

March 19, 2021

Indostar Capital Finance Limited: Rating reaffirmed for assignee payouts under vehicle loan securitisation transaction

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 PCG CV Jan 20	Assignee payouts	80.59 [^]	NA	55.04	[ICRA]A(SO); Reaffirmed

*Instrument details are provided in Annexure-1

[^] Rs. 2.43-crore rating was withdrawn in March 2020 and rating for the balance amount was finalised

Rationale

The assignee payouts originated by Indostar Capital Finance Limited (Indostar) are backed by commercial vehicle (CV) and passenger vehicle (PV) loans and other asset-backed loans with an initial pool principal of Rs. 80.59 crore (Rs. 2.43-crore provisional rating was withdrawn in March 2020). The rating reaffirmation is on account of the moderate amortisation in the transaction, which has led to the build-up of the credit enhancement (CE) cover over the future assignee payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool after the January 2021 payouts has been provided below.

Parameter	Star PCG CV Jan 20
Months post securitisation	12
Balance pool principal (Rs. crore)	56.56
Balance assignee principal (Rs. crore)	55.04
Pool amortisation (%)	27.64%
Assignee amortisation (%)	29.58%
Cumulative collection efficiency (%) ¹	94.33%
Cumulative prepayment rate	6.26%
Monthly prepayment rate	0.71%
Loss-cum-30+ (% of initial pool principal) ²	23.21%
Loss-cum-90+ (% of initial pool principal) ³	3.89%
Breakeven collection efficiency (%) ⁴ assignee payouts	80.65%
Cumulative cash collateral (CC) utilisation	0.00%
As a % of balance pool principal	
CC available	10.37%
Excess Interest Spread (EIS) over balance tenure	9.55%
CE ⁵ available	15.15%

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

⁵ CC + 50% of EIS

Key rating drivers

Credit strengths

- Moderate amortisation of pool resulting in build-up of CC and EIS cover available for balance assignee payouts

Credit challenges

- Moderate state concentration with top three states accounting for around 54% of balance pool principal
- High share (75%) of balance pool with loan-to-value (LTV) of more than 80%
- Pool's performance will remain exposed to any fresh disruptions that may arise due to Covid-19 pandemic

Description of key rating drivers highlighted above

The scheduled cash flow promised to the assignee payouts on each payout date includes 100% of the monthly billed principal on the pool and the interest at the contracted yield. The investor in the transaction had approved five months of moratorium from April 2020 to August 2020 and the maturity of the assignee payouts was accordingly extended by five months. The nature of the moratorium granted was such that no CC was to be used in case of any shortfall to meet the promised payouts. Post moratorium, the lower collection efficiency in the pool for the September 2020 (~78%) and October 2020 (~83%) collection months led to the utilisation of the CC to the extent of 5.96% (as a percentage of initial CC) to meet the promised payouts. However, the monthly collection efficiency has been improving month-on-month post the October 2020 collection month (>100% as of December 2020 collection month) and the cumulative collection efficiency stood at ~94% as of the December 2020 collection month. This has led to the full replenishment of the CC in the transaction as of the January 2021 payouts. Due to the amortisation of the pool, there has also been a considerable build-up in the CE for the balance tenure of the PTC payouts.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating for the transaction. ICRA will continue to closely monitor the performance of the transaction. 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 contracts. After taking into account the above-mentioned factors for the current pool, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.00-5.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 8-12% per annum.

Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to around 10% 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 CC would cover the shortfalls in the assignee payouts for a period of four months.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool contracts (Monthly collection efficiency >95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the performance of the pool till January 2021 (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 company

Indostar Capital Finance Limited (Indostar) was originally incorporated as R V Vyapaar Private Ltd. in July 2009. The company's name was changed to IndoStar Capital Finance Private Limited in November 2010 and to IndoStar Capital Finance Limited in April 2014. The company is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit accepting non-banking financial company. It is sponsored by a group of financial institutions including Everstone Capital, Goldman Sachs Group, Baer Capital Partners and ACPI Investment Managers.

IndoStar Capital (ICF Mauritius), a company incorporated in Mauritius, has a majority shareholding in Indostar with a 57.02% stake as on September 30, 2018. ICF Mauritius is promoted by the sponsors of Indostar. Indostar got listed in May 2018 and received a fresh equity infusion of Rs. 700 crore. The promoters & promoter group's stake stood at 60.3% as on December 31, 2018. Indostar initially provided wholesale loans to the real estate and non-real estate segments. It commenced commercial vehicle financing in addition to SME financing. In July 2020, the Brookfield deal was completed with Rs. 1,225 crore of infusion of equity. Post the deal and the open offer, Brookfield holds ~57% of the shares on a fully-diluted basis.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	9M FY2021 (Provisional)
Total revenues	657.4	738.2	460.2
Profit after tax	240.7	-324.6	103.0
Loan book (AUM)	11,735	9,690	8,864.5
Gross NPA	2.6%	4.5%	2.8%
Net NPA	1.7%	3.6%	1.8%

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
				Mar 19, 2021	Mar 05, 2020 [^]	Jan 31, 2020	-	-	
1 Star PCG CV Jan 20	Assignee Payouts	76.93	59.71	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	

[^] Rs. 2.43-crore rating was withdrawn in March 2020 and the rating for the balance amount was finalised

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Star PCG CV Jan 20	Assignee Payouts	January 2020	9.10%	September 2024	55.04	[ICRA]A(SO)

**Schedule maturity extended by five months post moratorium*

Annexure-2: 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

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6169 3304

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.

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For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



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