MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms RCI Banque's deposit and senior unsecured ratings at Baa1; outlook is stable

05 Jun 2024

Paris, June 05, 2024 -- Moody's Ratings (Moody's) today affirmed RCI Banque (RCI)'s long-term and short-term deposit ratings at Baa1/Prime-2, the senior unsecured debt ratings at Baa1, the bank's Baseline Credit Assessment (BCA) and Adjusted BCA at baa3, its subordinated debt ratings at Ba1, its long-term and short-term Counterparty Risk (CR) Assessment and long-term Counterparty Risk Rating (CRR) at A3(cr)/Prime-2(cr) and A3/Prime-2, respectively. The senior unsecured and subordinate programme ratings were also affirmed at (P)Baa1 and (P)Ba1, respectively, together with the long-term deposit note/CD programme at (P)Baa1, as well as the short-term deposit note/CD programme and commercial paper ratings at Prime-2 and the Other Short Term ratings at (P)Prime-2. The outlook on the long-term senior unsecured debt and deposit ratings remains stable. Finally, Moody's affirmed the Caa1 long-term issuer rating of RCI Banque Sucursal Argentina and the outlook remains stable.

The change of outlook to positive from stable and affirmation of the Ba1 corporate family rating (CFR) of RCI's parent Renault S.A. (Renault) has no direct bearing on the action on RCI's ratings. For further details, please see Moody's press release "Moody's Ratings Affirms Renault's Ba1 rating, changes outlook to positive" (https://ratings.moodys.com/ratings-news/420626) published on 9 May 2024.

RATINGS RATIONALE

The affirmation of RCI's long-term deposit and senior unsecured debt ratings at Baa1 reflects (1) the bank's baa3 BCA and Adjusted BCA; 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 affirmation of RCI's BCA at baa3 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 (Tangible Common Equity to risk-weighted assets was 15.8% at year-end 2023), and sound and stable profitability.

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 21% of the bank's loan portfolio at year-end 2023. As RCI intends to develop subscription and operating lease offers, its exposure to residual value risk is expected to materially increase going forward. Moody's considers that this increasing risk is mitigated by the bank's multi-brand fleet and its proven track record on the management of cars' residual value.

Moody's also factors in RCI's high reliance on confidence-sensitive wholesale funding, which is however made up, to a significant degree, of long term liabilities, resulting in contained refinancing risk. Furthermore the bank has over time expanded its online deposits, collected in several jurisdictions, which currently account for 51% 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.

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 to baa2 in case of higher profitability and contained asset risk, and stable capital base. However such an upgrade would be contingent upon an upgrade of its parent Renault given the aforementioned rating construct. 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.

A downgrade of RCI's ratings could also result from a substantial deterioration in the bank's asset quality and profitability. Furthermore because of 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 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 March 2024 and available at https://ratings.moodys.com/rmc-documents/409852. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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