

Fullerton India Credit Company Limited

March 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	4,000	8,000	[ICRA]AA+(Stable); Assigned/ Outstanding
Issuer Rating	NA	NA	[ICRA]AA+ (Stable); Outstanding
Non-convertible debenture programme	4,254	4,254	[ICRA]AA+ (Stable); Outstanding
Subordinate debt programme	950	950	[ICRA]AA+ (Stable); Outstanding
Short-term debt programme	3,000	3,000	[ICRA]A1+; Outstanding
Total	12,204	16,204	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs. 8,000 crore¹ (enhanced from Rs. 4,000 crore) long-term bank lines of Fullerton India Credit Company Limited (FICCL)². The outlook on the long-term rating is 'Stable'.

ICRA also has an issuer rating outstanding of [ICRA]AA+ on the company and ratings of [ICRA]AA+ on the Rs. 4,254 crore non-convertible debenture programme and Rs. 950 crore subordinate debt programme of the company. The outlook on the long-term rating is 'Stable'. ICRA also has rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 3,000 crore short-term debt programme of the company.

Rationale

The ratings factor in the diversified product profile, pan India presence, adequate capitalisation levels, comfortable liquidity profile, robust operating profitability and strong risk management systems and processes. Further, the ratings draw comfort from the strong parentage of FICCL by virtue of it being an indirect fully owned subsidiary of the Temasek Group via Fullerton Financial Holdings. The credit strengths were temporarily affected by the onetime impact on asset quality of the rural portfolio due to demonetization. Subsequently FICCL had made an extraordinary one-time provision. This had also temporarily impacted the asset quality indicators. Disbursals have increased since the demonetization period, and have exceeded FY2016 levels, overdues in rural group segment have also reduced with encouraging collections seen in Q3 FY2018. ICRA takes note of the increased competition in the retail lending segment, where the company primarily operates, and the higher share of the unsecured lending business in considering its profitability prospects but recognises that this portfolio has performed reasonably well through various macro conditions.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes FICCL will continue to benefit from its diversified product profile, pan India presence, adequate capitalisation levels, strong parentage, comfortable liquidity profile, robust operating profitability and strong risk management systems and processes. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and improved asset quality, strengthens the financial risk profile. The outlook may be revised to 'Negative' if there is sharp deterioration in asset quality or material change in ownership structure.

Key rating drivers

Credit strengths

Comfortable capitalisation levels – The Company's capitalisation levels have remained adequate and well above regulatory requirement, mainly supported by healthy internal accruals over the last few years. During FY2017, FFH infused Rs. 200 crore into FICCL, which was further invested into its housing finance subsidiary. The company's capital adequacy ratio remains strong at 20.1% as on December 31, 2017 (Tier I of 15.7%) compared to 22.5% as on March 31, 2017 (Tier I of 16.3%) which are much above the regulatory requirement of 15% (Tier 1 of 10%). The company's gearing remains comfortable at 4.3 times as on December 31, 2017 (4.4 times as on March 31, 2017 and 4.8 times as on March 31, 2016) thereby providing cushion for future growth without necessary capital infusion.

Strong liquidity profile and a diversified funding profile – FICCL maintains a sound and conservative liquidity profile with negligible asset liability mismatches, supplemented by its committed bank lines, diversified lender base, low reliance on short term funding and the company's policy to maintain adequate internal cash buffers. FICCL generally maintains a liquidity buffer, exceeding at least a month's projected outflows in a combination of cash equivalents and high-quality liquid investments. FICCL has a diversified funding base which includes bank and market-based borrowings. ICRA also notes that FICCL concluded two overseas Rupee Denominated Bond Issuances (Masala Bonds) in October 2016 and September 2017 thereby diversifying its funding profile further.

Strong parentage – FICCL is a wholly-owned subsidiary of Fullerton Financial Holding Pte Limited (FFH) which, in turn, is a wholly-owned subsidiary of Temasek Holdings, Singapore (rated Aaa/Stable by Moody's Investors Service). The strategic importance of the company to its parent follows from the fact that it seems to fit in with the parent's focus on the SME and the mass market customer segments across Asia. FICCL also benefits from the parent's strong brand franchise and close association with its operations. FFH (the immediate parent) is involved in strategy development, financial planning and execution in FICCL.

Strong risk-management systems and processes – Over the years, the company has developed strong risk management systems and processes, evident through its active use of technology to understand product-level and region-level life-time profitability under stressed scenarios and its effort to proactively alter the portfolio mix. In ICRA's view, the risk management systems and processes of FICCL are adequate for its current scale of operations and future growth plans.

Operating profitability remains stable – Net interest margins of FICCL improved by 36 bps during FY2017 due to a slight increase in proportion of higher yielding unsecured loans and decline in cost of funds. With operating expenses of the company slightly declining to 5.5% of average total assets³ (ATA) during FY2017 as compared to 5.9% of ATA during FY2016, the operating profitability improved to 5.7% of ATA during FY2017 from 5.1% of ATA during FY2016. Due to the onetime effect of Demonetization, which primarily affected rural group loan portfolio, credit costs increased to 3.6% of ATA during FY2017 as compared to 1.7% of ATA during FY2016 impacting the profitability of FICCL with the pre-tax return on average assets (ROA) and the pre-tax return on average net worth (RONW) declining to 2.4% and 14.5% respectively during FY2017, compared to 3.7% and 23.8% respectively during FY2016. During 9M FY2018, on an annualised basis, the

³ FY2016 numbers had only 3 months tax impact.

ROA and the RONW were reported at 2.6% and 15.0% respectively. The company expects its profitability indicators to improve in FY2018, as in YTD-FY2018, the non-rural portfolio of the company remained stable and profitable.

Credit challenges

Impact of demonetization on asset quality during FY2017 - During FY2017, FICCL's AUM growth dropped to 8% from 33% in FY2016 due to a management decision to temporarily limit fresh disbursements in rural segment and the normal impact of run-offs and repayments. The total AUM was Rs. 11,597 crore as on March 31, 2017. During 9MFY2018, the growth improved to 25% (annualised) and AUM was Rs. 13,811 crore as on December 31, 2017. Post demonetisation, the delinquencies in rural group loan book increased due to unavailability of cash and political interference which then stabilised in H1FY18. Consequently, gross and net NPAs of the company increased in Q4FY2017. Rural disbursements have now surpassed pre-demonetization levels. 9MFY2018 saw an improvement in asset quality indicators (adjusting for RBI forbearance). Within rural segment, the non-group loan portfolio was significantly less impacted. Rural group loan as a share of the rural book was consciously reduced from 65.8% at end of March 31, 2016 to 53.8% at end December 31, 2017 with the consequent outcome of cushioning the one-off impact of demonetization. Personal loans, mortgage loans, rural loans and commercial vehicle loans formed 34%, 33%, 26% and 7% of the AUM respectively as on December 31, 2017. The company continues to diversify its portfolio both in urban and rural businesses.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

Fullerton India Credit Company Limited (FICCL) commenced its operations in January 2006 catering primarily to self-employed borrowers. It is a wholly-owned subsidiary of Fullerton Financial Holding Pte Limited (FFH)⁴. FICCL's secured lending portfolio consists of mortgage loans to retail customers and small and medium enterprises (SMEs), commercial vehicle (CV) loans and secured rural loans such as two-wheeler loans, CV and mortgage loans. The unsecured portfolio comprises personal loans to salaried and self-employed individuals, and group and individual loans in the rural space. The company operates out of 525 branches. During FY2017, FICCL reported a profit before tax (PBT) of Rs. 331 crore on a total income of Rs. 2,643 crore, compared to a PBT of Rs. 430 crore on a total income of Rs. 2,277 crore in FY2016. During 9MFY2018, FICCL reported a PBT of Rs. 292 crore on a total income of Rs. 1,952 crore.

⁴ Wholly owned subsidiary of Temasek Holdings, Singapore

Key financial indicators

	FY2016	FY2017	9MFY2018
Net interest income	1,196	1,479	1,191
Operating income	1,288	1,577	1,239
Profit before tax	430	331	292
Profit after tax	397	214	186.75
Total portfolio	11,508	11,597	13,811
Net worth	2,076	2,495	2,684
Total assets	13,446	14,674	15,426
% Tier 1	16.1%	16.3%	15.7%
% CRAR	21.9%	22.5%	20.1%
Gearing	4.8	4.4	4.3
% Net profit/average total assets (annualised)	3.38%	1.53%	1.65%
% Return on net worth	22.0%	9.4%	9.6%
% Gross NPAs ⁵	2.0%	3.3%	3.0%
% Net NPAs	1.3%	2.3%	2.1%
Net NPA/Net worth	6.8%	10.3%	10.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

⁵ FICCL classifies NPAs at 90 dpd

Rating history for last three years:

S. No.	Instrument	Type	Current Rating (FY2018)		March 2018	Chronology of Rating History for the past 3 years						
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2018 November 2017	FY2017 October 2016	FY2016 April 2016	October 2015	May 2015	FY2015 November 2014	August 2014
1	Non-Convertible Debenture	Long Term	4,254	2,210	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)
2	Issuer Rating	Long Term	NA	NA	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)
3	Long Term Bank Lines	Long Term	8,000	4,463	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)
4	Subordinated Debt Programme	Long Term	950	450	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]A A+ (stable)	[ICRA]AA+ (stable)
5	Short Term Debt Programme	Short Term	3,000	NA	[ICRA]A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A 1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE535H07282	Non-Convertible Debenture	29-Apr-13	10.60%	28-Apr-23	75	[ICRA] AA+ (stable)
INE535H07290	Non-Convertible Debenture	8-May-13	9.50%	7-May-18	100	[ICRA] AA+ (stable)
INE535H07308	Non-Convertible Debenture	22-May-13	9.85%	22-May-23	40	[ICRA] AA+ (stable)
INE535H07316	Non-Convertible Debenture	14-Jun-13	9.30%	14-Jun-18	50	[ICRA] AA+ (stable)
INE535H07357	Non-Convertible Debenture	5-Nov-13	10.45%	3-Nov-23	25	[ICRA] AA+ (stable)
INE535H07373	Non-Convertible Debenture	10-Dec-13	11.00%	10-Dec-18	50	[ICRA] AA+ (stable)
INE535H07381	Non-Convertible Debenture	6-Jan-14	10.90%	7-Jan-19	50	[ICRA] AA+ (stable)
INE535H07431	Non-Convertible Debenture	24-Jun-14	9.90%	24-Jun-19	150	[ICRA] AA+ (stable)
INE535H07449	Non-Convertible Debenture	14-Oct-14	9.85%	14-Apr-20	60	[ICRA] AA+ (stable)
INE535H07456	Non-Convertible Debenture	14-Oct-14	10.00%	30-Dec-21	90	[ICRA] AA+ (stable)
INE535H07589	Non-Convertible Debenture	18-May-15	9.10%	28-May-19	150	[ICRA] AA+ (stable)
INE535H07597	Non-Convertible Debenture	21-May-15	9.20%	28-May-21	150	[ICRA] AA+ (stable)
INE535H07746	Non-Convertible Debenture	17-Dec-15	8.95%	17-Dec-18	15	[ICRA] AA+ (stable)
INE535H07704	Non-Convertible Debenture	19-Nov-15	9.05%	28-Nov-20	150	[ICRA] AA+ (stable)
INE535H07738	Non-Convertible Debenture	15-Dec-15	IDFC MCLR rate (8.75%)	15-Dec-20	400	[ICRA] AA+ (stable)
INE535H07753	Non-Convertible Debenture	30-Dec-15	9.05%	30-Dec-20	150	[ICRA] AA+ (stable)
INE535H07837	Non-Convertible Debenture	13-May-16	8.90%	17-Sep-18	125	[ICRA] AA+ (stable)
INE535H07902	Non-Convertible Debenture	2-Aug-16	8.35%	2-Aug-19	150	[ICRA] AA+ (stable)
INE535H07951	Non-Convertible Debenture	30-Mar-17	8.00%	30-Apr-20	125	[ICRA] AA+ (stable)
INE535H07985	Non-Convertible Debenture	13-Oct-17	8.00%	13-Apr-21	80	[ICRA] AA+ (stable)
INE535H07AA9	Non-Convertible Debenture	13-Nov-17	7.65%	20-Dec-19	25	[ICRA] AA+ (stable)
NA	Non-Convertible Debenture*	-	-	-	2,044	[ICRA] AA+ (stable)
INE535H08512	Subordinated Debt	14-Sep-12	11.25%	14-Jun-18	52	[ICRA] AA+ (stable)
INE535H08520	Subordinated Debt	14-Sep-12	11.40%	14-Sep-22	48	[ICRA] AA+

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
						(stable)
INE535H08538	Subordinated Debt	28-Sep-12	11.25%	28-Jun-18	10	[ICRA] AA+ (stable)
INE535H08546	Subordinated Debt	28-Sep-12	11.40%	28-Sep-22	40	[ICRA] AA+ (stable)
INE535H08553	Subordinated Debt	30-Oct-12	11.40%	28-Oct-22	50	[ICRA] AA+ (stable)
INE535H08579	Subordinated Debt	28-Oct-13	10.50%	27-Oct-23	50	[ICRA] AA+ (stable)
INE535H08587	Subordinated Debt	26-Dec-14	9.60%	26-Dec-24	50	[ICRA] AA+ (stable)
INE535H08637	Subordinated Debt	13-Oct-15	9.50%	13-Oct-25	100	[ICRA] AA+ (stable)
INE535H08645	Subordinated Debt	13-Oct-15	9.40%	13-Oct-22	50	[ICRA] AA+ (stable)
NA	Subordinated Debt*	-	-	-	500	[ICRA] AA+ (stable)
NA	Long Term Bank Lines	2012-2013	-	2022-2023	4,463	[ICRA]AA+ (stable)
NA	Long Term Bank Lines*	-	-	-	3,537	[ICRA] AA+ (stable)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA] AA+ (stable)
NA	Short Term Debt Programme	-	-	7-365 days	3,000	[ICRA]A1+

*Proposed; Source: Company

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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.

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