Indostar Capital Finance Limited

April 17,2020

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term debt programme	9,900	**CARE AA- [Double A Minus] (Credit watch with developing implications)**	**Re-affirmed and placed on credit watch with developing implications**
Market-linked Debentures	100	**CARE PP-MLD AA- [Double A Minus] (Credit watch with developing implications)**	**Re-affirmed and placed on credit watch with developing implications**
Commercial Paper	2,000	**CARE A1+ [A One Plus] (Credit watch with developing implications)**	**Re-affirmed and placed on credit watch with developing implications**
Total	**12,000 (Rs. Twelve Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings of Indostar Capital Finance Limited (ICF) on credit watch with developing implications with expectation of equity infusion of Rs.1225 crore from the Brookfield deal to be completed in Q1 FY21. Given the ongoing challenges in resource mobilization for the NBFC sector in general and wholesale NBFC in particular coupled with likely increase in credit costs post outbreak of COVID 19, the said equity infusion would be critical for ICF as it would lead to further improvement in the liquidity position of ICF.

CARE takes note of resource mobilisation of over Rs.3763.5 crore from various sources done by Indostar Capital Finance Limited from December 2018 to December 2019. However, in line with trend observed for the NBFC/HFC sector, ICFL has also witnessed increased cost of borrowings.

CARE will take a view on the ratings of ICF post completion of the said equity transaction along with the prevalent asset quality parameters and liquidity maintained during this tough operating environment.

The ratings of ICF primarily factor in strong institutional sponsors of ICF as well as their capital, operational and management support. The ratings further take into account the company's experienced management, good risk management processes, increasing proportion of retail advances and efforts to diversify into retail segments. The ratings also take into account ICF's strong capitalization levels as well as comfortable gearing, moderate financial performance and comfortable asset quality parameters & liquidity position. During Q4FY20, ICF has announced that Everstone Group (promoter currently holding 60.74% (as of Dec 31, 2019) of Indostar Capital Limited) has entered into an agreement whereby Brookfield Business Partners together with its institutional partners (primarily "Brookfield") shall invest Rs.1225 crores as growth capital in the company, i.e. Rs. 875 crores in the form of equity shares and Rs.350 crores in the form of compulsory convertible preference shares. Apart from the above, company shall also do a secondary purchase of shares from Indostar Capital Mauritius and seeks to acquire minimum 40% stake in the company and will be categorised as Promoter alongside Indostar Capital Mauritius. The said transaction is expected to get completed before end of Q1 FY21 post requisite approvals. The ratings remain constrained due to concentration risks in its wholesale book and low seasoning in the retail segments.

<u>Rating Sensitivities</u>

Positive Factors

- Continuous support of the sponsor
- Diversification of the product portfolio to predominantly retail
- Continued mobilization of resources in this challenging environment

Negative Factors

- Delay in timely completion of the equity transaction deal with Brookfield
- Deterioration of asset quality in the wholesale portfolio as well as CV portfolio
- Weakening of the liquidity maintained owing to the current environment

Detailed description of the key rating drivers
Key Rating Strengths
Strong Institutional sponsors
ICF has been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments. During FY15, Ashmore Group PLC exited ICF with its stake being acquired by Everstone and ACP Investments.
During Q1FY19, Company received fresh equity infusion of Rs. 700 crores out of the total IPO issue of Rs. 1844 crores. Post the listing, the promoter & promoter group companies continue to hold 60.74% in the company as on June 30, 2019.
ICF's credit profile derives comfort from management and financial support of sponsor investors at regular intervals. Besides, the rich experience of the sponsor investors in Indian and global financial markets they are expected to continue to help ICF in strengthening its business opportunities.

Experienced Management
ICF has management with rich experience in the financial sector. Some of the key management personnel include Mr. R. Sridhar, Executive vice chairman & CEO of ICF (Former MD and CEO of Shriram Transport Finance Company Ltd.), Mr. Amol Joshi, CFO (Previously worked with Citicorp, Standard Chartered Bank, Amex & L&T Financial Services, has more than 20 years of experience in the financial and corporate sector), Mr. Shailesh Shirali, MD & Head- Corporate Lending & Markets (Former CEO- Corporate lending at Future Capital Holdings Ltd.), Mr. Prashant Joshi, Chief Operating Officer (Former Head – Private and Business clients at Deutsche Bank and GM – SME Banking at Standard Chartered Bank) and Mr. Hansraj Thakur, Business Head –SME Finance(Previously worked at IDFC Bank and Standard Chartered Bank), Mr.A.Gowthaman – Business Head- Vehicle Finance (Previously worked with Cholamandalam and Shriram Transport with an overall 20+ years of experience). The Board of Directors and management team at all levels have been drawn from leading players in the financial services space.

Strong solvency parameters and comfortable liquidity position
The company continues to maintain robust capitalization levels supported by regular equity infusions. Also post IPO listing and receipt of fresh equity infusion of Rs. 700 crores in May, 2018, the tangible networth stood at Rs.2709 crores as on March 31, 2019. The gearing has increased from 2.39x in FY18 to 3.29x in FY19, however, it continues to remain comfortable.
As on December 31,2019, the tangible net worth stood at Rs. 2799 crore and gearing stood at 2.25x.
The liquidity position of the company remains stable as on March 31, 2020. As on March 31, 2020, ICF has cash and liquid investments of Rs. 287.45 crore, investments in fixed deposits and corporate bonds of Rs. 434.54 crore. The said liquidity is sufficient for the principal repayments of the next 5 months. The company also has undrawn bank lines (cash credit and term loans) of Rs.329.66 crore as on March 31, 2020.

Well defined risk management processes & secured lending
ICF draws experience from its global investors for creating its risk management framework. It has well-defined credit criteria for sanction of loan including assessing track record & borrowing capacity of borrower, credit history of borrower, quality of collaterals. The Company has started using two dedicated software namely UNO and OMNIFin which help in the faster disbursals and monitoring each file logged into the system.
In an effort to diversify its loan book and make it more granular in size, company started SME in FY15 and CV in Nov, 2017. As on March 31, 2019, ICF's loan portfolio stood at Rs.11,188 crore (AUM) of which corporate funding comprised 40.46%, SME financing 16.85% while the remaining 42.69% being CV Financing. The proportion of CV financing in particular substantially increased on account of the acquisition of the CV portfolio from IIFL amounting to Rs. 3514.30 crores (AUM). With the acquisition of the CV portfolio from IIFL, the branches network increased from 161 branches to 322 branches and employee base increased from 973 to 2052. Due to this, the disbursement capacity increased from Rs.150 crores per month to Rs.400 crores per month. The average LTV in CV and SME stands at 80% and 70% respectively as on December 31, 2019 while security cover of 3x is maintained in the corporate lending book.

Moderate profitability levels
In FY19, PAT stood at Rs.255 crores on a total income of Rs.1177 crores which showed a y-o-y increase of 50%. NIM which stood at 6.88% in FY18 (Reinstated) declined to 5.16% in FY19 primarily on account of CV portfolio acquired from IIFL in March 2019., Interest on Advances declined from 14.13% in FY18 (Reinstated) to 13.94% in FY19. Cost to income ratio has reduced from 17.38% in FY18 (Reinstated) to 16.16% in FY19. This is expected to increase going forward on account of plans to open branches for CV financing in FY20, however with rationalization of branches of IIFL, the incremental cost shall increase but will not be substantial. The borrowings cost have also increased from 7.90% in FY18 (Reinstated) to 8.18% in FY19. This has further increased to 10.65% in 9MFY20 which is on account of the liquidity crisis witnessed across the NBFC sector. Thus considering that the IIFL buyout (on 31st March 2019) led to increase in total advances and net worth without any corresponding increase

in the interest income and fee income and increase in the borrowings costs there has been a reduction in the ROTA and RONW from 3.34% and 10.87% in FY18 to 2.62% and 10.79% in FY19 respectively.
During 9MFY20, ICF reported PAT of Rs. 80 crore on total income of Rs. 1164 crore as compared to PAT of Rs. 184 crore on total income of Rs. 847 crore for 9MFY19. The PAT was lower by 57% on account of additional provision done by the company towards the corporate lending and CV portfolio and the rise in the interest expenditure in 9MFY20. The ROTA stood at 0.97% during 9MFY20.

Comfortable asset quality
The GNPA and NNPA increased from 1.29% and 1.08% in FY18 to 2.77% and 1.75% respectively in FY19. This is primarily on account of the CV portfolio acquired from IIFL in March, 2019. In this buy-out company had received Rs.217 crores of loans that were non-performing loans. Company along with help of external agencies had done a thorough due diligence process and had arrived at a loss estimate against this non-performing book which amounts to Rs.202 crores. Amount equivalent to the loss estimate has been provided as ECL in the books of accounts, which covers 9% of the acquired portfolio. In December, 2019, the Gross NPA of the CV book acquired from IIFL buyout has come down to Rs.138 crores and ECL provision is Rs.137 crores which is 8% of the acquired portfolio. Thus, the credit loss protection does not exceed the cash received from IIFL. However, excluding the IIFL portfolio, GNPA and NNPA stood at 0.78% and 0.56% respectively as on March 31, 2019.
However, given the growth in the CV portfolio, the asset quality of CV portfolio continues to remain a key monitorable going forward.
Apart from that, in SME, first few auctions become eligible under SARFAESI recently i.e. around June, and hence company can now recover amount by selling of the properties, hence the non-performing portfolio in SME is expected to come down substantially by Mar, 20.
GNPA and NNPA further increased to 4.73% and 3.78% respectively as on December 31,2019. This is due to one account in the real estate portfolio turning bad in Q1FY20, the outstanding of which is Rs.155 crores. Company has already done a provision of Rs.15 crores.

Key Rating Weaknesses
Efforts to diversify albeit low seasoning
In order to diversify its business book, company started its SME operations in 2015 and CV Financing in 2017. Retail book as a percentage of total book has increased from 26.22% in FY18 to 59.54% in FY19.The substantial jump in FY19 towards increase in CV book is due to the acquisition of the the CV portfolio from IIFL for a consideration of Rs.2414 crores. The AUM stood at Rs. 3514.30 crores and on book portfolio stood at Rs.2,242 crores as on March 31, 2019. With the acquisition of the CV portfolio from IIFL, the branches network increased from 161 branches to 322 branches and employee base increased from 973 to 2052. Due to this, the disbursement capacity increased from Rs.150 crores per month to Rs.400 crores per month. Apart from the above, Company has entered into a co-origination agreement with ICICI Bank. After initial teething troubles, this co-origination arrangement with ICICI Bank has taken off well.
In order to augment its SME business, company has started with Business Loan (BIL) wherein the ticket size shall be capped at Rs. 15 Lakhs and the average tenure shall be 3 years. These unsecured loans are backed by the SIDBI Credit guarantee facility.

Concentration in the wholesale book
ICF has a moderate operating track record as it started its wholesale lending operations in April 2011. The corporate lending book stood at Rs.4,433 as on March 31, 2018 and formed 73.78% of the outstanding portfolio which increased to Rs.4,527 crores as on March 31, 2019 and formed 40.46% of the outstanding portfolio. This has reduced to Rs.4,307 as on June 30, 2019. During FY19, company had done disbursements of Rs.3393.90 crores. Inspite of the disbursements, company has not scaled up its loan book due to large prepayments received by the company. In FY19, company received prepayments of Rs.2321 crores. Incrementally, company has received prepayments of Rs.2,534.36 crores in 9 M FY20
However, within the real estate portfolio, Top 6 exposures occupy 89% of the outstanding real estate portfolio and 91% of the tangible networth as on June 30, 2019. Though RE portfolio on a declining trend because of the company's conscious plans of bringing it down, but still continues to remain a key monitorable going forward.

Liquidity Profile: Adequate
The liquidity profile of ICF stands adequate as on February 2020 with cumulative positive mismatch in all the time buckets. As on 29 Feb 20, The company has contractual debt repayments of Rs. 1877 crore upto one year against which the contractual inflows from advances is expected at Rs. 2838 crore upto one year. As on 31 March 20, ICF also possess liquidity to the tune of Rs. 722 crore which comprises of cash and liquid mutual fund investments of Rs. 287.45 crore and investments in fixed deposits and corporate bonds of Rs. 434.5 crore to take care of any arising mismatch. The company also has undrawn bank lines (term loans and Cash Credit) of Rs. 329.6 crore.

Analytical approach: Standalone

Applicable Criteria
CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings
Policy of Default Recognition
Rating of Short term instruments
Rating Methodology- Non Banking Finance Companies
CARE's Criteria for Market Linked Notes/Debentures
Financial Ratios-Financial Sector

About the Company
IndoStar Capital Finance Ltd. (ICF) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. ICF had been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments. The Company objective is to become leading provider of financing and credit solution for small and medium CV owners, growing corporates, emerging SME business and catering to the aspiration of the growing consumer base of middle India through housing finance. We are committed to finding new ways to develop value-based and innovative financial solution for our corporates and retail customers, and deliver greater value to our stake holder. Mr Sridhar has joined as a CEO in April, 2017 earlier associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company Limited (STFC) from 2000-2012.
Company started with SME from 2015 and CV Financing from May, 2017 onwards, with the motive to increase towards retaliation and to have a diversified and a granular portfolio.
ICF's loan portfolio and tangible networth stood at Rs. 11,188 crore and Rs.2,709 crore respectively as on March 31, 2019 (to give Mar 2019 or Dec 2019 numbers). The Company got listed in May 2018 and received a fresh equity infusion of Rs. 700 crores. The Promoters & Promoters Group stake as on June 30, 2019 stood at 60.74%.

Brief Financials (Rs. crore)	FY18(A)	FY19 (A)
Total operating income	787	1177
PAT	212	255
Interest coverage (times)	2.00	1.70
Total Assets	7194	12,278
Net NPA (%)	1.08	1.75
ROTA (%)	3.34	2.62

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debentures	INE896L07074	06-Jun-13	-	06-Jun-23	15	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07306	08-Jan-16	-	08-Dec-20	25	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07421	08-Feb-17	-	08-Feb-22	50	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07447	15-Feb-18	-	15-Apr-21	11	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07454	26-Feb-18	-	24-Sep-21	30	CARE AA-; Credit watch with developing implications

Non-Convertible Debentures	INE896L07447	26-Feb-18	-	15-Apr-21	8	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07488	15-Mar-18	-	15-Mar-23	100	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07496	15-Mar-18	-	15-Mar-21	150	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07504	15-Mar-18	-	15-Mar-21	25	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07512	15-Mar-18	-	12-Sep-21	50	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07447	15-Mar-18	-	15-Apr-21	13	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07520	27-Mar-18	-	27-Mar-21	10	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07447	27-Mar-18	-	15-Apr-21	5	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07447	13-Apr-18	-	15-Apr-21	44	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07447	13-Apr-18	-	15-Apr-21	50	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07546	13-Apr-18	-	19-May-21	40	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07561	02-May-18	-	02-May-23	500	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07587	04-Jun-18	-	15-Jun-21	100	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07595	07-Jun-18	-	04-Jun-21	75	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07645	05-Jul-18	-	21-Jun-20	10	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07652	06-Sep-18	-	10-Aug-21	4.8	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07660	02-Nov-18	-	02-Nov-21	250	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07660	07-Jan-19	-	02-Nov-21	250	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07678	25-Feb-19	-	26-Feb-21	150	CARE AA-; Credit watch with developing implications
Non-Convertible Debentures	INE896L07702	25-Nov-19	-	25-Oct-24	25	CARE AA-; Credit watch with developing implications
Market Linked Debentures	INE896L07629	15-Mar-19	-	09-Jun-20	15	CARE PP MLD AA; Credit watch with developing implications
Market Linked Debentures	INE896L07694	27-Aug-18	-	10-Aug-21	10	CARE PP MLD AA; Credit watch with developing implications
Fund-based - LT-Cash Credit/WCDL	-	-	-	-	351	CARE AA-; Credit watch with developing implications
Fund-based - LT-Term Loan	-	-	-	-	3429.08	CARE AA-; Credit watch with developing implications
Proposed Debt	-	-	-	-	4204.12	CARE AA-; Credit watch with developing implications
Commercial Paper	-	-	-	-	2000	CARE A1+;Credit watch with developing implications

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings				Rating history		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper	ST	2000.00	CARE A1+;Credit watch with developing implications	-	1)CARE A1+ (01-Oct-19)	1)CARE A1+ (29-Aug-18)	1)CARE A1+ (08-Feb-18) 2)CARE A1+ (22-Aug-17) 3)CARE A1+ (11-Jul-17) 4)CARE A1+ (12-Jun-17)
2.	Debt	LT	9900.00	CARE AA- (Credit watch with developing implications)	1) CARE AA-;Stable (01-Oct-19)	1)CARE AA-; Positive (02-Apr-19)	1)CARE AA-; Stable (08-Jun-18) 2)CARE AA-; Positive (29-Aug-18)	1)CARE AA-; Stable (13-Mar-18) 2)CARE AA-; Stable (11-Jul-17)
3.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA- (Credit watch with developing implications)	1) CARE PP-MLD AA-;Stable (01-Oct-19)	1) CARE PP-MLD AA-; Positive (02-Apr-19)	1) CARE PP-MLD AA-; Positive (29-Aug-18)	1)CARE PP-MLD AA-; Stable (13-Mar-18)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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