	9.10	30 November 2020	INR0.25	IND AA+/Stable	Affirmed
INE535H07811	29 April 2016	8.95	29 April 2021	INR0.18	IND AA+/Stable	Affirmed
INE535H07829	10 May 2016	8.95	10 May 2021	INR0.10	IND AA+/Stable	Affirmed
			Total Unutilised	INR1.17		
			Total	INR3.25		

Subordinated debt

ISIN	Date Of Issue	Coupon (%)	Date Of Maturity	Issue size (billion) on 30 September 2017	Rating/Outlook	Rating Action
INE535H08512	14 September 2012	11.25	14 June 2018	INR0.519	IND AA+/Stable	Affirmed
INE535H08520	14 September	11.40	14 September	INR0.481	IND AA+/Stable	Affirmed

ISIN	Date Of Issue	Coupon (%)	Date Of Maturity	Issue size (billion) on 30 September 2017	Rating/Outlook	Rating Action
	2012		2022			
INE535H08538	28 September 2012	11.25	28 June 2018	INR0.100	IND AA+/Stable	Affirmed
INE535H08546	28 September 2012	11.40	28 September 2022	INR0.400	IND AA+/Stable	Affirmed
INE535H08553	30 October 2012	11.40	28 October 2022	INR0.500	IND AA+/Stable	Affirmed
INE535H08579	28 October 2013	10.50	27 October 2023	INR0.50	IND AA+/Stable	Affirmed
INE535H08595	10 June 2015	9.50	10 June 2025	INR0.25	IND AA+/Stable	Affirmed
INE535H08603	10 June 2015	9.40	10 June 2022	INR0.20	IND AA+/Stable	Affirmed
INE535H08629	3 August 2015	9.40	3 August 2022	INR0.25	IND AA+/Stable	Affirmed
INE535H08660	25 February 2016	9.30	25 April 2023	INR0.25	IND AA+/Stable	Affirmed
INE535H08678	25 February 2016	9.30	25 February 2026	INR0.25	IND AA+/Stable	Affirmed
INE535H08686	23 March 2016	9.25	23 March 2026	INR0.25	IND AA+/Stable	Affirmed
INE535H08694	3 May 2016	9.30	30 April 2026	INR0.21	IND AA+/Stable	Affirmed
			Total Unutilised	INR0.09		
			Total	INR4.25		

COMPLEXITY LEVEL OF THE INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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