



IndoStar Capital Finance Ltd.

Instrument	Amount Rated (in Rs crore)	Rating Action
		Sep-15
Short term debt programme	Rs. 750 crore (enhanced from Rs. 500 crore)	[ICRA]A1+ Assigned/Outstanding

ICRA has assigned [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 750 crore (enhanced from Rs. 500 crore) Short term debt programme of IndoStar Capital Finance Limited (ICF or Company.). The rating is based on the strength of the strong start-up capitalisation levels, the long standing experience of the institutional sponsors in the Indian and global markets, the presence of a strong and experienced senior management team, robust risk management practices, sound stated liquidity policy of maintaining adequate liquid funds in the company, low leverage levels which is expected to remain at moderate levels over the medium term on account of the relatively conservative business plans. ICRA also factors in the synergies from the sponsors in terms of sourcing of business as well as sponsor's active role in credit sanctions, the relatively long investment horizon for the sponsors, positive headway in building a diversified liability franchise and no significant asset quality issues in its limited track record. ICRA views positively the improvement in the overall resource profile of the company with increase in banking and investor relationships. With moderate track record and the risks associated with the wholesale lending model, the company's ability to execute its business plans, ability to raise funds at competitive rates from a diverse set of borrowers and ability to maintain healthy asset quality would remain key sensitivities. ICRA also takes note of the recent foray of the entity into SME financing and performance of this segment will remain a key monitorable.

Indostar Capital (ICF Mauritius), a company incorporated in Mauritius, has a majority shareholding in ICF with 97.30% stake as on Aug-15. The balance shareholding of 2.30% in ICF is held by employees. ICF Mauritius, in turn, is sponsored by financial institutions such as Everstone Capital, Goldman Sachs Group, Baer Capital Partners, ACPI and others. Consequently, IndoStar started operations with a strong net worth of USD 200 million (Rs. 891 crore). ICF focuses largely on secured lending to corporates. While most of the capital infused is through various funds managed by the sponsors, these are mostly long dated funds and consequently the investment horizon for the sponsors of ICF is also long term, which is factored in the rating assigned to the company.

ICF's lending book stood at Rs 3,777 crore as at August 2015 with the advances to real estate sector accounted for approximately 38% of the book while the remaining was distributed amongst various other sectors. In terms of lending type mix, corporate loans and real estate loans account for more than 97% of the overall lending. Within the real estate and corporate loans, 80 - 90% of the advances are to residential projects located in Mumbai. Within the non-real estate exposures, ICF has exposure to many sectors. In FY15 the company has ventured into SME financing into Mumbai. Now the company is expanding its footprints to other cities like Delhi, Bangalore and Pune. As at August 2015 the overall SME book was to the tune of Rs 120 crore (accounting for ~3% of the overall loan book). The SME book is largely Loans Against Property. In ICRA's view, the organizational mindsets as well as risks, systems and processes for wholesale financing and retail financing are very different and hence the transition of the company from purely a wholesale financier to that of one into both segments of lending shall be a key minotorable going forward.

While in ICRA's view, the overall lending book has a moderate seasoning, the gross NPA as at June 2015 was to the tune of 0.77% (0.57% as at March 2015). As at August 2015, two accounts are non performing. The company's management remains confident of substantial recovery against both these accounts. The company has standard asset provisioning of 0.40% in line with that enshrined in the NBFC regulations. ICF's ability to scale up its lending book while maintaining asset quality shall remain a key rating sensitivity. The company plans to scale up its lending book by ~20-30% in FY16.

ICRA takes comfort from the diversification in the borrowing profile of the company. As at date, the company has term loan facilities from over 23 banks and 18 Mutual Funds to the tune of ~Rs 2700 crore. The company has also been able to tie up small quantum of funds for long tenors - 5 years and



10 years in select instances. Going forward, the company is looking at borrowings of ~Rs 4000 crores on book size of Rs 5200 crores by Mar-16 with bank borrowings accounting for being 50%, NCDs accounting for 40% and Commercial Papers accounting for ~10-15%. ICF has maintained a comfortable liquidity profile as of Mar-15 with positive gaps. The company maintains ~15% of Net Worth in Fixed Deposits at all times. In ICRA's opinion, ICF has been able to diversify its borrowing profile significantly over the last 12 months and been able to bring in stability in its overall resource profile. In ICRA's view, the company's liquidity policy is a key credit positive.

As at August 2015, the overall capital adequacy ratio remains healthy at 32.7% (32.6% as at March 2015) with Tier I capital at ~32%. The company received equity of Rs 62 crores in Aug-15 by way of conversion of partly paid up shares held by employees. Consequently, leverage remains moderate at ~1.9 times as at August 2015 as compared to 2.05 times as at March 2015. Relative to other wholesale financing organizations, leverage levels of the company remains low. As per the management, the maximum leverage envisaged for the company over the medium term will be restricted to 3 – 3.5 times. Given the modest target of leverage over the next 2-3 years, and not very aggressive business plans of the company, the capitalisation profile of ICF is expected to remain comfortable over the medium term.

In FY15, the shareholding of Indostar Capital, Mauritius ("ICM"), has undergone a change following sale of shares by one constituent of the company, namely Ashmore Mauritius Indostar Limited, to two other constituents of the company, namely Indostar Everstone and ACP Libra Limited.

In FY15, net Interest Income of the company increased by ~23%. Overall yield on advances declined by ~60 bps to ~13.2% while the cost of funds declined by a substantial ~120 bps to ~11.3% on account of the company getting significant incremental funding at better spreads from the banking system as well as debt capital markets. Consequently the gross interest spread increased by ~60 bps in FY15 when compared to FY14. The cost income ratio declined by ~150 bps to ~15% in FY15 with increase in scale of operations. PAT for FY15 increased to Rs 149 crore in FY15 as compared to Rs 112 crore in FY14. Return on Assets remained healthy at ~4.2% in FY15 while RoE was at 12.3% for the same period.

Company profile

IndoStar Capital Finance Limited, an NBFC was originally incorporated as R V Vyapaar Private Ltd. in July 21, 2009. The Company is registered with RBI as a Systemically Important Non Deposit Accepting Non-Banking Financial Company. The name of the Company was changed to IndoStar Capital Finance Private Ltd. on November 15, 2010 and recently to IndoStar Capital Finance Limited in April 2014. The Company is sponsored by financial institutions such as Everstone Capital, Goldman Sachs Group, Baer Capital Partners, ACPI and others. In FY15, the shareholding of Indostar Capital, Mauritius ("ICM"), has undergone a change following sale of shares by one constituent of the company, namely Ashmore Mauritius Indostar Limited, to two other constituents of the company, namely Indostar Everstone and ACP Libra Limited.

The company reported PAT of Rs 149 crores in FY15 vis-a-vis Rs 112 crores in FY 14.

Recent Results:

The company has reported PAT of Rs 40 crore (based on provisional financials) for Q1FY16. The lending book of the company stands at ~Rs 3,777 crore as at August 2015. The net worth of the company stands at Rs 1,329 crore as at June 2015

September 2015



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