March 28, 2022

Indostar Capital Finance Limited: Rating reaffirmed for PTCs issued under a vehicle loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount Outstanding After Last Surveillance (Rs. crore)	Rated Amount (Rs. crore)	Rating Action
Star CV Trust March 2020	PTC Series A	76.93	59.71	25.90	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The pass-through certificates (PTCs) originated by Indostar Capital Finance Limited (Indostar) are backed by commercial vehicle (CV) and passenger vehicle (PV) loans with an initial pool principal of Rs. 76.93 crore. The rating reaffirmation is on account of the high amortisation of the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool after the February 2022 payouts has been provided below.

Parameter	Star CV Trust March 2020
Months post securitisation	23
Balance pool & PTC principal (Rs. Cr)	25.90
Pool & PTC amortisation (%)	66.33%
Cumulative collection efficiency (%)[1]	96.09%
Cumulative prepayment rate	20.31%
Monthly prepayment rate	1.29%
Loss-cum-30+ (% of initial pool principal)[2]	9.68%
Loss-cum-90+ (% of initial pool principal)[3]	1.91%
Breakeven collection efficiency (%)[4] PTC A	55.29%
Cumulative cash collateral (CC) utilisation	0.00%
As a % of balance pool principal	
CC available	44.55%
Excess interest spread (EIS) over balance tenure	7.19%
CE[5] available	**48.15%**

[1] *Cumulative collections / (Cumulative billings + opening overdue at the time of securitisation)*

[2] *POS on contracts aged 30+ dpd + overdues / Initial POS on the pool*

[3] *POS on contracts aged 90+ dpd + overdues / Initial POS on the pool*

[4] *It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available)/ Balance pool cash flows*

[5] *CC + 50% of EIS*

Key rating drivers

Credit strengths

- High amortisation of pool resulting in build-up of Cash Collateral (CC) and Excess Interest Spread cover available for the balance PTC payouts
- Low delinquency levels exhibited by the pool

Credit challenges

- Moderate state concentration with top three states contributing to ~ 58% of balance pool principal;
- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, scheduled cash flow promised to the PTC investors on each payout date includes 100% of the monthly billed principal on the pool and the interest at the contracted yield. The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of excess interest spread (EIS) in the structure The residual EIS (after meeting scheduled PTC payout and top up of CC, if any, in any month) leaks out to the Originator.

The collection efficiency in the pool had declined during the moratorium period which resulted in the utilisation of CC to meet the promised PTC payouts. However, the monthly collection efficiency improved during Q4FY2021 which resulted in full replenishment of the CC. During the second wave, collections dipped again, though it remained above 90%. During past six months, the collections have been healthy and CC has been fully replenished. Due to the amortisation of the pool, there has been a considerable build-up in the CE for the balance tenure of the PTC payouts. The 90+ dpd of the pool is also lower at 1.9%.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating for the transaction. ICRA will continue to closely monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts. After taking into account the above-mentioned factors for the current pool, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 2.5-3.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 8.0-12.0% per annum.

Liquidity position: Superior

The liquidity of the rated transaction is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of a cash collateral amounting to ~ 44% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the PTC payouts for a period of 21 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Sustained weak collection performance of the underlying pool of contracts leading to higher than expected delinquency levels and credit enhancement utilization levels

Analytical approach

The rating action is based on the performance of the pool till February 2022 (payout month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the CE available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Indostar Capital Finance Limited (ICFL) was originally incorporated as R V Vyapaar Private Ltd. in July 2009. Its name was changed to IndoStar Capital Finance Private Limited in November 2010 and to Indostar Capital Finance Limited in April 2014. ICFL is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit accepting non-banking financial company. It is sponsored by a group of financial institutions including Everstone Capital, Goldman Sachs Group, Baer Capital Partners and ACPI Investment Managers.

As of December 31, 2021, Brookfield held a 56% stake in ICFL, followed by Indostar Capital Mauritius at 33% (including ECP II & ECP III). The Brookfield Group invested Rs. 1,225 crore in ICFL (through BCP V Multiple Holdings Pte Ltd) in May 2020 to become the largest shareholder and co-promoter of the company. ICFL was originally established by a group of financial institutions including Everstone Capital, Goldman Sachs, Baer Capital Partners, CDIB Capital and ACPI Investment Managers through Indostar Capital Mauritius with an initial capital of about Rs. 900 crore. The company got listed on stock exchanges in May 2018 and received a fresh equity infusion of Rs. 700 crore.

On a consolidated basis, ICFL reported a net loss of Rs. 214 crore in FY2021 on assets under management (AUM) of about Rs. 8,990 crore compared to a net loss of Rs. 325 crore on AUM of Rs. 9,690 crore in FY2020. In 9M FY2022, the company reported a profit after tax (PAT) of Rs. 17 crore against a PAT of Rs. 103 crore in 9M FY2021.

Key financial indicators

ICFL	FY2020 (audited)	FY2021 (audited)	9M FY2022 (provisional)
Total revenues (net)	738	581	436
Profit after tax	(325)	(214)	17
Assets under management (AUM)	9,690	8,990	9,236
Gross stage 3 (%)	4.8%	4.4%	4.3%
Net stage 3 (%)	3.8%	2.1%	2.3%

Source: *Company, ICRA Research; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Mar 28, 2022	Mar 19, 2021	Sep 02, 2020	Mar 25, 2020	-
1	Star CV Trust March 2020	PTC Series A	76.93	25.90	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Star CV Trust March 2020	PTC Series A	March 2020	9.10%	January 2025	25.90	[ICRA]AAA(SO)

**Schedule maturity extended by five months post moratorium*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Gaurav Mashalkar
+91 22 6114 3431
gaurav.mashalkar@icraindia.com

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches