

April 29, 2022

Indostar Capital Finance Limited: Rating confirmed as final for PTCs backed by SME loan receivables

Summary of rating action

Trust	Instruments*	Rated Amount (Rs. crore)	Rating Action
Sun SME Trust Feb 2022	PTC Series A	177.05	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In February 2022, ICRA had assigned Provisional [ICRA]AAA(SO) rating to pass-through certificate (PTC) Series A issued by Sun SME Trust Feb 2022. The PTCs are backed loan receivables from a Rs. 186.37 crore pool (principal amount; receivables of Rs. 376.28 crore) of SME loan receivables originated by Indostar Capital Finance Limited (ICFL) (rated [ICRA]A1+). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the April 2022 payout is shown in the table below:

Parameter	Sun SME Trust Feb 2022
Months post securitisation	2
Pool amortisation	8.06%
PTC amortisation	8.50%
Cumulative Prepayment rate	7.27%
Cumulative collection efficiency	97.92%
Loss-cum-0+ dpd	2.54%
Loss cum 30+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

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; ~89% of the contracts in the pool have never been delinquent
- Average seasoning at ~15.5 months
- Low share (~6%) of contracts which have high IRR of greater than 13%

Credit challenges

- High geographical concentration (~74%) of the contracts in the pool from top 3 states
- While the PTC Yield is fixed while interest rate on the underlying loans is linked to ICFL's lending rate—which leads to an interest rate risk in the structure
- Pool's performance will remain exposed to any fresh 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 have been 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 PTC Series A in the transaction is in the form of EIS of 43.5% of the pool principal. 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 11.00% of the initial pool principal. The CC is in the form of a fixed deposit maintained with a Designated Bank acceptable to ICRA. ICRA notes that a 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 maturity date of the PTCs is co-terminus with 95% of the pool principal billing.

All the contracts in the pool are secured by immovable property with 95.0% of the pool being secured by residential property. There are no overdues in the pool as on the cut-off date. 88.6% of the contracts in the pool have never been delinquent in the past and the remaining have never been delinquent for more than a month. The weighted average seasoning of the pool is moderate at 15.5 months as on the pool cut-off date (January 31, 2022). Further, high share of loan contracts (75.8%) in the pool having a CIBIL score of more than 700. The pool has high geographical concentration with the top state (Maharashtra) contributing 35.8% of the initial pool principal amount. The PTC Yield is fixed while interest rate on the underlying loans is linked to ICFL's lending rate which leads to an interest rate risk in the structure. Also, the performance of the pool would remain exposed to disruptions caused by the pandemic.

Performance of past rated pools: This is the first SME pool of ICFL.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the 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 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 4.0-5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 16.0-20.0% 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 11% 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 39 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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

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 (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	
1	Sun SME Trust Feb 2022	PTC Series A	177.05	177.05	April 29, 2022	February 28, 2022	-	-
					[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: 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
Sun SME Trust Feb 2022	PTC Series A	February 2022	7.78% p.a.p.m.	October 2035*	177.05	[ICRA]AAA(SO)

Source: Company; *Per annum payable monthly

* 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-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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