Fullerton India Credit Company Limited

December 09, 2021

Ratings

Facilities/Instruments*	Rated Amount (Rs. Cr)	Rating[1]	Rating Action
Long Term Bank facilities	1,000.00 (Rs. One Thousand Crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Non-Convertible Debentures (NCD)	2,160.70 (Rs. Two Thousand One Hundred Sixty Crore and Seventy lakhs only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Subordinated Debt	1,075.00 (Rs. One Thousand Seventy Five Crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Commercial Paper (CP)	4,500.00 (Rs. Four Thousand Five Hundred Crore only)	CARE A1+ (A One Plus)	Reaffirmed

**Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

CARE Ratings Limited (CARE) has reassigned the rating of "CARE AAA; Stable" to the long term instruments of Fullerton India Credit Co. Ltd. (FICCL) and has removed the ratings from "CARE AAA; CWD (Watch with Developing Implications)". The rating action follows the press release by FICCL dated 30th November 2021 confirming the consummation of the transaction of Sumitomo Mitsui Financial Group, Inc. ("SMFG") buying Fullerton Financial Holdings' (FFH) 74.9% stake in FICCL. FFH continues to hold the balance 25.1% stake in FICCL, which will be eventually fully acquired by SMFG. SMFG is Japan based one of the largest banking and financial services groups in the world having presence in 40 countries, with assets size of ~USD 2.2 Trillion as on 31st March 2021 and a market capitalization of ~USD 47 billion as on December 07, 2021 is also a Globally Systemically Important Bank (G-SIB).

CARE understands, from the management of SMFG and FICCL, that the investment in FICCL by SMFG is long term in nature. CARE expects the strategic importance of FICCL to continue for SMFG. Therefore the support from SMFG to FICCL both in terms of capital and managerial expertise is expected to be forthcoming as and when envisaged. CARE also takes note that post the transaction, SMFG and FFH do not envisage any immediate material changes to the strategy, operations and organization structure of FICCL. Further, the ratings of FICCL's debt instruments continue to factor in, FICCL's diversified products base, adequate capitalization and comfortable liquidity position.

CARE notes the deterioration in FICCL's asset quality and profitability parameters during FY21, Q1FY22, albeit improved in Q2FY22, and accelerated proactive provisioning stance adopted by the Management to recognize the stress panning out from the Covid-19 pandemic. In CARE's view, FICCL's ability to maintain healthy collection efficiencies while attaining the pre-Covid levels of disbursements, containing credit costs, and boost up the capitalization levels remain key monitorable.

Rating Sensitivities:

Negative Factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Material dilution in the ownership by, expected support from, and strategic importance to SMFG Group.
- Sustained deterioration in asset quality with Net NPA to Net Worth ratio remaining above 18% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Management and Capital Support:

FICCL is majorly owned by Sumitomo Mitsui Financial Group, Inc. ("SMFG"). SMFG is Japan based one of the largest banking and financial services groups in the world having presence in 40 countries, with assets size of ~USD 2.2 Trillion as on 31st March 2021 and a market capitalization of ~USD 47 billion as on December 07, 2021 and is also a Globally Systemically Important Bank (G-SIB). SMFG owns around 74.9% stake in FICCL as on December 01, 2021 and the residual is held by Fullerton Financial Holdings (FFH), which is a wholly owned subsidiary of Temasek group. CARE understands from the Managements of both SMFG and FFH, that the support from SMFG will be forthcoming as and when envisaged, as it was earlier from FFH. Further, SMFG sees various growth opportunities in India's financial services segment, particularly in Mass Market/SME space, and therefore FICCL is expected to play a strategically important role in furthering SMFGs objective in the near term.

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

While SMFG has nominated 3 directors on FICCL's Board namely, Mr. Nobuyuki Kawabata, Mr. Rajeev Kannan and Mr. Shantanu Mitra (MD&CEO of FICCL), indicating oversight and strategy support, FFH has nominated 2 members namely Mr. Hong Ping Yeo and Mr. 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 3 independent directors in addition to the Managing Director and Chief Executive Officer (MD & CEO) and 4 non-executive Directors. FICCL has an experienced top management team from banks and other financial services companies. Mr. Shantanu Mitra, who has over 40 years of experience in financial services industry, is the CEO and MD of FICCL. CARE understands that there would be no change to the organization, strategy, underwriting philosophy, and operations of FICCL as a result of the transaction indicating continuity.

Adequate Capitalization
The company reported Capital Adequacy Ratio (CRAR) of 19.82% with Tier I CAR of 13.03% as on September 30, 2021 as compared to CRAR 24.15% with Tier I CAR of 19.62% as on September 30, 2020. Further, post Q2FY22 Fullerton Financial Holdings, through its investment arm, Angelica Investment Pte Ltd, infused Equity Capital aggregating to Rs.250 crore into Fullerton India Credit Company Limited. Considering demonstrated capital support from FFH in the past, CARE expects the same support to be forthcoming from SMFG as and when envisaged.

Comfortable liquidity profile
According to the ALM profile of the company dated March 31, 2021, the Company has no negative cumulative mismatch upto 1 year. As on March 31, 2021, the Company reported cash, bank and fixed deposits of Rs.2,347 crore and liquid investments of Rs.2,260 crore. Moreover, the Company maintains line of credit from various banks by paying a commitment fee which provides additional liquidity buffer. As on September 30, 2021, company had unutilized lines of Rs. 1,260 crore. Further as cited by the Management, the company has been maintaining average liquidity of around Rs. 4,500 Crore in the form cash and High Quality Liquid Assets (HQLA) in most of FY 21 to tide over any unexpected shocks.

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 Rs. 3,030 Crore of borrowings during FY 21 from various channels such as bank loans, NCDs, Market Linked Debentures, ECBs, CPs, including Rs.550 Crore TLTRO. Over and above this FICCL has raised Rs. 690 crore through Direct Assignment.
As on September 30, 2021, the Company had 43% of borrowings through long term capital market borrowings, 34% through Bank borrowings, 20% through overseas borrowings and 3% by way of commercial paper. The Company has consciously reduced reliance on CPs from 10% of borrowings as on March 31, 2017 to 3% as on September 30, 2021.

Key Rating Weakness
Deteriorating profitability parameters
During Q2FY22, the company was able to report profit after 3 consecutive quarters of loss. In Q2FY22 FICCL reported PAT of Rs.20 crore on Total Income of Rs.858 crore as compared to PAT of Rs.22 crore on Total Income of Rs.1,278 crore in Q2FY21. The decline in revenue is due to decrease in interest income on account of shrunk book on the back of conservative underwriting, and reduction in other income of the company as well.
The AUM reported a degrowth to Rs. 18,400 crore as on September 30, 2021 as compared to Rs. 23,313 crore as on September 30, 2020 on account of consciously muted disbursements, which subsequently contributed to the decline in total income during Q2FY22. The decrease in book is on account of cautious and selective underwriting, further accentuated by pandemic. Further, Company's ROTA and RONW stood at 0.37% and 2.59% respectively in Q2FY22 as compared to 0.31% and 1.88% in Q2FY21.

Pandemic pressure on asset quality
Company reported GNPA of 10.14% and Net NPA of 3.67% with provision coverage ratio (PCR) of 66.26% as on September 30, 2021, as compared to GNPA of 1.70% and Net NPA of 0.90% with PCR of 46.82% as on September 30, 2020. The increase in the GNPA is primarily attributed to the stress panning out across FICCL's portfolio owing to pandemic.
FICCL has implemented resolution plan for COVID related stress under RBI framework dated 6th August, 2020 and normal restructuring to the tune of Rs.963.64 crore (6.2% of the total loan book) as on September 30, 2021. CARE notes FICCL's prudent asset classification strategy wherein it has not categorised resolution for Covid related stress assets as Stage 1 assets. Instead, it has maintained their categorization as Stage 2 and 3.
Further, FICCL has maintained ~74% provision cover for OTR/Restructured assets and ~66% ECL cover on GS3 assets September 30, 2021.
Although FICCL has adequately provided through accelerated provisioning, the possibility of further slippages going forward cannot be completely ruled out, considering fragile economic recovery. CARE notes that the Company has breached 18% Net NPA to Net worth threshold as on September 30, 2021. However, CARE expects this to be temporary and, also expects the Company will be taking necessary steps like bringing additional equity and/or provisioning to correct the breach. Overall, the Company has reached to pre-Covid level of collection efficiency, however its ability to control further slippages while resuming disbursements to normalcy remain key credit sensitivities in the near term.

Higher proportion of Unsecured lending and exposure to borrower class having vulnerability to economic cycles: FICCL's book is characterized by high proportion of Unsecured book (Personal Loans, Group Loans, Digital Lending) at 54.5% of total AUM as on September 30, 2021. The unsecured book remain vulnerable to the volatility in the cashflows of the underlying borrower segment. Although company is consciously reducing the proportion of Unsecured lending in overall AUM (reduced from 60% as on March 2019 to 55% as on September 30, 2021), the proportion still remains considerably higher and in CARE's view, is expected to put pressure on asset quality going forward. However, CARE also takes cognizance of 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 (Rs.5 crore+ ticket) being put on run down, and focusing more on salaried segment for Personal Loans than Self Employed segment. Company targets to have secured book of >50% of AUM in the medium term.

Analytical approach: 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

Liquidity profile: Strong
As on March 31, 2021, the Company had cash, bank and fixed deposits, balance of Rs.2,347 crore and liquid investments of Rs. 2,260 crore, totalling Rs.4,587 crore, against which, it has contracted repayments of borrowings to the tune of Rs. 4,265 Crore for next 6 months, indicating adequate liquidity to honour the debt repayments till September 2021. Additionally, the Company maintains committed line of inflow from various banks by paying a commitment fee which provides additional liquidity buffer. As on Sept 30, 2021, company had unutilized lines of Rs. 1260 crore. Also, as per the ALM statement as on March 31, 2021 submitted by the company, it had positive ALM mismatch up to 1 year time bucket. The company is thus likely to be well-placed to withstand any liquidity pressure in the market in the short term.

About the Company
Fullerton India Credit Company Limited (FICCL) is registered with RBI as a deposit accepting NBFC (NBFC-D-SI) and is one of India's leading Non-Banking Finance Companies, operating across rural and urban markets. FICCL was earlier 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).
However, on November 30, 2021 the company announced about completion of its transaction with Sumitomo Mitsui Financial Group, Inc. ("SMFG") (rated A1/Stable by Moody's, A-/Stable by S&P and A/Negative by Fitch), wherein SMFG acquired 74.9% stake in FICCL from Fullerton Financial Holdings (FFH). Post completion of the purchase, FICCL has become a consolidated subsidiary of SMFG. Further, SMFG is expected to eventually purchase 100% of Fullerton India over a period of time.
Fullerton India'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. Proportion of Secured: Unsecured of 43: 57 as on March 31, 2021.

Brief Financials: (Standalone)

(Rs.crore)

Particulars^	FY19 (A)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total Operating Income	4,138	5,289	4,758	1,775
PAT	775	747	(1,157)	(455)
Total Assets*	23,715	28,865	22,916	20,156
Net NPA (%)	1.00	1.13	2.58	3.67
ROTA (%)	3.80	2.84	(4.47)	(4.23)

*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 Calculations.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Please refer Annexure 3

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	22-May-15	INE535H07605	NA	20-May-22	23	CARE AAA; Stable
Non-Convertible Debenture	15-Jul-16	INE535H07894	NA	15-Jul-22	50	CARE AAA; Stable
Non-Convertible Debenture	22-Nov-16	INE535H07936^	NA	22-Nov-21	71.3	CARE AAA; Stable
Non-Convertible Debenture	28-Dec-17	INE535H07AC5	NA	28-Dec-22	200	CARE AAA; Stable
Non-Convertible Debenture	17-Apr-18	INE535H07AH4	NA	17-Apr-24	70	CARE AAA; Stable
Non-Convertible Debenture	10-Aug-18	INE535H07AO0	NA	08-Aug-25	50	CARE AAA; Stable
Non-Convertible Debenture	04-Nov-19	INE535H07BD1	NA	04-Nov-22	310	CARE AAA; Stable
Proposed					1386.4	CARE AAA; Stable
Total Rated					**2,160.7**	**CARE AAA; Stable**
Subordinate Debt	26-Dec-14	INE535H08587	NA	26-Dec-24	50	CARE AAA; Stable
Subordinate Debt	10-Jun-15	INE535H08595	NA	10-Jun-25	25	CARE AAA; Stable
Subordinate Debt	10-Jun-15	INE535H08603	NA	10-Jun-22	20	CARE AAA; Stable
Subordinate Debt	03-Aug-15	INE535H08629	NA	03-Aug-22	25	CARE AAA; Stable
Subordinate Debt	13-Oct-15	INE535H08637	NA	13-Oct-25	100	CARE AAA; Stable
Subordinate Debt	13-Oct-15	INE535H08645	NA	13-Oct-22	50	CARE AAA; Stable
Subordinate Debt	25-Feb-16	INE535H08660	NA	25-Apr-23	25	CARE AAA; Stable
Subordinate Debt	25-Feb-16	INE535H08678	NA	25-Feb-26	25	CARE AAA; Stable
Subordinate Debt	23-Mar-16	INE535H08686	NA	23-Mar-26	25	CARE AAA; Stable
Subordinate Debt	03-May-16	INE535H08694	NA	30-Apr-26	21	CARE AAA; Stable
Subordinate Debt	27-Oct-16	INE535H08702	NA	26-Apr-24	25	CARE AAA; Stable
Subordinate Debt	27-Oct-16	INE535H08710	NA	25-Apr-25	25	CARE AAA; Stable
Subordinate Debt	12-Jun-18	INE535H08728	NA	08-Jun-28	50	CARE AAA; Stable
Subordinate Debt	27-Jun-18	INE535H08728	NA	08-Jun-28	65	CARE AAA; Stable
Subordinate Debt	13-Jul-18	INE535H08728	NA	08-Jun-28	60	CARE AAA; Stable
Subordinate Debt	20-Jul-18	INE535H08736	NA	20-Jul-28	25	CARE AAA; Stable
Subordinate Debt	16-Aug-18	INE535H08744	NA	26-Apr-29	150	CARE AAA; Stable
Subordinate Debt	28-Sep-18	INE535H08736	NA	20-Jul-28	20	CARE AAA; Stable
Subordinate Debt	13-Dec-18	INE535H08728	NA	08-Jun-28	50	CARE AAA; Stable
Proposed					239	CARE AAA; Stable
Total Rated					**1,075**	**CARE AAA; Stable**
Commercial Paper (Proposed)	NA	NA	NA	NA	4,500	CARE A1+
Total Rated					**4,500**	CARE A1+
Bank Facilities*	NA	NA	NA	NA	600	CARE AAA; Stable
Proposed	NA	NA	NA	NA	400	CARE AAA; Stable
Total Rated					**1,000**	**CARE AAA; Stable**

NA: Not Available
**Bank Facilities of Rs.600 crore is the sanctioned amount*
^The NCD has been matured

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	2160.70	CARE AAA; Stable	1)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)	1)CARE AAA; Stable (08-Oct-18) 2)CARE AAA; Stable (16-Apr-18)
2	Debt-Subordinate Debt	LT	1075.00	CARE AAA; Stable	1)CARE AAA (CWD) (07-Jul-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18) 2)CARE AAA; Stable (20-Aug-18) 3)CARE AAA; Stable (17-Jul-18) 4)CARE AAA; Stable (16-Apr-18)
3	Fund-based - LT-Term Loan	LT	1000.00	CARE AAA; Stable	1)CARE AAA (CWD) (07-Jul-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (06-Jan-20)	1)CARE AAA; Stable (08-Oct-18)
4	Commercial Paper-Commercial Paper (Standalone)	ST	4500.00	CARE A1+	1)CARE A1+ (07-Jul-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (06-Jan-20) 2)CARE A1+ (18-Jul-19)	1)CARE A1+ (08-Oct-18) 2)CARE A1+ (24-Sep-18) 3)CARE A1+ (17-Jul-18)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of Instruments	Complexity Level
1	Non-Convertible Debenture (NCD)	Simple
2	Subordinate Debt	Complex
3	Commercial Paper	Simple
4	Long Term Bank Facilities	Simple

Annexure 4: 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 instrument: *CARE 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 CARE Ratings:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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