

March 05, 2020

Indostar Capital Finance Limited: Rating action for assignee payouts issued under a vehicle loan securitisation transaction Star PCG CV Jan 20

Summary of Rated Instrument

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating action
	Assignee payouts	78.16	Provisional [ICRA]A(SO); confirmed as final
Star PCG CV Jan 20	Assignee payouts	2.43	Provisional [ICRA]A(SO); Withdrawn
	Total	80.59	

*Instrument details are provided in Annexure I

Rationale

ICRA has confirmed the provisional rating for Rs. 78.16 crore assignee payouts issued under by Star PCG CV Jan 20 Trust as final. Further, ICRA has withdrawn rating for balance Rs. 2.43 crore of assignee payouts since the same has not been placed. The assignee payouts are backed by a pool of commercial vehicle, passenger vehicle and other asset-backed loan loans originated by Indostar Capital Finance Limited (Indostar).

In January 2020, ICRA had assigned Provisional [ICRA]A(SO) rating for the above mentioned assignee payouts to be issued by Star PCG CV Jan 20 trust. 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.

Key rating drivers

Credit Strengths

- Availability of credit enhancement in the form of EIS and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date

Credit Weakness

- Moderate geographical concentration of the contracts in the pool at the state level
- Moderate share of contracts with LTV greater than 90%

It is envisaged that for this transaction, the Assignee will avail the partial credit guarantee (PCG) under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to public sector banks (PSBs) for purchasing high-rated pooled assets from NBFCs/housing finance companies (HFCs). ICRA has not factored in the PCG while arriving at the assigned rating.

Description of key rating drivers highlighted above:

According to the transaction structure, the loan pool receivables will be assigned to the investor at par. The first line of support for meeting the scheduled assignee payouts is the EIS in the structure, which is subordinated. Further credit enhancement is available through the CC from Indostar equivalent to 7.50% of the pool principal.

The scheduled cash flow promised to the Assignee on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The pool amortisation schedule and thus the promised payouts to the Assignee are subject to modification on account of prepayments.

The pool consists of vehicle loans with a moderate seasoning profile with the weighted average seasoning of the pool being 9.99 months. All the contracts in the pool are current as on the cut-off date. The pool has moderate geographical concentration with the top state of Tamil Nadu accounting for ~30% and the top three states accounting for ~55%. The pool has 29.86% share of contracts with LTV greater than 90%.

Past rated pool performance: In the past, ICRA has rated two standalone pool for Indostar with last pool rated in Jan-20. The performance of the live pool which has completed atleast two payout as on Jan-20 has been moderate with a cumulative collection efficiency of ~95% and loss-cum-30+ dpd of 7.80% after the January 2020 payouts. There has been no CC utilisation till date.

Key rating assumptions

ICRA's cash flow modelling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the prevalent macroeconomic situation as well as any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.0% - 5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 8% - 12% 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 7.5% 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 assignee payouts for a period of 4 months.

Rating sensitivities

- **Positive triggers** – Sustained strong collection performance of the underlying pool contracts (Monthly collection efficiency >95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements.
- **Negative triggers** – 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 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	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions

Analytical Approach	Comments
	ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the Company:

Indostar Capital Finance Limited 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 Indostar with a 57.01% stake as on March 31, 2019. ICF Mauritius is promoted by the sponsors of Indostar. It was listed in May 2018 and received a fresh equity infusion of Rs. 700 crores. The promoters & promoters group stake as on March 31, 2019 stood at 60.5%. It initially provided wholesale loans to both real estate and non-real estate segment. It also commenced commercial vehicle financing in addition to SME financing. The company's loan book and net worth stood at Rs. 10,183 crore and Rs. 3,030 crore respectively as on March 31, 2019.

In FY2019, it reported a net profit of Rs. 255 crore on an asset base of Rs. 12,278 crore compared to a net profit of Rs. 212 crore on an asset base of Rs. 7,194 crore in FY2018.

Indostar currently has a rating of [ICRA]A1+ for its commercial paper programme.

Key financial indicators (standalone)

Particulars	FY2018	FY2019
Net interest income	392	478
Profit after tax	212	255
Net worth	2,084	3,030
Loan book	5,850	10,183
Total assets	7,194	12,278
Return on average total assets	3.34%	2.62%
Return on equity	10.64%	9.98%
Gearing	2.38	3.01
Gross NPA	1.61%	2.72%
Net NPA	1.02%	1.61%
Net NPA/Net worth	2.86%	5.42%
Capital adequacy ratio	27.2%	24%

As per Ind-AS; Note: Amounts in Rs. crore

Source: indostar, ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

S.No	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2020*	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					05 March 2020	31 January 2020	-	-	-
1	Star PCG CV Jan 20	Assignee Payouts	78.16	78.16	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-	-
			2.43	0.00	Provisional [ICRA]A(SO) withdrawn	Provisional [ICRA]A(SO)	-	-	-

*Initial Ratings assigned

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure I

Details of Instruments

Trust Name	Instrument Name	Date of Issuance	Coupon Rate (p.a.)	Scheduled Maturity Date*	Current amount o/s (Rs. crore)	Current Rating
Star PCG CV Jan 20	Assignee Payouts	January 2020	9.10% ¹	May 2024	78.16	[ICRA]A(SO)
		NA	NA	NA	0.00	Provisional [ICRA]A(SO) Withdrawn

* the actual tenure is likely to be shorter owing to prepayments

¹ Linked to 1-year MCLR of assignee

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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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