Fullerton India Credit Company Limited

Instrument	Amount	Rating Action
	(Rs. Crore)	October 2014
Issuer Rating	N.A.	IrAA+(stable) Re-affirmed
Long term bank facilities	4,000	[ICRA]AA+(stable) Re-affirmed
Non Convertible Debentures	4,000	[ICRA]AA+(stable) Re-affirmed
Subordinate Debt Programme	350	[ICRA]AA+(stable) Re-affirmed
Short Term Debt Programme	3,000	[ICRA]A1+ Re-affirmed

The long term rating of [ICRA]AA+(stable) (pronounced ICRA double A plus with stable outlook) has been reaffirmed for the Rs. 4,000 crore Non Convertible Debentures (NCDs), Rs. 4,000 crore Long-term Bank Facilities and Rs. 350 crore Subordinated Debt Programme of Fullerton India Credit Company Limited (FICCL)*. The Issuer Rating of IrAA+ with stable outlook has also been re-affirmed for the company. The short-term rating of [ICRA]A1+(pronounced ICRA A One plus) has been reaffirmed for Rs. 3000 crore short term debt programme of FICCL.

The rating re-affirmation takes into account the improvement in the profitability indicators (Profit After Tax (PAT)/Avg. Total Assets (ATA) of 3.22%, annualised, in Q1 FY2015 vis-à-vis PAT/ATA of 2.93% in FY2014 and 2.99% in FY2013), supported by moderation in cost of funds and improved operating efficiencies, aided by a healthy growth in the portfolio (from Rs. 4,823 crore as on Mar-13 to Rs. 6,674 crore as on Jun-14) with a greater thrust towards secured assets. ICRA has also noted the improvement in the overall asset quality indicators (Gross NPA declining to 1.72% in Mar-14 from 2.11% in Mar-13) on the back of tightened credit underwriting and assessment processes. The ratings continue to take into account the comfortable capitalization levels and the company's strong management team with vast experience in retail finance. Further, the ratings draw comfort from the company's strong parentage (FICCL is a step down subsidiary of Temasek Holdings, rated Aaa/Stable by Moody's Investors Service) and consequently, the benefits from the parent's strong brand franchise and managerial support.

FICCL offers secured as well as unsecured loans. The unsecured portfolio comprises of personal loans to salaried and self employed individuals, and micro loans in the rural space. The 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. While in the past, the company was largely present in the unsecured lending segment, over past 3-4 years, there has been increased focus on the secured segment with higher proportion of disbursements towards the Retail Mortgage and SME Mortgage lending, resulting in higher share of secured assets in the portfolio (~42% as on Jun-14 vis-à-vis ~31% as on Mar-12). With a shift in portfolio mix towards secured lending and more affluent segment, there had been a reduction in the portfolio yields, leading to decline in the net interest margins (11.53%† in FY2014 from 13.72% in FY2012). However, the company's profitability was supported by the improvement in the operating cost structure (Operating expenses/ATA of 7.69% in FY2014 reduced from 9.47% in FY2013) on the back of healthy growth in the portfolio, and the declining credit costs (2.26% in FY2014 as compared to 2.48% in FY2013) as company's detailed risk analytics on the customer behaviour and bureau data helped it to proactively modify its credit policy, keeping the credit cost in check. As a result, FICCL reported a PAT of Rs. 188 crore for FY2014 (PAT/ATA of 2.93%). The reduction in operating cost has resulted from the increased scale of operations and management's conscious efforts towards reducing the turnaround time across products through system automation. The profitability improved further in Q1 FY2015, with the company reporting PAT/ATA of 3.22% (annualised) over the quarter.

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

† All figures are as per ICRA calculations

FICCL maintains a sound liquidity profile with low Asset Liability mismatches, which is cushioned by sufficient un-availed bank lines, diversified lender base and internal cash buffer policy of the company. Presently, the company has comfortable regulatory capital adequacy levels (CRAR of 21.4% (17.8% Tier I) as on Jun-14). While the company has planned for sufficiency of Tier I capital over the next 5 years to support a strong growth, in ICRA's opinion, with improving internal accruals and strong parentage, capital would not be a constraint for growth. Further, the company also has options to raise capital through issuance of Subordinated debt in order to meet capitalisation requirements.

ICRA also takes note of the conservative classification and provisioning norms followed by FICCL, with the company following a 90 day classification for non-performing assets vis-à-vis a 180 day classification stipulated by RBI norms. Even for performing assets the company's norms for standard assets provisioning are more conservative than required by regulator. While the company has an advanced analytics and risk management function in place, a few more initiatives were taken up during FY2014 to strengthen it further, such as use of the Recession Loss Multiplier (RLM), a measure for product-level and region-level life time profitability under stressed scenarios, to proactively alter the portfolio mix towards optimum risk adjusted return. As FICCL is growing their presence in the secured lending space with more focus on relatively newer product such as Loans against property (LAP) for SMEs and secured lending in rural markets, its ability to maintain the asset quality indicators while growing their portfolio across newer product lines and newer geographies would be remain a key rating sensitivity going ahead.

Company Profile

Fullerton India Credit Company Limited (FICCL) commenced its operations in January 2006 catering primarily to self-employed borrowers. Over the last few years, FICCL shifted its focus towards secured lending in retail mortgages, rural lending and SME while moving away from low income segment, which is perceived to be more vulnerable to economic shocks. During the year ended March 31, 2014 FICCL reported total income of Rs 1,388 crore (vis-à-vis that of Rs. 1,185 crore as on March 31, 2013). The company had an asset base of Rs 7,883 crore as on June 30, 2014. The company's PAT stood at Rs. 188 crore during the year ended March 31, 2014 as compared with Rs. 152 crore during the year ended March 31, 2013. For Q1 FY2015 FICCL reported PAT of Rs. 61 crore. Its Capital Adequacy stood at 21.4% (Tier I at 17.8%) as on June 30, 2014.

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