

November 20, 2019

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

Summary of Rated Instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating action
Solitaire CV Trust July 2019	PTC Series A1	79.77	Provisional [ICRA]AAA(SO) confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA has confirmed the provisional ratings to PTCs issued under by Solitaire CV Trust July 2019 trust as final, as tabulated above. The PTCs are backed by a Rs. 88.63 crore (principal outstanding) pool of vehicle loans originated by Indostar Capital Finance Limited (Indostar).

In July 2019, ICRA had assigned Provisional [ICRA]AAA(SO) rating to PTC Series A1, issued by Solitaire CV Trust July 2019 trust. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

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 Weakness

- 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: Strong

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.

Rating sensitivities

Positive triggers – The ratings could be upgraded on sustained strong collection performance of the underlying pool contracts, leading to low delinquency levels and increased cover for the future PTC payouts from the credit enhancements.

Negative triggers – Pressure on the ratings could emerge on sustained weak collection performance of the underlying pool contracts, leading to high delinquency levels and decreased cover for the future PTC payouts from the credit enhancements.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

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:

S.No	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Solitaire CV Trust July 2019	PTC Series A1	79.77	79.77	20 November 2019 [ICRA]AAA(SO)	31 July 2019 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 I

Details of Instruments

Trust Name	Instrument Name	Date of Issuance	Coupon Rate (p.a.)	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	[ICRA]AAA(SO)

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

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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.

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