

February 21, 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 Feb 22

Summary of rating action

Trust	Instruments*	Rated Amount (Rs. crore)	Rating Action
STAR CV Trust Feb 22	PTC Series A	183.66	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 a provisional rating to PTC¹ Series A issued under a securitisation transaction originated by Indostar Capital Finance Limited (ICFL; rated [ICRA]A1+). The PTCs are backed by the loan receivables of a Rs. 183.66-crore pool (pool principal, receivables of Rs. 225.88 crore) of new commercial vehicle (CV), used CV, new passenger vehicle (PV), used PV, tractor and farm equipment 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 CC
- Absence of overdue contracts as on pool cut-off date
- Moderate weighted average seasoning (~10 months) of the pool

Credit challenges

- High geographical concentration (~40%) of the contracts in the pool from top 3 states
- High share of high LTV contracts (~37%) 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

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

¹ PTCs – Pass-through certificates; also referred to as securitisation notes

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

The pool consists predominantly of used vehicle loans (79.5% of pool principal) while new vehicles account for the balance (20.5%). Asset-class wise, used heavy commercial vehicle (HCV) forms the largest share (54.6%) followed by used light commercial vehicle (LCV; 16.0%), new LCV (11.4%), used PV (5.8%), new PV (3.9%), new HCV (3.3%) and others (5.0%). The pool consists of vehicle loans with a moderate seasoning profile and a weighted average seasoning of 9.4 months (based on number of instalments paid). All the contracts in the pool are current as on the cut-off date. The pool has high geographical concentration with the top 3 states (Rajasthan, Tamil Nadu and Uttar Pradesh) accounting for 40.0% of the pool. The share of contracts in the pool with LTV of more than 85% is high at ~37%. 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 five standalone pools for ICFL with previous pool rated in Dec-21. The performance of the pools has been satisfactory with a cumulative collection efficiency of above 95% as on Jan-22 payout. The loss cum 90+ dpd for the pool had increased post the end of moratorium but has been reducing post Jul-21. Due to improvement in collections the CC post end of moratorium has been fully topped up in Mar-20 pool.

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 of 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 CC amounting to 15% of the 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 a period of nine months.

Rating sensitivities

Positive factors - Not applicable

Negative factors - Sustained weak collection performance of the underlying pool of contracts (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 CE 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. Its name was changed to IndoStar Capital Finance Private Limited in November 2010 and to Indostar Capital Finance Limited in April 2014. ICFL is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit accepting non-banking financial company. The company is sponsored by a group of financial institutions including Evertone Capital, Goldman Sachs Group, Baer Capital Partners and ACPI Investment Managers.

As of December 31, 2021, Brookfield held a 56% stake in ICFL, followed by Indostar Capital Mauritius at 33% (including ECP II & ECP III). The Brookfield Group 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.

ICFL initially provided wholesale loans to the real estate and non-real estate segments. It commenced CV financing in addition to small and medium enterprise (SME) financing. The company also provides housing finance through its fully-owned subsidiary

– Indostar Home Finance Private Limited.

On a consolidated basis, ICFL reported a net loss of Rs. 214 crore in FY2021 on assets under management (AUM) of about Rs. 8,990 crore compared to a net loss of Rs. 325 crore on AUM of Rs. 9,690 crore in FY2020. In 9M FY2022, the company reported a profit after tax (PAT) of Rs. 17 crore against a PAT of Rs. 103 crore in 9M FY2021.

Key financial indicators

ICFL	FY2020 (audited)	FY2021 (audited)	9M FY2022 (provisional)
Total revenues (net)	738	581	436
Profit after tax	(325)	(214)	17
Assets under management (AUM)	9,690	8,990	9,236
Gross stage 3 (%)	4.8%	4.4%	4.3%
Net stage 3 (%)	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
				February 21, 2022	-	-	-
1 STAR CV Trust Feb 22	PTC Series A	183.66	183.66	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 Feb 22	PTC Series A	February 2022	7.70%	Aug 2026	183.66	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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