October 04, 2023

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

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount after Sep-23 Payouts (Rs. crore)	Rating Action
Star CV Trust Dec21	PTC Series A	197.88	86.15	39.33	[ICRA]AAA(SO); Reaffirmed
Star CV Trust Feb 22	PTC Series A	183.66	89.97	54.57	[ICRA]AAA(SO); Reaffirmed
Solitaire CV Trust Feb 2022	PTC Series A	47.67	22.57	13.52	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure I*

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 rating 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 for the pools is likely to be comfortable compared to the actual collection efficiency seen in the pools even after resetting the CE in the transaction.

Pool performance summary

A summary of the performance of the pools after the August 2023 collections (September 2023 payouts) has been provided below.

Parameter	Star CV Trust Dec21	Star CV Trust Feb 22	Solitaire CV Trust Feb 2022
Months post securitisation	21	19	19
Pool amortisation (%)	80.12%	70.29%	70.84%
PTC amortisation (%)	80.12%	70.29%	71.64%
Cumulative collection efficiency (%)[1]	98.37%	97.74%	97.92%
Cumulative prepayment rate	21.42%	19.08%	20.06%
Loss-cum-30+ (% of initial pool principal)[2]	3.06%	4.92%	4.20%
Loss-cum-90+ (% of initial pool principal)[3]	1.46%	1.86%	1.79%
Breakeven collection efficiency (%)[4] PTC Series A	27.17%	49.67%	42.77%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
CC available as a % of balance pool principal	75.49%	50.49%	54.88%
Excess interest spread (EIS) as a % of balance pool principal	5.48%	6.32%	6.20%

Reset of CE

[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*

At ICFL's request for resetting the CE, ICRA has analysed the transactions at a cash collateral (CC) of Rs. 11.88 crore, Rs. 16.53 crore and Rs. 4.58 for the Star CV Trust Dec21, Star CV Trust Feb 22 and Solitaire CV Trust Feb 2022 transactions, respectively, against the currently available CC of Rs. 29.69 crore, Rs. 27.55 and Rs. 7.63 crore, respectively (after September 2023 payouts). Based on the pools' performance, the rating for the tranches will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

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

- Higher share of high loan-to-value (LTV) contracts with 53%, 56% and 46% share of contracts having LTV greater than 80% in Star CV Trust Dec21, Star CV Trust Feb 22 and Solitaire CV Trust Feb 2022 pools respectively
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

The performance of the above-mentioned pools has been healthy till the September 2023 payouts with a cumulative collection efficiency of more than 97%. Consequently, delinquencies in the pools are low with the loss-cum-90+ in the range of 1.4-1.9%. The cumulative prepayment rate is in the range of 19-21%. Due to the high amortisation in the pools, the CE cover has built up considerably for the balance PTC payouts. There has been no CC utilisation in the transactions till the September 2023 payout month. The performance of the pools would remain exposed to macro-economic shocks / business disruptions, if any.

Overall, the CE available for meeting the balance payouts to the investors (after downward reset of the CC) is sufficient to reaffirm the rating at the current rating level in the transactions. ICRA will continue to monitor the performance of the transactions. 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 of contracts.

After making the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pools are provided in the table below.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	**Star CV Trust Dec21**	0.75-1.75%	4-12% p.a.
2	**Star CV Trust Feb 22**	1.00-2.00%	4-12% p.a.
3	**Solitaire CV Trust Feb 2022**	1.00-2.00%	4-12% p.a.

Liquidity position: Superior

The liquidity of all 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 30%-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 between 14 to 23 months for all the three pools.

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 pools till September 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 transactions.

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 (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, the company would be focussing on long-term borrowings for funding its loan book. As of March 31, 2023, the consolidated assets under management (AUM; including IHFPL) stood at Rs. 7,813 crore comprising commercial vehicle (CV) finance (47%), housing finance (21%), small and medium enterprise (SME) finance (17%), and corporate funding (15%).

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; audited)

ICFL	FY2021	FY2022	FY2023
Profit after tax	(241)	(769)	187
Assets under management (AUM)	7,994	8,003	6,190
GNPA	4.4%	15.5%	8.1%
NNPA	2.0%	7.3%	3.8%

Source: ICFL, 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 in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Oct 04, 2023	Feb 21, 2023	Feb 15, 2022	Jan 03, 2022	-
1	**Star CV Trust Dec21**	PTC Series A	197.88	39.33	[ICRA]AAA(SO)	[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 in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 04, 2023	Apr 17, 2023	Apr 29, 2022	Feb 21, 2022	-
2	**Star CV Trust Feb 22**	PTC Series A	183.66	54.57	[ICRA]AAA(SO)	[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 in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 04, 2023	Apr 17, 2023	May 23, 2022	Mar 04, 2022	-
3	**Solitaire CV Trust Feb 2022**	PTC Series A	47.67	13.52	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Complexity level of the rated instrument

Trust name	Instrument	Complexity Indicator
Star CV Trust Dec21	PTC Series A	Simple
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 Dec21	PTC Series A	December 2021	7.70%	May 2026	39.33	[ICRA]AAA(SO)
Star CV Trust Feb 22	PTC Series A	February 2022	7.70%	August 2026	54.57	[ICRA]AAA(SO)
Solitaire CV Trust Feb 2022	PTC Series A	February 2022	8.00%	August 2025	13.52	[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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