



Rating Action: Moody's upgrades RCI Banque's deposit and senior unsecured ratings to Baa1; outlook is stable

04 Aug 2023

Paris, August 04, 2023 -- Moody's Investors Service (Moody's) today upgraded RCI Banque (RCI)'s long-term deposit and senior unsecured debt ratings to Baa1 from Baa2, the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to baa3 from ba1, its subordinated debt ratings to Ba1 from Ba2, its long-term Counterparty Risk (CR) Assessment and long-term Counterparty Risk Rating (CRR) to A3(cr) and A3 from Baa1(cr) and Baa1, respectively. The senior unsecured and subordinate programme ratings were also upgraded to (P)Baa1 and (P)Ba1 from (P)Baa2 and (P)Ba2, respectively. The long-term deposit note/CD programme was upgraded to (P)Baa1 from (P)Baa2. The outlook on the long-term senior unsecured debt and deposit ratings remains stable. Moody's also affirmed the Prime-2 short-term deposit, deposit note/CD programme and commercial paper ratings, as well as the Prime-2(cr) short-term CR Assessment and Prime-2 short-term CRR, as well as the (P)Prime-2 other short term ratings. Finally, Moody's affirmed the Caa1 long-term issuer rating of RCI Banque Sucursal Argentina and the outlook remains stable.

This action was prompted by the upgrade of the corporate family rating (CFR) of RCI's parent Renault S.A. (Renault) to Ba1 from Ba2. For further details, please see Moody's press release "Moody's upgrades Renault's ratings to Ba1 from Ba2, outlook stable" (<https://ratings.moody.com/ratings-news/406082>) published on 2 August 2023.

RATINGS RATIONALE

The upgrade of RCI's long-term deposit and senior unsecured debt ratings to Baa1 from Baa2 reflects (1) the upgrade of the bank's BCA and Adjusted BCA to baa3 from ba1; and (2) two notches of uplift under Moody's Advanced Loss Given Failure (LGF) analysis, stemming from the large volume of senior unsecured long-term debt resulting in a very low expected loss rate on these instruments.

The upgrade of RCI's BCA to baa3 from ba1 reflects both the bank's strategic role for Renault and its sound financial fundamentals, including moderate asset risk, capitalization which is commensurate with its risk profile (Common Equity Tier 1 capital ratio was 13.95% at end-June 2023), and good, albeit slightly declining, profitability (net income to tangible assets was 1.1% in the first half of 2023, down from 1.2% in 2022).

Moody's believes that the improvement of its parent's creditworthiness will benefit RCI's fundamentals because RCI is an integral part of the car manufacturer's business model. However, RCI's BCA is unlikely to exceed Renault's rating by more than one notch, as is the case for most other rated auto financial captives.

At the same time, the BCA is constrained by the bank's lack of business diversification and exposures to car dealers, which accounted for 22% of the bank's loan portfolio at end-June 2023. Moreover, Moody's factors in RCI's high reliance on confidence-sensitive wholesale funding, which is made up, to a significant degree, of long term liabilities, resulting in low refinancing risk. Furthermore the bank has over time expanded its online deposits, collected in several jurisdictions, which currently accounts for 50% of its funding needs.

OUTLOOK

The stable outlook on RCI's long-term deposit and senior unsecured ratings is underpinned by Moody's expectation that RCI will maintain its sound capitalization and stable profitability over the outlook period, while asset quality deterioration will remain contained. It also results from the stable outlook of Renault's rating, reflecting the intrinsic linkages between both companies.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

RCI's BCA could be upgraded in case of the occurrence of both (i) higher profitability and contained asset risk, and stable capital base, and (ii) an upgrade of its parent Renault. An upgrade of RCI's BCA would likely result in an upgrade of its long-term debt and deposit ratings.

Factors that could lead to a downgrade

Owing to the intrinsic interlinkages between the captive and its automotive parent, RCI's ratings are highly dependent on the creditworthiness of Renault. Therefore, a downgrade of Renault would likely result in a similar action on RCI's ratings. A downgrade of RCI's ratings could also result from a substantial deterioration in the bank's asset quality and profitability. A reduction in outstanding senior unsecured debt could lead to a higher expected loss on this instrument, and in turn would prompt a lower rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Roland Auquier
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Alain Laurin
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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