

July 31, 2019

Indostar Capital Finance Limited (Indostar): ICRA assigns provisional ratings to pass through certificates (PTCs) issued under a vehicle loan securitisation transaction Solitaire CV Trust July 2019

Summary of rated instruments

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Solitaire CV Trust July 2019	PTC Series A1	79.77	Provisional [ICRA]AAA(SO) assigned

*Instrument details are provided in Annexure-1

Rationale

ICRA has assigned Provisional [ICRA]AAA(SO) rating to Pass through certificates (PTC) Series A1 under a securitisation transaction, backed by a Rs. 88.63 crore (principal outstanding) pool of vehicle loans originated by Indostar Capital Finance Limited (Indostar).

The provisional ratings are based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of (i) Cash collateral (CC) of 8.00% of the pool principal to be provided by the Originator, (ii) subordination of 10.00% of the pool principal for PTC Series A1, (iii) the Excess Interest Spread (EIS) in the structure; and (iv) the integrity of the legal structure. The ratings are subject to fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- The first line of support is available for the transaction through subordination of the excess interest spread (EIS) amounting to around 12.58% of the pool principal amount for PTC A1
- Further credit support in the transaction is available through subordination of 10.00% of pool principal for PTC Series A1 respectively followed by a Credit Collateral (CC) equivalent to 8.00% of the initial pool principal amount
- Favourable selection filters for the pool like absence of overdue contracts and moderate weighted average seasoning of 8.6 months

Credit challenges

- High geographic concentration with around 52.2% of the pool contracts by value sourced from Tamil Nadu
- Moderate weighted average LTV profile of 85.8%

Description of key rating drivers highlighted above

The first line of support is available for the transaction through the excess interest spread (EIS) amounting to 12.58% of the pool principal amount and subordination of 10.00% of the pool principal (over-collateral). An important feature of the structure in this transaction is that any collection in excess of the promised interest payouts to PTC A1 would be

utilised for payment of expected principal of PTC A1. All excess collections in the pool after meeting the aforementioned payouts will flow back to the originator on a monthly basis.

Cash collateral of 8.00% of the initial pool principal provided by Indostar acts as further credit enhancement in the transaction. In the event of shortfall in meeting the promised PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall.

The contracts in the pool are predominantly backed by used vehicle contracts (~91.4%). The pool is characterised by a moderate seasoning profile (weighted average seasoning of around 8.6 months). The pool does not have any overdue contracts as on the pool cut-off date. The pool is well diversified with top 10 obligors accounting for around 4.4% of the overall pool principal. The pool is, however, geographically concentrated with almost 52.2% of the pool emanating from one state – Tamil Nadu. The pool has a moderate LTV profile with weighted average LTV of around 85.8%.

Performance of past rated pools: This is the first securitisation transaction of Indostar to be rated by ICRA.

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 3.0% - 4.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 6% - 9% per annum.

Liquidity position

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts.

Additionally, there is cash collateral available in the transaction amounting to 8.00% of the pool principal amount. The cash collateral is adequate to cover promised interest payouts due for ten months to the PTC Series A1 investors even in an unlikely scenario of no collections in the pool.

Analytical approach

The rating action is based on the analysis of the past performance of Indostar’s portfolio till March 2019, 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

IndoStar Capital Finance Limited 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. Indostar's loan portfolio (including assigned portfolio) and net worth stood at Rs. 7,227 crore and Rs. 2,955 crore respectively as on December 31, 2018. The company's reported NPAs are comfortable with gross and net NPAs of 0.98% and 0.84% respectively as on December 31, 2018 down from 1.29% and 1.08% respectively as on March 31, 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. During FY2019, the company reported a net profit of Rs. 255 crore on an asset base of Rs. 12,278 crore.

Key financial indicators (standalone and unaudited)

As per	As per IGAAP FY2017	FY2018	Ind-AS FY2019
Net Interest Income	326	350	502
Profit after tax	209	236	255
Net worth	1,900	2,146	3,030
Portfolio	5,235	5,960	9,698
Total Assets	5,469	7,279	12,278
Return on average total assets	4.11%	3.69%	2.61%
Return on equity	12.15%	11.64%	9.86%
Gearing	1.84	2.31	2.94
Gross NPA	1.41%	1.29%	2.72%
Net NPA	1.21%	1.08%	1.02%
Net NPA/Net worth	3.36%	2.98%	5.42%
Capital Adequacy Ratio	33.80%	28.30%	24.00%

Amount in Rs. Crore

Source: Indostar; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				July 2019	-	-	-
1 Solitaire CV Trust July 2019	PTC Series A1	79.77	79.77	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)	Current Rating
Solitaire CV Trust July 2019	PTC Series A1	July 2019	10.00%	November 2023	79.77	Provisional [ICRA]AAA(SO)

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

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Rahul Panigrahi

+91 22 6114 3436

rahul.panigrahi@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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