

April 20, 2023

Indostar Capital Finance Limited: Rating reaffirmed for PTCs issued under SME loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Mar-23 Payout (Rs. crore)	Rating Action
Sun SME Trust Feb 2022	PTC Series A	177.05	NA	101.01	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of SME loan receivables originated by Indostar Capital Finance Limited (ICFL). The rating has been reaffirmed on account of the healthy pool amortisation, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The performance of the pool has remained satisfactory with the 90+ days past due (dpd) at less than 1% of the initial pool principal as of the March 2023 payout. The rating also draws comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the March 2023 payout month.

Pool performance summary

A summary of the performance of the pool till March 2023 payout month has been tabulated below.

Parameter	Sun SME Trust Feb 2022
Months post securitisation	13
Pool amortisation	40.52%
PTC amortisation	42.95%
Cumulative collection efficiency ¹	97.37%
Loss-cum-90+ (% of initial pool principal) ²	0.98%
Loss-cum-180+ (% of initial pool principal) ³	0.98%
Breakeven collection efficiency ⁴	63.68%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	18.49%
Excess interest spread (EIS) (as % of balance pool principal)	86.61%
Cumulative prepayment rate ⁵	37.30%

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

² Principal outstanding (POS) on contracts aged 90+ dpd + Overdues / Initial POS on the pool

³ POS on contracts aged 180+ 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 – Credit collateral available) / Balance pool cash flows

⁵ POS at the time of prepayment of contracts prepaid till date / Initial pool principal

Key rating drivers

Credit strengths

- Healthy 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

- High geographical concentration (~74%) of the contracts in the pool from top three states
- While the PTC Yield is fixed, the interest rate on the underlying loans is linked to ICFL's lending rate which leads to an interest rate risk in the structure
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A on a monthly basis comprises the interest (at the predetermined yield) on the outstanding PTC principal and the principal to the extent of 100% of the initial schedule of pool principal billing (after modifying for prepayments/foreclosures) on each. The PTC yield is fixed while the interest rate on the underlying loans is linked to ICFL's lending rate, which leads to interest rate risk in the structure. The excess available after meeting the payouts to the PTCs is passed on to the originator every month. The principal subordination of 5% is also available (PTC Series A principal is 95% of the pool principal); however, since 100% of the billed pool principal is promised every month to the PTC investor, the subordination does not provide any support from a rating perspective.

Post the transaction date, ICFL has increased its internal lending rate. Thus, the tenure of the underlying contracts in the pool has been revised (with EMLs remaining constant) as all the contracts in the pool are floating rate contacts. This has led to the extension of the tenure of the underlying pool to May 2043. The investor has, however, kept the maturity of the PTC unchanged at October 2035. The principal payouts to the investor also continue as per the original billing schedule after adjusting for prepayments and have not been revised in line with the change in the principal billing of the contracts in the pool. As a result, a part of the EIS is being used to meet the PTC amortisation. While the pool's cash flows that have shifted beyond the PTC maturity date are no longer being considered by ICRA, the rating still draws support from the usage of EIS to meet higher PTC payouts. Further, the performance of the pool has been healthy with a cumulative collection efficiency of 97.4% (till March 2023 payout), resulting in a low loss-cum-90+ dpd of 1.0%. The pool has amortised by about 40%, further supported by high prepayment rates, leading to the healthy build-up of CE with respect to the balance pool principal.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The performance of the pool would remain exposed to macro-economic shocks/business disruptions., if any

Key rating assumptions

ICRA's cash flow modelling for the surveillance of mortgage-backed securitisation (MBS) 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 the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools, and 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 of contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pool are expected to be in the range of 3.0-4.0% (as a percentage of initial pool principal) and 6.0-20.0%, respectively.

Liquidity position: Superior

The liquidity of the PTCs is expected to be superior, supported by the healthy collections expected from the pool of contracts and the available CC of ~18% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the PTC payouts for more than 62 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels, would result in a rating downgrade.

Analytical approach

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

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 has been offering vehicle finance for new and used vehicles, loans to small-to-medium-sized enterprises, long-term wholesale funding to corporates (defocussed), 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, the company 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 ICFL, followed by IndoStar Capital Mauritius at 33.0% (including ECP II & ECP III). Brookfield 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. 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

1	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 20, 2023	Apr 29, 2022	Feb 28, 2022	-
	Sun SME Trust Feb 2022	PTC Series A	177.05	101.01	[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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
Sun SME Trust Feb 2022	PTC Series A	February 2022	7.78% p.a.p.m.	October 2035	101.01	[ICRA]AAA(SO)

**Based on scheduled maturity of the pool's contracts; may change on account of prepayment and yield change.*

Annexure II: 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 6114 3406

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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.