

September 21, 2017

Indostar Capital Finance Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Short Term Debt Programme (including Commercial Paper)	1,250	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

ICRA has reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 1,250 crore of short term debt programme (including commercial paper) of Indostar Capital Finance Limited (ICF).

Rationale

The rating factors in the company's strong capitalisation levels (networth of Rs 1,964.62 crore as on June 30, 2017) for its current scale of operations; long standing experience of its institutional sponsors in the Indian and global markets; presence of an experienced senior management team; and its robust risk management practices. The rating also draws comfort from the management's stated policy of maintaining adequate liquidity back-up so as to manage refinance risks. ICRA also factors in the synergies from the sponsors in terms of sourcing of business and their active engagement in credit sanctions; the relatively long investment horizon of the sponsors; and the moderate, though increasing, asset quality issues in the recent past. ICRA positively views the improvement in the company's overall resource profile with more number of banking and investor relationships. Given the company's moderate track record and the risks associated with a wholesale lending model, ICRA notes that ICF's ability to execute its business plans and raise funds at competitive rates from a diverse set of borrowers, while maintaining healthy asset quality would remain the key sensitivities.

ICRA takes note of the recent growth in the company's SME financing book currently operating out of 10 branches. ICF also plans to start operations in the housing finance segment (through its subsidiary-Indostar Home Finance Private Limited) and retail asset finance segment in FY2018. The company has recruited experienced personnel for leading the retail segment. Performance of the retail segment shall remain a key monitorable.

Credit strengths

- **Active role of the sponsors in decision making; strong management team**– The company's sponsors have played an active role in the company's credit decision making since inception. The Credit Committee is constituted by nominees of the investors. The company gains from the long standing experience of the institutional sponsors (Everstone Capital & Goldman Sachs) in the Indian and global markets. The company's Board is actively engaged in the oversight of all aspects of the business. Apart from the participation of the Board, the company has a strong and experienced senior management team.
- **Strong capitalisation level with low leverage** – ICF's capitalisation continues to remain strong with net worth of Rs. 1,964.62 crore and a gearing of 1.71 times as on June 30, 2017. Consequently, the company enjoys good financial flexibility. The company received equity of ~Rs. 150 crore in Q4FY2017 from existing as well as investors. While the company's expected to maintain a leverage of 3-3.5x, supported by internal capital generation, with the growth in its retail portfolio, ICRA expects the gearing to increase beyond 3x in the long term depending on the portfolio mix.
- **Sound liquidity policy** – The company has a sound policy of maintaining ~15% of net worth in liquid investments and undrawn bank lines at all times.

- **Diversified resource profile** – ICF has established relationships with banks and investors. The company had active funding relationships with 22 banks and more than 15 mutual fund houses in June 2017. Long term borrowings accounted for 73% of the company's overall borrowings with banks constituting 42%. ICRA takes note of the increase in the share of commercial papers (from 14% as on March 31, 2016 to 27% as on June 30, 2017) in the company's overall borrowing mix. While this has reduced the company's cost of funds, it also exposes it to refinance risk. However, the company's policy of maintaining adequate liquidity mitigates the risk to some extent. Going ahead, the company expects to maintain equal proportion of bank borrowings and capital market borrowings in the overall funding mix, while reducing the share of commercial papers to ~20%.
- **Adequate operating performance and stable profitability indicators** – The company has healthy profitability with return of assets of 4.1% and return on equity of 12.15% in FY2017. The company's profitability is supported by strong margins earned on its wholesale portfolio, healthy fee income and low operating costs. The ability to maintain asset quality and thereby contain credit costs will have a bearing on the company's profitability, going forward.

-

Credit weaknesses

- **Credit and concentration risk** – ICF has so far focussed on wholesale financing which is exposed to lumpy asset quality issues. Around 38% of the overall credit book as on March 31, 2017 comprised of loans to real estate players. While the company aims to moderate this risk by focussing on residential projects in familiar micro markets, the higher exposure to real estate enhances the portfolio vulnerability. ICRA favourably notes the shift made by the company in the last 18 months towards more granular SME financing; SME financing accounted for ~16% of the overall loan book as on June 30, 2017, reducing the credit concentration to an extent. The company's reported NPAs are comfortable with gross and net NPAs of 1.7% and 1.5% respectively as on June 30, 2017. However, maintaining asset quality over the medium term shall be a key monitorable on account of the concentrated nature of wholesale exposures and the relatively low seasoned SME book.
- **Moderate track record of operations** – ICF has a moderate track record of six years in wholesale financing and less than 18 months in SME financing. Nevertheless, the company's portfolio has experienced a churn especially in the real estate segment where the prepayments have been high. The company's ability to manage the foray into the retail segment, while maintaining business growth shall be a key monitorable going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA Rating Methodology for Non Banking Finance Companies](#)

[ICRA Rating for Commercial Papers](#)

About the company:

IndoStar Capital Finance Limited (ICF) 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 ICF with 90.74% stake as on March 31, 2017. The balance shareholding in ICF is held by employees and other corporate bodies. ICF Mauritius is promoted by the sponsors of ICF. The company started

operations with a strong net worth of USD 200 million (Rs. 891 crore). ICF provides wholesale loans to both real estate and non-real estate segment. It also provides SME loans (loans against property). The company also has a housing finance subsidiary, Indostar Home Finance Private Limited which will begin operations in FY2018.

For FY2017, the company reported a net profit of Rs. 209.04 crore on an asset base of Rs. 5,485.36 crore as compared with a net profit of Rs.191.02 crore on an asset base of Rs 4,692.25 crore for FY2016.

In Q1FY2018, the company reported a net profit of Rs. 54.20 crore on an asset base of Rs. 5,411.58 crore. The company's net worth stood at Rs 1,964.62 crore and its loan book at Rs 4,895 crore as on June 30, 2017. ICF's advances to the real estate sector accounted for around 41% of the book, wholesale loans across other sectors accounted for 43% and the balance 16% comprised of loans against property to SMEs.

Key Financial Indicators

	FY2016	FY2017	Q1FY2018
Net Interest Income	272	326	92
Profit after tax	191	209	54
Networth	1,541	1,900	1,965
Total managed portfolio	4,265	5,145	4,895
Total managed assets	4,690	5,483	5,398
Return on managed assets	4.49%	4.11%	3.98%
Return on equity	13.31%	12.15%	11.22%
Gearing	2.01times	1.84 times	1.71 times
Gross NPA	0.23%	1.38%	1.69%
Net NPA	0.19%	1.20%	1.48%
Capital Adequacy Ratio	34.20%	33.80%	34%

Amounts in Rs. crore

Source: ICF; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	September 2017	FY2017	FY2016		FY2015
					July 2016	January 2016	September 2015	December 2014
1	Short Term Debt Programme (including Commercial Paper Programme)	Short Term	1,250	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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-
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Short Term Debt Programme (including Commercial Paper Programme)	-	-	-	1,250	[ICRA]A1+

Source: ICF

Contact Details

Analyst Contacts

Karthik Srinivasan

+91 22 61143 444

karthiks@icraindia.com

Manushree Saggar

+91 124 4545 316

manushrees@icraindia.com

Neha Parikh

+91 22 6114 3426

neha.parikh@icraindia.com

Prateek Mittal

+91 22 6114 3425

prateek.mittal@icraindia.com

Relationship Contact

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

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

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500