February 21, 2023

Indostar Capital Finance Limited: Rating reaffirmed for assignee payouts under a 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^	21.59	7.50	[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^ Rs. 2.43-crore rating was withdrawn in March 2020 and rating for the balance amount was finalised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 (ICFL; rated [ICRA]A1+@) are backed by commercial vehicle (CV) and passenger vehicle (PV) loans and other asset-backed loans. The rating reaffirmation takes into account the high 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.

Pool Performance Summary

A summary of the performance of the pool after the January 2023 payouts has been provided below.

Parameter	Star PCG CV Jan 20
Months post securitisation	36
Balance pool principal (Rs. crore)	7.46
Balance assignee principal (Rs. crore)	7.50
Pool amortisation (%)	90.46%
Assignee amortisation (%)	90.40%
Cumulative collection efficiency (%)[1]	98.00%
Cumulative prepayment rate	21.95%
Monthly prepayment rate	0.69%
Loss-cum-30+ (% of initial pool principal)[2]	2.77%
Loss-cum-90+ (% of initial pool principal)[3]	1.24%
Breakeven collection efficiency (%)[4] assignee payouts	28.53%
Cumulative cash collateral (CC) utilisation	0.00%
Excess interest spread (EIS) as a % of balance pool principal	7.19%
CC available as a % of balance pool principal	78.63%

Key rating drivers

Credit strengths

- High amortisation of the pool resulting in build-up of credit enhancement available for the balance assignee payouts

[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

- Low delinquency levels exhibited by the pool

Credit challenges

- Moderate state concentration with top three states contributing to around 48% of balance pool principal;
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

As per the transaction structure, 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 first line of support for meeting any shortfall in scheduled assignee payouts is available in the form of excess interest spread (EIS) in the structure. The residual EIS (after meeting scheduled assignee payout and top up of CC, if any, in any month) leaks out to the Originator.

The pool has reported strong cumulative collection efficiency at 98.0% and low delinquency for 90+ dpd bucket at 1.2% for December 2022 collection month. There is nil CC utilisation in the pool as on January 2023 payout month. Due to the amortisation of the pool, there has also been a considerable build-up in the CE for the balance tenure of the assignee payouts. The breakeven collection efficiency is reported at 28.5% which considerably lower as compared to the collection efficiency observed in the pool till January 2023 payout month.

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 0.5-1.5% of the initial pool principal, 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: 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 cash collateral amounting to around 78% of the balance pool principal amount.

Rating sensitivities

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

Negative factors – Sustained weak collection performance of the underlying pool of contracts leading to higher than expected delinquency levels and CE utilization levels

Analytical approach

The rating action is based on the performance of the pool till January 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 transaction.

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 offers 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). As of June 30, 2022, the consolidated AUM (including IHFPL) aggregated Rs. 8,247 crore comprising CV finance (46.5% share), small and medium enterprise (SME) finance (20.0%), housing finance (17.8%), and corporate funding (15.6%; defocused).

As on June 30, 2022, Brookfield held a 56.20% stake in ICFL, followed by IndoStar Capital Mauritius at 33% (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)

ICFL	FY2021 (audited)	FY2022 (audited)	H1 FY2023 (provisional)
Total revenues	1,193	1,054	496
Profit after tax	(241)	(769)	83
Assets under management (AUM)	7,994	8,003	6,419
Gross stage 3 (%)	4.4%	7.3%	8.3%
Net stage 3 (%)	2.0%	20.1%	3.4%

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 name	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Feb 21, 2023	Mar 28, 2022	Mar 19, 2021	Mar 05, 2020^	Jan 31, 2020
1	Star PCG CV Jan 20	Assignee Payouts	80.59	7.50	**[ICRA]A(SO)**	**[ICRA]A(SO)**	**[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

Instrument	Complexity Indicator
Assignee Payouts	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-1: Instrument details

Trust 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	7.50	[ICRA]A(SO)

**Schedule maturity extended by five months post moratorium*

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.

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