

March 25, 2020

Indostar Capital Finance Limited: Provisional [ICRA]AAA(SO) rating assigned to pass through certificates (PTCs) to be issued under Star CV Trust March 2020

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Star CV Trust March 2020	PTC Series A	76.93	Provisional [ICRA]AAA(SO) assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) [pronounced provisional ICRA Triple A (structured obligation)] rating to the pass-through certificates (PTCs) Series A issued under a securitisation transaction backed by a Rs 76.93 crore (principal outstanding) pool of vehicle loans originated by Indostar Capital Finance Limited (Indostar/ICF)

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, Indostar's track record in the lending business, the available credit enhancement in the form of a cash collateral (CC) and subordination of the excess interest spread (EIS), as well as the integrity of the legal structure. The provisional 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 cash collateral
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- Moderate geographical concentration of the contracts in the pool at the state level
- Moderate seasoning at 8.45 months as compared to balance tenure of 53 months

Description of key rating drivers highlighted above

The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of subordination of the excess interest spread (EIS) in the structure (amounting to around 10% of the pool principal amount). The residual EIS (after meeting scheduled PTC payout and top up of CC, if any, in any month) would leak out to the originator. Further support is available through cash collateral stipulated at 15.00% of the initial pool principal. The cash collateral would be in the form of fixed deposit maintained with a Designated Bank acceptable to ICRA.

The scheduled cash flow promised to the PTC investors 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 PTC investors are subject to modification on account of prepayments.

The pool consists of vehicle loans with a low seasoning profile with the weighted average seasoning of the pool being 8.45 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 36.14% and the top three states accounting for 61.43% of the pool.

Past rated pool performance: In the past, ICRA has rated three standalone pools for Indostar with last pool rated in Jan-20. The performance of the live pool which has completed atleast two payout as on Feb-20 payouts has been moderate with a cumulative collection efficiency of ~95% and loss-cum-30+ dpd of ~8% after the February 2020 payouts. There has been no CC utilisation till date in the pool.

Key rating assumptions

ICRA's cash flow modelling for the rating of asset-backed security (ABS) 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 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 3.5-4.5%, 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: 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 15% 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 ten months.

Rating sensitivities

- **Positive triggers** – NA
- **Negative triggers** Pressure on the rating could arise on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%) leading to higher than expected delinquency levels and credit enhancement utilization levels.

Analytical approach

The rating action is based on the analysis of the performance of Indostar's portfolio till December 2019 and the previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover 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 company

ICF is a systemically important NBFC. It offers long-term wholesale funding to corporates, used and new vehicle financing for transporters, loans to SME borrowers, and home finance through its wholly-owned subsidiary IHFPL. As of December 31, 2019, the assets under ICF's management (at consolidated level) aggregated Rs. 10,222 with 44% share of commercial vehicle (CV) finance book, 25% share of real estate corporate funding segment, 6% share of non-real estate corporate funding, 18% share of SME finance and 8% share of housing finance book.

While ICF commenced lending operations in 2011 with a primary focus on wholesale lending, it ventured into SME finance in FY2015, followed by used and new vehicle financing for transporters and loans to SME borrowers in FY2018. The proportion of CV financing has increased substantially (to 44% in Dec'19 from 9% in Sep'18) post the acquisition of Rs. 3,514-crore CV portfolio (AUM basis) from IIFL in March 2019. With the acquisition of the CV portfolio from IIFL, the branch network of the company increased from 161 branches to 322 branches, before being rationalized to 233 during 9MFY2020.

ICF got listed on stock exchanges in May 2018 and received a fresh equity infusion of Rs. 700 crore. ICF is sponsored by a group of financial institutions including Everstone Capital, Goldman Sachs, CDIB Capital etc. Indostar Capital (ICF Mauritius), a company incorporated in Mauritius, has a majority shareholding in ICF with 57.0% stake as on December 31, 2019. ICF Mauritius is promoted by the sponsors of ICF. As of December 31, 2019, the promoter group's stake in ICF stood at 60.74%.

As per the share subscription agreement dated January 31, 2020, ICF shall issue to Brookfield group equity shares representing 21.09% of the expanded voting share capital and compulsorily convertible preference shares representing 8.44% of the expanded voting share capital for a total consideration of Rs. 1,225 crore. Further, as per the share purchase agreement dated January 31, 2020, Brookfield group shall purchase from ICF Mauritius, aggregate of: (a) five million equity shares (tranche 1) and (b) such additional number of equity shares held by ICF Mauritius (up to a maximum of three million equity shares) which together with the tranche 1 shares, the subscription securities and the securities acquired from public shareholders pursuant to the open offer, amount to 40% of the expanded voting share capital.

In FY2019, the company on a standalone basis reported a net profit of Rs. 255 crore on an asset base of about Rs. 12,254 crore compared to a net profit of Rs. 212 crore on an asset base of Rs. 7,273 crore in FY2018. In 9MFY2020, the company reported a net profit of Rs. 80 crore.

On a consolidated basis, the company reported a net profit of Rs. 241 crore in FY2019 on an asset base of about Rs. 12,277 crore compared to a net profit of Rs. 200 crore on an asset base of Rs. 7,273 crore in FY2018. In 9MFY2020, the company, on a consolidated level, reported a net profit of Rs. 97 crore on an on-book asset base of about Rs. 9,449 crore.

Key financial indicators – Indostar Capital Finance Limited

Amounts in Rs. Crore	Standalone			Consolidated		
	FY2018	FY2019	H1FY2020	FY2018	FY2019	9MFY2020
Accounting Standard	Ind-AS	Ind-AS	Ind-AS	Ind-AS	Ind-AS	Ind-AS
PAT	212	255	80	200	241	97
Adjusted Net Worth*	2,084	2,730	2,810	2,075	2,706	2,795
Assets under Management (AUM)	6,009	11,187	10,010	6,060	11,735	10,222
Return on Average Assets	3.3%	2.6%	1.4%	3.1%	2.5%	1.5%
Return on Average Equity	10.6%	10.6%	5.8%	10.2%	10.1%	4.7%
Gearing (times)	2.4	3.3	2.8	2.4	3.3	2.3
Adjusted Net Worth/ AUM	34.4%	23.3%	28.1%	34.2%	23.1%	27.3%
CRAR*	31.6%	24.0%	25.7%			
Gross Stage 3 (%)	1.6%	2.6%	3.7%	1.6%	2.6%	4.3%
Net Stage 3 (%)	1.0%	1.6%	3.0%	1.0%	1.6%	3.4%
Net Stage 3/ Adjusted Net Worth	2.9%	6.0%	9.7%	2.9%	6.1%	10.8%

Source: ICF, ICRA research; *Adjusted for Rs. 300 crore Goodwill

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					25 March 2020	-	-	-
1	Star CV Trust March 2020	PTC Series A	76.93	76.93	Provisional [ICRA]AAA(SO)	-	-	-

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-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ¹)	Current Rating
Star CV Trust March 2020	PTC Series A	March 2020	9.10%	August 2024	76.93	Provisional [ICRA] AAA(SO)

[#] Per annum payable monthly

¹ 100 lakh = 1 crore = 10 million

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About ICRA Limited:

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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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