September 02, 2020

Indostar Capital Finance Limited: Rating confirmed as final for PTCs issued under a vehicle loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating action
Star CV Trust March 2020	PTC Series A	76.93	[ICRA]AAA(SO); provisional rating confirmed as final

Instrument details are provided in Annexure I

Rationale

In March 2020, ICRA had assigned Provisional [ICRA]AAA(SO) rating to pass-through certificates (PTC) Series A issued by Star CV Trust March 2020. The PTCs are backed by commercial vehicle (CV) and passenger vehicle (PV) loan receivables with principal outstanding of Rs. 76.93 crore originated by Indostar Capital Finance Limited (Indostar). 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 ratings have now been confirmed as final.

Key rating drivers

Credit Strengths

- Availability of credit enhancement in the form of Cash Collateral and Excess Interest Spread (EIS)
- 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 seasoning at 8.45 months as compared to balance tenure of 53 months
- Uncertainty on the performance of the pool post moratorium period due to COVID-19 pandemic;

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 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.

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 PTC Series A investor (ICICI Bank) has provided approval for extension of moratorium for underlying contracts for six months (March 2020 to August 2020 collections) in line with the 'Covid-19 Regulatory Package' announced by the Reserve Bank of India on March 27, 2020 and May 23, 2020. As per the investor approvals, the credit enhancement has been used to meet promised interest payouts and promised principal pay-outs (to the extent of borrowers in the underlying pool who have not availed moratorium). These changes have reduced the extent of CC utilisation over this period when the collections are expected to be lower due to the countrywide lock-down. There has been some CC utilisation in payout months of May 2020 to July 2020. However, due to improved collections, marginal top up of CC was witnessed in the payout month of August 2020. CC as % of initial pool principal stands at 13.3% after August 2020 payout.

Past rated pool performance: In the past, ICRA has rated four standalone pools for Indostar with last pool rated in Mar-20. All the pools were granted moratorium by the investor from March'20 to August'20 collection month. The performance of the live pool which has completed atleast two payout upto March-20 payouts has been moderate with a cumulative collection efficiency of ~96% and loss-cum-90+ dpd being below 0.70% after the March 2020 payouts. There has been no CC utilisation till date in the pool.

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 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%[1] 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 – Not Applicable

Negative triggers – Pressure on the ratings could emerge on sustained weak collection performance of the underlying pool contracts (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and credit enhancement (CE) utilization levels.

[1] *13.3% of initial pool principal after August 2020 payout*

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
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the Company:

IndoStar Capital Finance Limited (Indostar) 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. The company 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 57.02% stake as on September 30, 2018. ICF Mauritius is promoted by the sponsors of Inostar. Indostar got listed in May 2018 and received a fresh equity infusion of Rs. 700 crores. The promoters & promoters group stake as on December 31, 2018 stood at 60.3%. Indostar initially provided wholesale loans to both real estate and non-real estate segment. The company has also commenced commercial vehicle financing in addition to SME Financing. In July 2020, Brookfield deal has been completed with Rs. 1225 crore of infusion of equity and CCPS. Post the deal and open offer, Brookfield holds ~57% shares on fully diluted basis.

As of March 2020, it reported asset under management of Rs.9,689.9 crore, and its net-worth stood at Rs.2,680.6 crore.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	Q1FY2021 (Provisonal)
Total revenues	657.4	738.2	149.6
Profit after tax[1]	240.7	-324.6	47.2
Loan book (AUM)	11,735	9,690	9,810
Gross NPA	2.6%	4.5%	4.4%
Net NPA	1.7%	3.6%	3.5%

Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018	Date & Rating in FY2017
					2 Sep 2020	25 March 2020	-	-
1	Star CV Trust March 2020	PTC Series A	76.93	76.93	[ICRA]AAA(SO)	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	[ICRA]AAA(SO)

** the actual tenure is likely to be shorter owing to prepayments and accelerated amortization*

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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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