April 17, 2023(Revised)

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 Feb 22	PTC Series A	183.66	NA	89.97	[ICRA]AAA(SO); Reaffirmed
Solitaire CV Trust Feb 2022	PTC Series A	47.67	NA	22.57	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The pass-through certificates (PTCs) originated by Indostar Capital Finance Limited (ICFL) 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 March 2023 payouts has been provided below.

Parameter	STAR CV Trust Feb 22	Solitaire CV Trust Feb 2022
Months post securitisation	13	13
Pool amortisation (%)	51.02%	51.84%
PTC amortisation (%)	51.02%	52.64%
Cumulative collection efficiency (%)[1]	97.61%	98.08%
Cumulative prepayment rate	13.48%	14.03%
Average Monthly prepayment rate	1.11%	1.16%
Loss-cum-30+ (% of initial pool principal)[2]	5.08%	5.24%
Loss-cum-90+ (% of initial pool principal)[3]	1.56%	1.39%
Breakeven collection efficiency (%)[4] PTC Series A	66.73%	62.82%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
CC available as a % of balance pool principal	30.62%	33.23%
Excess interest spread (EIS) as a % of balance pool principal	7.89%	7.84%

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

Credit challenges

[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

- Higher share of high LTV contracts with 45% and 55% share of contracts having LTV greater than 80% in Star and Solitaire pool respectively
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

Performance of both pools has been healthy till March 2023 payouts with cumulative collection efficiency above 97%. Consequently, delinquencies in the pools are low with the loss cum 90+ of 1.56% and 1.39% for STAR CV Trust Feb 22 and Solitaire CV Trust Feb 2022 respectively. 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 in the range of 62% to 67% for both transactions post March 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, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 2.0-3.0% of the initial pool principal for both transactions, 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 both the transactions 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 between 31%-33% 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 around 12 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 CE utilization levels would result in a rating downgrade

Analytical approach

The rating action is based on the performance of the pool till March 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 (IndoStar) is a systemically important non-banking financial company (NBFC). It has been offering 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). Going forward, it plans to primarily offer vehicle finance for new and used vehicles and home finance through IHFPL. Further, as per the management articulation it would be focussing on long term borrowing for funding its loan book. As of December 31, 2022, the consolidated assets under management (AUM; including IHFPL) aggregated Rs. 7,645 crore comprising commercial vehicle (CV) finance (45% share), housing finance (20%), small and medium enterprise (SME) finance (19%), and corporate funding (16%).

As on December 31, 2022, Brookfield held a 56.2% stake in IndoStar, followed by IndoStar Capital Mauritius at 33.0% (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. IndoStar 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)	9M FY2023 (provisional)
Total revenues	1,193	1,054	733
Profit after tax	(241)	(769)	114
Assets under management (AUM)	7,994	8,003	6,143
Gross stage 3 (%)	4.4%	15.5%	9.1%
Net stage 3 (%)	2.0%	7.3%	4.1%

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	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 17, 2023	Apr 29, 2022	Feb 21, 2022	-
1	STAR CV Trust Feb 22	PTC Series A	183.66	89.97	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Sr. No.	Trust	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 17, 2023	May 23, 2022	Mar 04, 2022	-
2	Solitaire CV Trust Feb 2022	PTC Series A	47.67	22.57	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-

Complexity level of the rated instrument

Trust name	Instrument	Complexity Indicator
STAR CV Trust Feb 22	PTC Series A	Simple
Solitaire CV Trust Feb 2022	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 Feb 22	PTC Series A	February 2022	7.70%	August 2026	89.97	[ICRA]AAA(SO)
Solitaire CV Trust Feb 2022	PTC Series A	February 2022	8.00%	August 2025	22.57	[ICRA]AAA(SO)

Annexure-II: List of entities considered for consolidated analysis

Not Applicable

Corrigendum:

Document dated April 17, 2023 has been corrected with revision as detailed below:

Gross stage 3 (%) and Net Stage 3 (%) for FY2022 have been revised from 7.3% and 20.1% to 15.5% and 7.3% respectively.

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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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