Fullerton India Credit Company Limited (Revised)

July 07,2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total bank facilities	**1,000.00 (₹ One thousand crore only)**		
Subordinate debt	1,075.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Subordinate debt	425.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Non-convertible debentures	2,160.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debenture	2,340.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Total long-term instruments	**6,000.00 (₹ Six thousand crore only)**		
Commercial paper	4,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**4,500.00 (₹ Four thousand five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings assigned to the debt instruments of Fullerton India Credit Company Limited (FICCL). The ratings assigned to the various debt instruments of FICCL continue to factor in strong linkages with Sumitomo Mitsui Financial Group (SMFG).

CARE Ratings understands from the management that the investment in FICCL by SMFG is long term in nature and SMFG is expected to acquire the remaining 25.1% from FFH in FICCL within two to five years. Moreover, India remains one of the key target markets with respect to SMFG's multi-franchise strategy in Asia. Hence, FICCL is strategically important to SMFG, as it will help SMFG tap growth opportunities in India's financial services segment, particularly in the mass market retail/small-to-medium enterprises (SME) space. Therefore, support from SMFG to FICCL, both in terms of capital and managerial expertise, is expected to be forthcoming as and when envisaged. CARE Ratings also understands that FICCL is working on a plan to change the name of FICCL, so as to reflect association with SMFG post receipt of required corporate and regulatory approvals. This process is likely to be completed in six to nine months. Furthermore, the ratings continue to factor in, FICCL's diversified funding profile, adequate capitalisation and comfortable liquidity position.

Rating sensitivities

Negative factors – Factors that could lead to negative rating action/downgrade:

- Material dilution in the ownership by, expected support from, and strategic importance to the SMFG Group.
- Deterioration in the asset quality on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Management and capital support: SMFG owns 74.9% stake in FICCL as on March 31, 2022, and the residual is held by Fullerton Financial Holdings (FFH), which is a wholly-owned subsidiary of the Temasek group. SMFG sees various growth opportunities in India's financial services segment, particularly in the mass market retail/SME space, and therefore FICCL is expected to play a strategically important role in furthering SMFG's objective in the near term. CARE Ratings understands from the management that support from SMFG will be forthcoming as and when envisaged, as it was earlier from FFH. Also, FICCL is likely to leverage SMFG's vast network for funding in domestic and international markets. Synergies are also being explored on the assets side in terms of cross selling of products, expanding reach, etc. There has been active involvement of the parent in the various functions in FICCL at a regular interval (eg, monthly risk call, ALCO meeting, etc). Every product policy, prior to its

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

launch, is discussed with the shareholders before it goes to the Board. Strong representation of the promoters on the Board is reflective of the oversight and strategy support. Nobuyuki Kawabata, Senior Managing Executive Officer and Deputy Head of International Banking Unit of Sumitomo Mitusi Banking Corporation (SMBC), who was part of the reconstituted Board, was appointed as Chairman effective May 7, 2022. Other SMFG-nominated directors are Rajeev Kannan and Shantanu Mitra (MD & CEO of FICCL) and FFH-nominated directors are Hong Ping Yeo and Anindo Mukherjee.

Experienced management team: FICCL has in place a governance framework with level-based escalation matrix and a committee-based approach with oversight from Board of Directors (BoD). The BoD has three independent directors in addition to the Managing Director and Chief Executive Officer (MD & CEO) and four non-executive Directors. FICCL has an experienced top management team from banks and other financial services companies. Shantanu Mitra is the Chief Executive Officer and Managing Director of FICCL, and has over 40 years of experience in the financial services, with over 20 years at Standard Chartered Bank and Citibank, where he had stints in India, Singapore, and Thailand. Pankaj Malik is the CFO and Head of Strategy Execution, and has over 20 years of experience. In June 2021, Ajay Pareek was on-boarded as the Chief Business Officer and Deepak Patkar as the Chief Risk Officer.

Adequate capitalisation: The company reported capital-to-risk weighted assets ratio (CRAR) of 21.3% with Tier-I capital adequacy ratio (CAR) of 15.6% as on March 31, 2022, as compared with CRAR 19.8% with Tier I CAR of 14.8 as on March 31, 2021. On a standalone basis, the networth of FICCL improved to ₹4,558 crore as on March 31, 2022, as compared with ₹4,244 crore as on March 31, 2021, mainly on account of equity infusion of ₹250 crore by Fullerton Financial Holdings in October 2021 prior to completion of SMFG transaction. The gearing metrics also remain comfortable with adjusted gearing at 4.6x as on March 31, 2022, as against 5.5x as on March 31, 2021. Gearing has been supported by the lower borrowing requirements for the company owing to its low business activity in first half of FY22, however, it is expected to increase going forward as business gained momentum from second half of FY22 (refers to the period April 1 to March 31). Considering demonstrated capital support from FFH in the past, CARE Ratings expects the same support to be forthcoming from SMFG as and when envisaged.

Diversified funding profile: FICCL has diversified funding profile which is evident from multiple lending sources such as banks, financial institutions, development financial institutions (DFIs) and External Commercial Borrowings (ECB) in both loan and bond form. Overall, FICCL raised approximately ₹5,640 crore of borrowings during FY22 from various channels such as bank loans, non-convertible debentures (NCDs), market-linked debentures, commercial papers (CPs). As on March 31, 2022, the company had 37% of borrowings through NCD, 41% through term loans, 18% through external commercial borrowings and 4% through short-term borrowings by way of CP/CC.

Key rating weaknesses

Improved earnings, albeit modest profitability: The company's assets under management (AUM) levels remained relatively stable at ₹20,941 crore in FY22. As the pandemic struck in FY21, the disbursements were muted till June 2021. Later, as the lockdown eased, the company has managed to increase disbursement by 174% to around ₹12,738 crore in FY22 from ₹4,649 crore in FY21. Nonetheless, disbursements remained below pre-pandemic levels. The net interest margins (NIM; percentage of average assets) were impacted on account of the slippages leading to interest reversal as well as much of the portfolio growth happening in Q3 and Q4, with NIM dropping by 185 basis points to 9.1% from 11% in FY21. Operating expenses also increased to 5.6% in FY22 from 4.0% in FY21. However, as credit costs came back to pre-pandemic levels decreasing to 4% for the year ended March 31, 2022, as compared with 13.3% for fiscal 2021 (3.9% for fiscal 2020), return on total assets (ROTA) improved to 0.25% in FY22 from -4.1% in FY21. Going forward, the company expects credit costs to remain in the range of 3%-3.5% benefiting largely from release of ECL provisions from bucket reversals and improvement in the quality of underlying assets.

Continued pressure on asset quality metrics: FICCL reported Gross NPA (GNPA) of 6.57% and Net Stage 3 of 3.06% with provision coverage of 55.16% as on March 31, 2022, as compared with GNPA of 9.68% and NNPA of 2.59% with PCR of 75.16% as on March 31, 2021. The reduction in the NPA was primarily due to write-offs mainly in the rural portfolio in the group loans and the growing enterprise loans category and improved collections. The company has written off 55% of the portfolio restructured during FY21. As on March 31, 2022, restructured book of the company stood at ₹655 crore accounting for 3.13% of the AUM, out of which provisions have been created for around 64% of the restructured book. GNPAs in certain segments saw improvements in FY22; however, the LAP segment continues to remain vulnerable in line with the industry and has seen increasing delinquencies in FY22. In the rural LAP segment, it is difficult for the customers to service more than one EMI, resulting in 90+dpd at 15%. Even in the urban LAP segment, 90+dpd stood at 5%. However, the company is seeing an improving trend in the overall collection efficiency, which increased to 97% in the month of March 2022, after dropping during the first and second wave of COVID-19. The company's focus continues to be on recoveries and at the end of FY22, the company's monthly recovery rate stood at 2% from the written-off pool. The ability to improve asset quality through better collections and timely recoveries remains a key rating monitorable.

Higher proportion of unsecured lending and exposure to borrower class having vulnerability to economic cycles: FICCL's book is characterised by high proportion of unsecured book (personal loans, group loans, digital lending) at 58% of the total AUM as on March 31, 2022. The unsecured book remains vulnerable to the volatility in the cashflows of the underlying borrower segment. However, CARE Ratings also takes cognisance of the management's focus on de-risking the overall book by adopting various strategies, such as increasing secured lending in rural segment, focusing on low ticket micro LAP in Urban segment, high ticket legacy LAP book (₹5 crore+ ticket) being put on run down, focusing more on salaried segment for personal loans than self-employed segment and CGTMSE and used segment in the commercial vehicle portfolio. The company targets to have secured book of >50% of AUM in the medium term.

Liquidity profile: Strong

As on March 31, 2022, the company had cash, bank and fixed deposits, balance of ₹443 crore and liquid investments of ₹2,036 crore, totalling ₹2,479 crore, against which, it has contracted repayments of borrowings to the tune of ₹2,543 crore for the next three months. Additionally, the company maintains committed line of credit from various banks by paying a commitment fee, which provides additional liquidity buffer. As on May 31, 2021, the company had unutilised lines of ₹1,225 crore. Furthermore, comfort is derived from FICCL's financial flexibility as subsidiary of SMFG to obtain additional funding from the banks.

Analytical approach: Standalone. The rating is based on the standalone assessment of FICCL along with the benefits and support derived from its parent, Sumitomo Mitsui Financial Group, Inc (SMFG).

Applicable criteria:

Rating Methodology- Non-Banking Finance Companies
Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Rating of Short-term Instruments
Rating Methodology: Factoring Linkages in Ratings
Financial ratios - Financial Sector

About the company

Fullerton India Credit Company Limited (FICCL) is registered with the Reserve Bank of India (RBI) as a non-deposit accepting NBFC (NBFC-ND-SI) and offers range of secured and unsecured products across rural and urban markets. On November 30, 2021, Sumitomo Mitsui Financial Group, Inc. ("SMFG") (rated A1/Stable by Moody's, A-/Stable by S&P and A/Negative by Fitch) acquired 74.9% stake in FICCL from Fullerton Financial Holdings (FFH). SMFG is one of the largest banking and financial services groups in Japan with asset size of around ₹167 lakh crore and market capitalisation of around USD 40.34 billion. It has been designated as a global systemically important bank by the Financial Stability Board. Prior to this, FICCL was owned by Temasek Holdings Private Ltd Singapore (Temasek) (rated Aaa by Moody's and AAA by Standard & Poor's (S&P), indirectly through its investment arm - Fullerton Financial Holdings Pte, Singapore (FFH) (step-down subsidiary of Temasek. FICCL is now a consolidated subsidiary of SMFG. FICCL's services constitute secured lending portfolio consisting of LAP to retail customers and SMEs, 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 loans in the rural area. The percentage of Secured: Unsecured portfolio stood at 42% and 58% as on March 31, 2022.

Particulars^	FY20 (A)	FY21 (A)	FY22(A)
Total operating income	5,289	4,758	3591
PAT	747	(1,157)	58
Total assets*	28,865	22,916	22665
Net NPA (%)	1.13	2.58	3.06
ROTA (%)	2.84	(4.41)	0.25

A: Audited ^as per IND AS, UA: Unaudited. *Total assets are net off deferred tax assets, revaluation reserves and intangible assets. All ratios are as per CARE Ratings' Calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Instrument Type	Issuance Date	ISIN No.	Coupon Rate (%)	Maturity Date	Size of Issue (In crore)	Rating assigned along with outlook
Non-convertible debenture	15-Jul-16	INE535H07894	8.99 %	15-Jul-22	50	CARE AAA; Stable
Non-convertible debenture	28-Dec-17	INE535H07AC5	8.00 %	28-Dec-22	200	CARE AAA; Stable
Non-convertible debenture	17-Apr-18	INE535H07AH4	8.35 %	17-Apr-24	70	CARE AAA; Stable
Non-convertible debenture	10-Aug-18	INE535H07AO0	9.20 %	08-Aug-25	50	CARE AAA; Stable
Non-convertible debenture	04-Nov-19	INE535H07BD1	8.10 %	04-Nov-22	310	CARE AAA; Stable
Non-convertible debenture	02-May-22	INE535H07BN0	7.30 %	02-May-25	350	CARE AAA; Stable
Proposed					3470	CARE AAA; Stable
Total Rated					**4500**	**CARE AAA; Stable**
Subordinate debt	26-Dec-14	INE535H08587	9.60 %	26-Dec-24	50	CARE AAA; Stable
Subordinate debt	10-Jun-15	INE535H08595	9.50 %	10-Jun-25	25	CARE AAA; Stable
Subordinate debt	03-Aug-15	INE535H08629	9.40 %	03-Aug-22	25	CARE AAA; Stable
Subordinate debt	13-Oct-15	INE535H08637	9.50 %	13-Oct-25	100	CARE AAA; Stable
Subordinate debt	13-Oct-15	INE535H08645	9.40 %	13-Oct-22	50	CARE AAA; Stable
Subordinate debt	25-Feb-16	INE535H08660	9.30 %	25-Apr-23	25	CARE AAA; Stable
Subordinate debt	25-Feb-16	INE535H08678	9.30 %	25-Feb-26	25	CARE AAA; Stable
Subordinate debt	23-Mar-16	INE535H08686	9.25 %	23-Mar-26	25	CARE AAA; Stable
Subordinate debt	03-May-16	INE535H08694	9.30 %	23-Mar-26	21	CARE AAA; Stable
Subordinate debt	27-Oct-16	INE535H08702	8.75 %	26-Apr-24	25	CARE AAA; Stable
Subordinate debt	27-Oct-16	INE535H08710	8.75 %	25-Apr-25	25	CARE AAA; Stable
Subordinate debt	11-Jun-18	INE535H08728	9.30 %	08-Jun-28	50	CARE AAA; Stable
Subordinate debt	26-Jun-18	INE535H08728	9.30 %	08-Jun-28	65	CARE AAA; Stable
Subordinate debt	12-Jul-18	INE535H08728	9.30 %	08-Jun-28	60	CARE AAA; Stable
Subordinate debt	19-Jul-18	INE535H08736	9.45 %	20-Jul-28	25	CARE AAA; Stable
Subordinate debt	14-Aug-18	INE535H08744	9.25 %	26-Apr-29	150	CARE AAA; Stable
Subordinate debt	27-Sep-18	INE535H08736	9.45 %	20-Jul-28	20	CARE AAA; Stable
Subordinate debt	12-Dec-18	INE535H08728	9.30 %	08-Jun-28	50	CARE AAA; Stable
Subordinate debt	25-Apr-22	INE535H08785	7.65 %	23-Apr-32	50	CARE AAA; Stable
Proposed					634	CARE AAA; Stable
Total rated					**1,500**	**CARE AAA; Stable**
Commercial paper	-	-	-	-	4,500	CARE A1+

(Proposed)						
Total Rated					**4500**	CARE A1+
Bank facilities*	NA	NA	NA	NA	600	CARE AAA; Stable
Proposed	NA	NA	NA	NA	400	CARE AAA; Stable
Total rated					**1000**	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible debentures	LT	2160	CARE AAA; Stable	-	1)CARE AAA; Stable (09-Dec-21) 2)CARE AAA (CWD) (07-Jul-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (06-Jan-20) 2)CARE AAA; Stable (06-May-19)
2	Debt-Subordinate debt	LT	1075.00	CARE AAA; Stable	-	1)CARE AAA; Stable (09-Dec-21) 2)CARE AAA (CWD) (07-Jul-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (06-Jan-20)
3	Fund-based - LT-Term loan	LT	1000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (09-Dec-21) 2)CARE AAA (CWD) (07-Jul-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (06-Jan-20)
4	Commercial paper-Commercial paper (Standalone)	ST	4500.00	CARE A1+	-	1)CARE A1+ (09-Dec-21) 2)CARE A1+ (07-Jul-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (06-Jan-20) 2)CARE A1+ (18-Jul-19)
5	Debt-Subordinate Debt	LT	425.00	CARE AAA; Stable				
6	Debentures-Non Convertible Debentures	LT	2340.00	CARE AAA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Debt-Subordinate Debt	Complex
4	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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