February 05, 2025

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

Summary of rating action

Trust name	Instrument*	Initial rated amount (Rs. crore)	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Sun SME Trust Feb 2022	PTC Series A	177.05	59.80	43.63	[ICRA]AAA(SO); reaffirmed

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) are backed by small and medium enterprise (SME) loan receivables originated by Indostar Capital Finance Limited (ICFL/Originator). ICFL is also the servicer for the rated transaction.

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of high amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the January 2025 payout month.

Pool performance summary

Parameter	Sun SME Trust Feb 2022
Payout month	January 2025
Months post securitisation	35
Pool amortisation	70.2%
PTC amortisation	75.4%
Cumulative collection efficiency[1]	98.2%
Loss-cum-90+ days past due (dpd; % of initial pool principal)[2]	0.8%
Loss-cum-180+ dpd (% of initial pool principal)[3]	0.8%
Cumulative prepayment rate[4]	63.9%
Cumulative cash collateral (CC) utilisation	0.0%
CC available (as % of balance PTC principal)	47.0%
Excess interest spread (EIS[5]; as % of PTC principal)	>100%
Breakeven collection efficiency[6]	47.0%

[1] (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)
[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] POS at the time of prepayment of contracts prepaid till date/Initial pool principal
[5] (Pool cash flows till PTC maturity – Cash flows to PTC investors – Originator's residual share)/PTC principal outstanding
[6] (Balance cash flows payable to investor – CC available)/Balance pool cash flows till PTC maturity

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest and principal payouts (100% of the pool principal billed). Any surplus excess interest spread (EIS), after meeting the promised payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Reset of credit enhancement

At the Originator's request for resetting the credit enhancement, ICRA has analysed the transaction and underlying pool. As per ICRA's analysis, the cash collateral (CC) required to maintain the present rating is Rs. 10.25 crore against the existing CC of Rs. 20.50 crore. Based on the pool's performance, the rating for the PTCs will remain unchanged even after the CC amount is reset. However, as per regulatory guidelines, the maximum 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. The CC reset shall be subject to the approval of the PTC investor.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The pool's performance has been healthy with a cumulative collection efficiency of ~98%. This has resulted in low delinquencies in the pool, i.e. 90+ days past due (dpd) and 180+ dpd as of the January 2025 payout month. The breakeven collection efficiency is also low compared to the collection efficiency observed in the pool. Further, there have been no instances of CC utilisation in the pool till date owing to the strong collection performance and the presence of EIS in the transaction.

Substantial credit enhancement available in the structure – The rating factors in the build-up in the credit enhancement cover with the CC increasing to ~47% of the balance PTC principal from ~12% (of initial PTC principal) at the time of securitisation. Internal credit support is also available through the scheduled EIS.

Contracts backed by residential properties – Around 99% of the contracts in the balance pool are backed by residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Adequate servicing capability of originator – The Originator has adequate processes for the servicing of the loan accounts in the securitised pool. It has a track record of regular collections and recoveries across a wide geography.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Karnataka, Telangana and Maharashtra, comprising ~81% of the balance pool principal amount. Its performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposed to interest rate risk – The transaction is exposed to interest rate risk as the underlying pool has floating rate loans linked to ICFL's internal benchmark rate, whereas the yield on the PTCs is fixed.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during their tenure at 2.25% of the initial pool principal with certain variability around it. The average prepayment rate for the pool is modelled in the range of 6% to 24% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction name	Sun SME Trust Feb 2022
Originator	Indostar Capital Finance Limited
Servicer	Indostar Capital Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank Limited
Collection and payout account bank	DBS Bank Limited

Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement for PTC Series A would be more than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge on the consistently weak collection performance of the underlying pool, leading to higher-than expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till the January 2025 payout month (December 2024 collection month), the present delinquency profile of the pool, the credit enhancement available in the transaction, 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), incorporated in July 2009, is registered with the Reserve Bank of India as a systemically important, non-deposit taking, non-banking financial company. It was founded and incorporated in 2010 by private equity players (Everstone, Goldman Sachs, Baer Capital Partners, ACPI Investment Managers, and CDIB International) with initial capital of around Rs. 900 crore. The company was listed on stock exchanges in FY2019 and received a fresh equity infusion of Rs. 700 crore. In May 2020, Brookfield invested Rs. 1,225 crore and became the largest shareholder and promoter. As on September 30, 2024, Brookfield had a 56.20% stake in ICFL, followed by the Everstone Group at 17.4%.

While ICFL commenced lending operations in 2011 with a primary focus on wholesale lending, it ventured into SME finance in FY2015, followed by commercial vehicle (CV) financing and housing finance in FY2018. The proportion of CV financing increased substantially after the acquisition of the CV portfolio from IIFL Finance in FY2019. In September 2024, ICFL announced its plan to sell its wholly-owned subsidiary – IndoStar Home Finance Private Limited (engaged in the housing finance business; renamed Niwas Housing Finance Pvt. Ltd. in November 2024) to WITKOPEEND B.V., an affiliate of BPEA EQT Mid-Market Growth Partnership (EQT), a global private equity investor, for Rs. 1,705 crore on a fully-diluted basis. ICFL's board has approved the sale and the sale consideration is expected to be utilised for further scaling up the CV financing portfolio. The transaction is pending regulatory approvals and IndoStar Home Finance Limited will remain under ICFL's ownership until the necessary approvals are obtained and the transaction is finalised.

At the standalone level, ICFL reported a net profit of Rs. 29 crore in H1 FY2025 on an asset base of about Rs. 10,853 crore as on September 30, 2024 compared to a net profit of Rs. 72 crore in FY2024 on an asset base of Rs. 9,401 crore as on March 31, 2024.

Key financial indicators (standalone; audited)

ICFL	FY2023	FY2024	9M FY2025*
Total income	993	1,125	1,037
Profit after tax	187	72	40
Total managed assets	10,402	8,968	9,749
Gross stage 3	8.1%	5.0%	4.9%
CRAR	31.6%	28.9%	28.5%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust name	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Initial amount rated (Rs. crore)	Current amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Feb 05, 2025	Apr 23, 2024	Apr 20, 2023	Apr 29, 2022	Feb 28, 2022
Sun SME Trust Feb 2022	PTC Series A	177.05	43.63	**[ICRA]AAA(SO)**	**[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: 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 28, 2022	7.78%	October 15, 2035	43.63	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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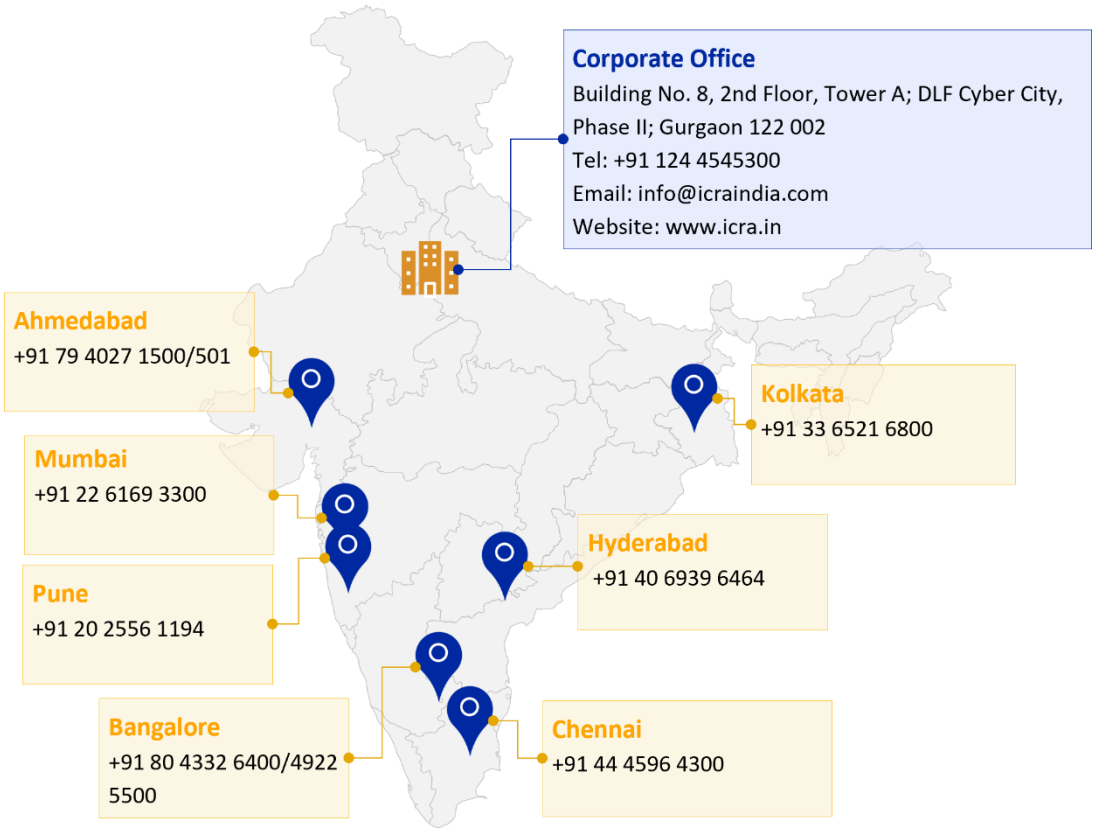

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