

January 03, 2022

Indostar Capital Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by a pool of vehicle loan receivables issued by Star CV Trust Dec21

Summary of rating action

Trust	Instruments*	Rated Amount (Rs. crore)	Rating Action
Star CV Trust Dec21	PTC Series A	197.88	Provisional [ICRA]AAA(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned provisional rating to pass-through certificates¹ (PTC) Series A issued under a securitisation transaction originated by Indostar Capital Finance Limited (ICFL) (rated [ICRA]A1+). The PTCs are backed by loan receivables of a Rs. 197.88-crore pool (pool principal, receivables of Rs. 240.12 crore) of new commercial vehicle (CV), used CV, passenger vehicle (CV) and construction equipment (CE) loan contracts.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, ICFL's track record as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 15.00% of the pool principal to be provided by ICFL and (ii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and cash collateral
- Absence of overdue contracts as on pool cut-off date
- Moderate seasoning at ~10 months

Credit challenges

- Moderate geographical concentration (~45%) of the contracts in the pool from top 3 states
- Moderate share of high LTV contracts (~24%) in pool with LTV greater than 85%.
- Pool's performance will remain exposed to any disruptions that may arise due to the Covid-19 pandemic

¹ PTCs are also referred to as 'Securitisation Notes'

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A on a monthly basis will comprise the interest (at the predetermined yield) on the outstanding PTC principal and the principal to the extent of 100% of the billed pool principal on each payout date. The excess available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month. The pool amortisation schedule and the promised payouts to the PTC investors are subject to modification on account of prepayments.

The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of subordination of the excess interest spread (EIS) in the structure. The residual EIS (after meeting scheduled PTC payout and top up of CC, if any, in any month) would leak out to the originator. Further support is available through cash collateral stipulated at 15.00% of the initial pool principal. The cash collateral would be in the form of fixed deposit maintained with a Designated Bank acceptable to ICRA.

The pool consists predominantly of used vehicle loans (81.1% of pool principal) and new vehicles account for the balance (18.9% of the pool principal). Asset-class wise, used HCV form the largest share (52.0%) followed by used LCV (17.9%), new LCV (11.5%), used PV (7.8%), new PV (3.2%), new HCV (2.7%) and others (5.0%). The pool consists of vehicle loans with a moderate seasoning profile with the weighted average seasoning of the pool being 9.7 months. All the contracts in the pool are current as on the cut-off date. The pool has moderate geographical concentration with the top three states (Tamil Nadu, Rajasthan and Uttar Pradesh) accounting for 45.2% of the pool. The share of contracts in the pool with LTV greater than 85% is moderate at 24.4%. The pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Performance of past rated pools: In the past, ICRA has rated four standalone pools for Indostar with previous pool rated in Mar-20. The performance of the live pools has been moderate with a cumulative collection efficiency above 94% and loss-cum-30+ dpd in the range of 6% to 14% after the November 2021 payouts. There has been no CC utilisation in the pool as on November 2021 payout month, since the collections in the pool in the interim months have helped replenish the CC to initial level.

Key rating assumptions

ICRA's cash flow modelling for rating 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 the 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 making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 3.0% - 4.0%, 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 the rated transaction 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 15% of the 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 eight months.

Rating sensitivities

Positive factors - Not applicable

Negative factors - Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and CE utilization levels

Analytical approach

The rating action is based on the analysis of the performance of ICFL's portfolio till September 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Indostar Capital Finance Limited (ICFL) 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 ICFL with a 57.02% stake as on September 30, 2018. ICF Mauritius is promoted by the sponsors of ICFL. ICFL 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. ICFL 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

ICFL	FY2020 (audited)	FY2021 (audited)	Q2 FY2022 (provisional)
Total revenues	738	581	145
Profit after tax	(324)	(214)	39
Loan book (AUM)	9,690	8,398	8,117
Gross NPA	4.8%	4.4%	4.7%
Net NPA	3.8%	2.1%	2.3%

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

Trust	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
	Instruments	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				January 03, 2022	-	-	-
1 Star CV Trust Dec21	PTC Series A	197.88	197.88	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: www.icra.in

Annexure-1: Instrument details

Trust	Instruments	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)*	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Star CV Trust Dec21	PTC Series A	December 2021	7.70%	May 2026	197.88	Provisional [ICRA]AAA(SO)

Source: Company; *per annum payable monthly

Annexure-2: 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.

For more information, visit www.icra.in

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