

## Indostar Capital Finance Limited

December 31, 2018

### Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,250	1,250	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>1,250</b>	<b>1,250</b>	

\*Instrument details in Annexure

### Rationale

The rating factors in the company's strong capitalisation levels (net worth of Rs 2,932 crore as on September 30, 2018) for its current scale of operations owing to the fresh equity infusion of Rs. 700 crore through IPO in May 2018; 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 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 improvement in asset quality. 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 and Commercial Vehicle (CV) financing book. The company has recruited experienced personnel for leading the retail segment. Ability of the company to improve profitability with the expansion into the retail segment shall remain a key monitorable.

### Outlook: Not Applicable

### Key rating drivers

#### Credit strengths

**Management support and operational synergies with the sponsors help in decision making** - 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 longstanding 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 with low leverage** - ICF's capitalisation continues to remain strong with net worth of Rs. 2,932.47 crore and a gearing of ~2 times as on September 30, 2018. In May 2018, the company raised Rs. 700 capital through Initial Public offer (IPO). While the company's expected to maintain a leverage of 2.4 at the end of FY2019, 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. The company does not have cumulative asset liability mismatch in the 6-month buckets. Additionally, the company maintains adequate liquidity cover through liquid investments, fixed deposits and unutilised drawable funding lines available.

**Diversified funding mix** – ICF has established relationships with banks and investors. The company had active funding relationships with more than 25 banks and 14 mutual fund houses in November 2018. Over the years, the company has progressively moved the finding mix in order to include higher share of long-term funds. Long term borrowings accounted for ~90% of the company's overall borrowings with the balance being short-term borrowings in the form of commercial papers. Within the long-term borrowings, NCDs constituted 46% with balance being bank loans as on 30 November 2018. Going forward, the company expects to maintain equal proportion of bank borrowings and capital market borrowings in the overall funding mix.

**Good Asset quality indicators albeit on a low seasoned book:** The company's reported NPAs are comfortable with gross and net NPAs of 0.87% and 0.60% respectively as on September 30, 2018 down from 1.29% and 1.08% respectively as on March 31, 2018. 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 and CV financing book.

## Credit challenges

**Relatively high portfolio vulnerability owing to credit and concentration risk** - ICF has so far focussed on wholesale financing which is exposed to lumpy asset quality issues. As on September 30, 2018 wholesale loans accounted for 65% of the overall credit book. Non-real estate exposure accounts for 30% of the total loan book, while 35 % of the overall credit book 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 towards more granular SME financing and CV Financing; SME financing accounted for ~25% of the overall loan book while CV financing book accounts for 10% of the portfolio as on September 30, 2018, reducing the credit concentration to an extent. However, given that the CV and SME books are relatively new lines of businesses for the company, the ability to profitably grow in these segments in a highly competitive market is yet to be established.

**Limited track record of the Group in retail lending** - ICF has a moderate track record of seven years in wholesale financing, its experience in the retail customer segment is limited to the SME business which was commenced in March 2015 and Commercial Vehicle Financing commenced in October 2017. Nevertheless, the company's portfolio has experienced a churn especially in the real estate segment where the prepayments have been high. ICRA takes note of the growth in the CV financing business to Rs. 724 crore as on September 2018 in the short duration of operations. The company's ability to manage the foray into the retail segment, while maintaining business growth shall be a key monitorable going forward.

**Moderate profitability indicators** - During H1FY2019 the net interest margins of the company have been under pressure due to the growth in retail segment which are relatively low yielding asset classes as compared to wholesale lending. Overall the decline in margins coupled with increase in operating expenses led to the moderation in profitability indicators with return of assets (ROA) of 2.67% and return on equity (ROE) of 8.56% in FY2018 (3.69% ROA and 11.64% ROE in FY2018). In H1FY2019, the company reported a net profit of Rs. 108 crore (Rs. 123 crore in H1FY2018) on a total income of Rs. 535.08 crore (Rs. 382.28 in H1FY2018). Going forward, the profitability is expected to be subdued in the medium term on account of incremental operating expenses to be incurred on expansion of retail loan book.

### Liquidity Position:

ICF has a sound policy of maintaining ~15% of net worth in liquid investments and undrawn bank lines at all times. As on October 31, 2018, the company did not have cumulative asset liability mismatch in the 6-month buckets. Over the next 6 months ICF had repayments of 1,038 crore against which ICF holds liquid investments (Investments in mutual funds and Fixed Deposits) Rs. 1,200 crore as on November 30, 2018 which provides comfort over the liquidity profile of the company.

### Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">ICRA's Approach for Rating Commercial Papers</a>
Parent/Group Support	NA
Consolidation / Standalone	Consolidation. <i>Details mentioned in Annexure 2</i>

### 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 57.02% stake as on September 30, 2018. ICF Mauritius is promoted by the sponsors of ICF. ICF got listed in May 2018 and received a fresh equity infusion of Rs. 700 crores. The Promoters & Promoters Group stake as on September 30, 2018 stood at 59.30%. ICF 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. ICF's loan portfolio and net worth stood at Rs. 7,617 crore and Rs. 2,932 crore respectively as on September 30, 2018.

In FY2018, the company reported a net profit of Rs. 236 crore on an asset base of Rs. 7,279 crore compared to a net profit of Rs. 209 crore on an asset base of Rs. 5,469 crore in FY2017. In H1FY2019, the company reported a net profit of Rs. 109 crore on an asset base of Rs. 8,857 crore.

The company's net worth stood at Rs. 2,932 crore and its loan book at Rs 7,617 crore as on September 30, 2018. ICF's advances to the wholesale sector (real-estate and non-real estate) accounted for around 65.72% of the book, SME loans accounted for 24.77% and the balance comprised commercial vehicle loans as on September 30, 2018

## Key financial indicators (Standalone and Unaudited)

As per	As per IGAAP			Ind-AS	
	FY2016	FY2017	FY2018	H1FY2019	
Net Interest Income	272	326	350	244	
Profit after tax	191	209	236	109	
Net worth	1,541	1,900	2,146	2,932	
Portfolio	4,272	5,235	5,960	7,617	
Total Assets	4,682	5,469	7,279	8,857	
Return on average total assets	4.40%	4.11%	3.69%	2.67%	
Return on equity	13.52%	12.15%	11.64%	8.56%	
Gearing	2.01	1.84	2.31	2.00	
Gross NPA	0.23%	1.41%	1.29%	0.88%	
Net NPA	0.19%	1.21%	1.08%	0.61%	
Net NPA/Net worth	0.52%	3.36%	2.98%	1.57%	
Capital Adequacy Ratio	34.20%	33.80%	28.30%	31.28%	

Amount in Rs. crore

Source: ICF; ICRA research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

Instrument	Current Rating (FY2019)		Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Dec 2018	FY2019	FY2018	FY2017	FY2016		
1 Commercial Paper	Short Term	1,250	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: ICF; ICRA research

## 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	7-365 days	1,250	[ICRA]A1+

Source: ICF

### Annexure-2: List of entities considered for consolidated analysis:

Indostar Home Finance Private Limited  
Indostar Capital Finance Limited

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