February 21, 2023

Indostar Capital Finance Limited: Ratings reaffirmed for PTCs issued under vehicle loan securitisation transactions

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	25.90	9.30	[ICRA]AAA(SO); Reaffirmed
Star CV Trust Dec21	PTC Series A	197.88	NA	86.15	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The pass-through certificates (PTCs) originated by Indostar Capital Finance Limited (ICFL; rated [ICRA]A1+@) are backed by commercial vehicle (CV) and passenger vehicle (PV) loans. The ratings reaffirmation takes into account the high amortisation of the pools, 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 pools.

Pool Performance Summary

A summary of the performance of the pool after the January 2023 payouts has been provided below.

Parameter	Star CV Trust March 2020	Star CV Trust Dec21
Months post securitisation	34	13
Balance pool & PTC principal (Rs. Cr)	9.30	86.15
Pool & PTC amortisation (%)	87.92%	56.46%
Cumulative collection efficiency (%)[1]	97.39%	98.24%
Cumulative prepayment rate	25.34%	14.90%
Monthly prepayment rate	0.86%	1.23%
Loss-cum-30+ (% of initial pool principal)[2]	4.90%	3.68%
Loss-cum-90+ (% of initial pool principal)[3]	2.43%	0.86%
Breakeven collection efficiency (%)[4] PTC Series A	Nil	63.47%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
CC available as a % of balance pool principal	>100%	34.46%
Excess interest spread (EIS) as a % of balance pool principal	5.20%	7.42%

Key rating drivers

Credit strengths

- High amortisation of pools 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 pools

[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

Credit challenges

- Moderate state concentration with top three states contributing to around 45% and 58% of balance pool principal for Dec-21 and Mar-20 transactions;
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

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 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.

Both pools have reported strong cumulative collection efficiency above 97% and the loss cum 180+ has been reported below 2% post January 2023 payout month. Due to high amortisation in both the pools, the credit enhancement cover has built up considerably for the balance PTC payouts. The breakeven collection efficiency is substantially lower than the collection efficiency observed at 63.5% for Star CV Trust Dec21, whereas it is nil for Star CV Trust March 2020 post January 2023 payout month.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings for the transactions. ICRA will continue to closely monitor the performance of the transactions. Any further rating action will be based on the performance of the pools 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 Star CV Trust Dec21, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 1.5-2.5% 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 Star CV Trust March 2020 transaction transactions is expected to be superior as the CC covers the future payouts entirely. Also the liquidity of the Dec-21 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 around 34% 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 13 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings for Star CV March 2020 transaction are unlikely to be downgraded since CC covers the entire future PTC payouts. For Star CV March 2020 transaction, sustained weak collection performance of the underlying pool of contracts leading to higher than expected delinquency levels and CE utilization levels would result in a rating downgrade

Analytical approach

The rating action is based on the performance of the pool till January 2023 (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 originator

IndoStar Capital Finance Limited (ICFL) is a systemically important non-banking financial company (NBFC). It offers vehicle finance for new and used vehicles, loans to small-to-medium-sized enterprises, long-term wholesale funding to corporates (defocused), and home finance through its wholly-owned subsidiary – IndoStar Home Finance Private Limited (IHFPL). As of June 30, 2022, the consolidated AUM (including IHFPL) aggregated Rs. 8,247 crore comprising CV finance (46.5% share), small and medium enterprise (SME) finance (20.0%), housing finance (17.8%), and corporate funding (15.6%; defocused).

As on June 30, 2022, Brookfield held a 56.20% stake in ICFL, followed by IndoStar Capital Mauritius at 33% (including ECP II & ECP III). Brookfield invested Rs. 1,225 crore in IndoStar (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. Subsequently, the company got listed on stock exchanges in May 2018 and received a fresh equity infusion of Rs. 700 crore.

Key financial indicators (Standalone)

ICFL	FY2021 (audited)	FY2022 (audited)	H1 FY2023 (provisional)
Total revenues	1,193	1,054	496
Profit after tax	(241)	(769)	83
Assets under management (AUM)	7,994	8,003	6,419
Gross stage 3 (%)	4.4%	7.3%	8.3%
Net stage 3 (%)	2.0%	20.1%	3.4%

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

Sr. No	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Feb 21, 2023	Mar 28, 2022	Mar 19, 2021	Sep 02, 2020	Mar 25, 2020
1	Star CV Trust March 2020	PTC Series A	76.93	9.30	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)

Sr. No	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Feb 21, 2023	Feb 15, 2022	Jan 03, 2022	-	-
2	Star CV Trust Dec21	PTC Series A	197.88	86.15	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Trust name	Instrument	Complexity Indicator
Star CV Trust March 2020	PTC Series A	Simple
Star CV Trust Dec21	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: Click Here

Annexure-I: 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	9.30	[ICRA]AAA(SO)
Star CV Trust Dec21	PTC Series A	December 2021	7.70%	May 2026	86.15	[ICRA]AAA(SO)

Annexure-II: List of entities considered for consolidated analysis

Not Applicable

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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.

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