April 23, 2024

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)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Mar-24 Payout (Rs. crore)	Rating Action
Sun SME Trust Feb 2022	PTC Series A	177.05	101.01	59.80	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) are backed by a pool of small and medium enterprise (SME) loan receivables originated by Indostar Capital Finance Limited (ICFL). The rating has been reaffirmed on account of the healthy pool amortisation, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The performance of the pool has remained healthy with the 90+ days past due (dpd) at 1.6% of the initial pool principal as of the March 2024 payout. The rating also draws comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the March 2024 payout month.

Pool performance summary

A summary of the performance of the pool till the March 2024 payout month has been tabulated below.

Parameter	Sun SME Trust Feb 2022
Months post securitisation	25
Pool amortisation	61.9%
PTC amortisation	66.2%
Cumulative collection efficiency[1]	97.4%
Loss-cum-90+ (% of initial pool principal)[2]	1.6%
Loss-cum-180+ (% of initial pool principal)[3]	1.6%
Breakeven collection efficiency[4]	52.5%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	28.9%
Excess interest spread (EIS; as % of balance pool principal)	85.4%
Cumulative prepayment rate[5]	56.9%

Key rating drivers

Credit strengths

- Healthy amortisation of pool, resulting in build-up of cash collateral (CC) and excess interest spread cover (EIS) available for the balance PTC payouts

[1] Cumulative collections till date / Cumulative billings till date + Opening overdues

[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] It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows

[5] POS at the time of prepayment of contracts prepaid till date / Initial pool principal

- Low delinquency levels exhibited by the pool

Credit challenges

- High geographical concentration (~77%) of the contracts in the pool from top 3 states
- PTC yield is fixed while interest rate on underlying loans is linked to ICFL's lending rate, leading to interest rate risk in the structure
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A on a monthly basis comprises the interest (at the predetermined yield) on the outstanding PTC principal and the principal to the extent of 100% of the initial schedule of pool principal billing (after modifying for prepayments/foreclosures). The PTC yield is fixed while the interest rate on the underlying loans is linked to ICFL's lending rate, which leads to interest rate risk in the structure. The excess available after meeting the payouts to the PTCs is passed on to the originator every month. The principal subordination of 5% is also available (PTC Series A principal is 95% of the pool principal); however, since 100% of the billed pool principal is promised every month to the PTC investor, the subordination does not provide any support from a rating perspective.

Post the transaction settlement date, ICFL increased its internal lending rate. Thus, the tenure of the underlying contracts in the pool has been revised (with EMIs remaining constant) as all the contracts in the pool are floating rate contacts. This has led to the extension of the tenure of the underlying pool to May 2043. The investor has, however, kept the maturity of the PTC unchanged (October 2035). The principal payouts to the investor also continue as per the original billing schedule after adjusting for prepayments and have not been revised in line with the change in the principal billing of the contracts in the pool. As a result, a part of the EIS is being used to meet the PTC amortisation. While the cash flows that have shifted beyond the PTC maturity date are no longer being considered by ICRA, the rating still draws support from the usage of EIS to meet higher PTC payouts. Further, the performance of the pool has been healthy with a cumulative collection efficiency of 97.4% (till March 2024 payout), resulting in a low loss-cum-90+ dpd of 1.6%. The pool has amortised by about 62%, further supported by high prepayment rates, leading to the healthy build-up of CE with respect to the balance pool principal.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The performance of the pool would remain exposed to macro-economic shocks/business disruptions., if any

Key rating assumptions

ICRA's cash flow analysis 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 pool 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 the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pool are expected to be in the range of 2.5-3.5% (as a percentage of initial pool principal) and 6.0-20.0%, respectively.

Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the CE available to meet the promised payouts to the investor. The total CE for PTC Series A would be 9.25 times of the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels, would result in a rating downgrade. 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 March 2024 payout month (February 2023 collection month), the present delinquency profile of the pool, the CE available in the pool, 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

ICFL, incorporated in July 2009, is registered with the Reserve Bank of India as a systemically important, non-deposit taking non-banking financial company. The company was founded and incorporated by private equity players (Everstone, Goldman Sachs Baer Capital Partners, ACPI Investment Managers, and CDIB International) with initial capital of around Rs. 900 crore. In May 2020, Brookfield invested Rs. 1,225 crore and became the largest shareholder and co-promoter. As on September 30, 2023, Brookfield held a 56.20% stake, followed by Indostar Capital Mauritius (owned by the Everstone Group and other marquee private equity investors) at 18.80%.

ICFL started business as a wholesale financier in FY2011 and entered the SME finance (loan against property) segment in FY2015. In FY2018, the company started offering vehicle finance and housing finance (through its wholly-owned subsidiary – Indostar Home Finance Pvt Ltd). In FY2019, Indostar acquired the commercial vehicle (CV) finance business of IIFL Finance Ltd. Indostar is a professionally managed and institutionally owned organisation, providing used and new CV finance. It plans to focus on the used CV financing segment hereon.

Key financial indicators (consolidated)

ICFL	FY2022 (audited)	FY2023 (audited)	9M FY2024 (unaudited)
Total income	1,147	1,146	921
Profit after tax	(737)	225	81
AUM	9,658	7,813	8,037
Gross stage 3	13.6%	6.8%	5.3%
CRAR	26%	32%	30%

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	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025 Apr 23, 2024	Date & Rating in FY2024 Apr 20, 2023	Date & Rating in FY2023 Apr 29, 2022	Date & Rating in FY2022 Feb 28, 2022
1	**Sun SME Trust Feb 2022**	PTC Series A	177.05	59.80	**[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 2022	7.78%	October 2035	59.80	[ICRA]AAA(SO)

**Since 100% of the billed pool principal is promised every month to PTC investor, actual maturity date of the PTCs is co-terminus with 95% of the pool billing which is October 2035*

Annexure II: 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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