

March 19, 2021

Indostar Capital Finance Limited: Rating reaffirmed for PTCs issued under vehicle loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount Outstanding After Last Surveillance (Rs. crore)	Rated Amount (Rs. crore)	Rating Action
Star CV Trust March 2020	PTC Series A1	76.93	NA	59.71	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) originated by Indostar Capital Finance Limited (Indostar) are backed by commercial vehicle (CV) and passenger vehicle (PV) loans with an initial pool principal of Rs. 76.93 crore. The rating reaffirmation is on account of the moderate amortisation of the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool after the February 2021 payouts has been provided below.

Parameter	Star CV Trust March 2020
Months post securitisation	11
Balance pool & PTC principal (Rs. Cr)	59.71
Pool & PTC amortisation (%)	22.38%
Cumulative collection efficiency (%) ¹	91.90%
Cumulative prepayment rate	3.72%
Monthly prepayment rate	0.34%
Loss-cum-30+ (% of initial pool principal) ²	11.97%
Loss-cum-90+ (% of initial pool principal) ³	1.94%
Breakeven collection efficiency (%) ⁴ PTC A1	76.82%
Cumulative cash collateral (CC) utilisation	6.91%
As a % of balance pool principal	
CC available	17.99%
Excess interest spread (EIS) over balance tenure	10.56%
CE ⁵ available	51.68%

Key rating drivers

Credit strengths

- Moderate amortisation of pool resulting in build-up of CC and EIS cover available for balance PTC payouts

Credit challenges

- Moderate state concentration with top three states accounting for around 61% of balance pool principal

¹ Cumulative collections / (Cumulative billings + opening overdue at the time of securitisation)

² POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

³ POS on contracts aged 90+ 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 – CC available) / Balance pool cash flows

⁵ CC + 50% of EIS

- Pool's performance will remain exposed to any fresh disruptions that may arise due to Covid-19 pandemic

Description of key rating drivers highlighted above

The scheduled cash flow promised to the PTC investors on each payout date includes 100% of the monthly billed principal on the pool and the interest at the contracted yield. The contracts in the pool were under moratorium for five months from April 2020 to August 2020. The investor in the PTCs had approved five months' moratorium such that the CE maybe used for the interest and principal for only those contracts where the moratorium was not taken. The collection efficiency in the pool declined during the moratorium period. This resulted in the utilisation of CC to meet the promised PTC payouts. However, the monthly collection efficiency has been improving month-on-month post the moratorium (>100% as of the February 2021 payout month) and the cumulative collection efficiency stood at ~92% as of the February 2021 payout month. This led to the replenishment of the CC in the transaction and the cumulative CC utilisation stands at 6.91% as of the February 2021 payouts. Due to the amortisation of the pool, there has been a considerable build-up in the CE for the balance tenure of the PTC payouts.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating for the transaction. ICRA will continue to closely monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance 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 pools 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 contracts. After taking into account the above-mentioned factors for the current pool, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 3.00-4.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated 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 CC amounting to around 18% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the CC would cover the shortfalls in the PTC payouts for a period of 10 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the performance of the pool till February 2021 (payout month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the CE 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

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. Post the deal and open offer, Brookfield holds ~57% shares on fully diluted basis.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	9M FY2021 (Provisional)
Total revenues	657.4	738.2	460.2
Profit after tax	240.7	-324.6	103.0
Loan book (AUM)	11,735	9,690	8,864.5
Gross NPA	2.6%	4.5%	2.8%
Net NPA	1.7%	3.6%	1.8%

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Mar 19, 2021	Sep 02, 2020			
1 Star CV Trust March 2020	PTC Series A	76.93	59.71	[ICRA]AAA(SO)	[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

Issue Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Star CV Trust March 2020	PTC Series A	March 2020	9.10%	January 2025	59.71	[ICRA]AAA(SO)

**Schedule maturity extended by five months post moratorium*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable\

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About ICRA Limited:

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