INDOSTAR CAPITAL FINANCE PVT. LIMITED

Rated Instruments/Facilities

Instrument / Facility	Amt Rated (Rs crore)	Rating[1]	Remarks
Long Term Debt^	2,450 (enhanced from Rs.1,950)*	CARE AA- (Double A Minus)	Reaffirmed

^including long term bank facilities and Non Convertible Debentures (NCD)

*The enhanced amount of long term debt programme includes earlier rated amount of long term bank facilities of Rs.1,500 crore and NCDs of Rs.450 crore.

Other Ratings outstanding:

Instrument	Amt Rated (Rs crore)	Rating
Commercial Paper	300	CARE A1+ (A One Plus)

Rating rationale

The rating factors in the strengths that the company derives from the leading global financial institutions that have promoted IndoStar Capital Finance Pvt Ltd (ICF), the company's experienced management, good risk management processes, comfortable capital adequacy and liquidity position. The rating is, however, constrained due to the limited track record of operations, low seasoning of the portfolio and high concentration risk. The continued support of the promoters and asset quality are the key rating sensitivities.

Company Profile

IndoStar Capital Finance Pvt. Ltd. (ICF) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. It was originally incorporated as RV Vyapar Pvt. Ltd. on July 21, 2009 and the company was renamed as IndoStar Capital Finance Pvt. Ltd. on November 15, 2010. The company started its business operations recently with disbursements beginning during Q1FY12 (refers to the period April 01 to June 30).

ICF is promoted by global financial institutions Everstone Capital, Goldman Sachs, the Ashmore group PLC, Baer Capital Partners and ACP Investments with the objective of developing an independent wholesale lending institution in India. IndoStar Capital (Mauritius) is the holding company and has majority stake in ICF (approximately 87%) and the investors have infused capital through IndoStar Capital (Mauritius).

ICF is engaged mainly into wholesale lending with products ranging from corporate finance, developer financing/loan against property, working capital financing, acquisition financing & loan against shares. The loan portfolio as on March 31, 2013 of ICF stood at Rs.2,425 crore. As on December 31, 2013, the loan portfolio primarily comprised of corporate loans – 49%, developer financing/loan against property – 28% and retail asset portfolio buyouts & promoter financing (secured against shares) - 16%.

The companies' single exposure limit is approximately Rs.153 crore and group exposure limit is approximately Rs.255 crore. The ticket size of the current exposures ranges from Rs.25 crore to Rs.155 crore given the current net owned funds position. While the company's strategy is to remain sector agnostic, given the targeted product segments of wholesale lending and the loan ticket size, ICF is expected to have a larger portfolio distribution towards the mid-to-large corporates in India. During the initial period of operations, lending-based income is expected to be high. Going forward, given the experience of the promoters and the management team, ICF is also likely to generate a strong fee-based income from advisory and syndication.

Credit Risk Assessment

Promoter support

ICF is promoted by global financial institutions that have the experience of managing assets worth billions of dollars across the globe in debt and equity markets. ICF is promoted by global financial institutions Everstone Capital, Goldman Sachs, the Ashmore group PLC, Baer Capital Partners and ACP Investments.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com*

In addition, ICF's profile is strengthened by the expertise provided by the promoters who are actively involved in the key area of credit/investment approval. The key personnel of these institutions are on the final credit/investment approval committee of ICF as well as on the board of ICF, thereby indicating the promoters' commitment. ICF also inherits the overall risk culture and risk management practices followed by its promoters. ICF is also benefitted in terms of business origination from the large networks of its promoters. The company is also expecting that the promoters will continue to support the business over the long term. Though ICF has, over the two years of operations, demonstrated its ability in independently originating deals; change in the level of support or ownership by the promoters would be a key rating sensitivity.

Experienced management team

ICF has management with rich experience in the financial sector. Some of the key management personnel include Mr. Vimal Bhandari, managing director & chief executive officer (MD & CEO) (former country head at AEGON NV and has more than 17 years of experience with IL&FS), Mr. Pankaj Thapar, chief financial officer (CFO) (Former MD, private equity business of Everstone Capital Advisors, has more than 27 years of experience in the financial and corporate sector), Mr. Shailesh Shirali, whole-time director & head – wholesale credit & markets (formerly CEO-Corporate Lending at Future Capital Holdings), has more than 20 years of experience in structured finance & investments across global & domestic financial institutions and Mr. Sandeep Baid, Head – asset management business (former director, Head- debt capital markets at DSP Merill Lynch Ltd and has more than 12 years of experience in the financial services industry). Mr. Ravi Narain (vice-chairman of NSE) has joined the board of ICF in May, 2013 in the capacity of an independent director. The management team at all levels has been drawn from the leading players in the financial services space.

Comfortable capitalization and liquidity position

ICF had comfortable capitalization levels with a net-worth of Rs.1,021 crore as on March 31, 2013 and Capital Adequacy Ratio (CAR) of 50.30% as on March 31,2013. Due to the growth in loan portfolio during 9MFY14, the CAR stood at 41.61% (entirely Tier I CAR) as on December 31, 2013. Though with increase in business, the overall gearing saw a marginal rise to 1.59 times as on December 31, 2013 as compared with 1.08 times as on March 31, 2013. The high Tier I CAR provides considerable leeway to raise Tier II capital to support business growth going forward.

As per the business plans provided by the management, the leverage is expected to remain at a comfortable level with CAR to be maintained above 25% over the medium term. The tenure of the borrowings of ICF is around 3–4 years in tandem with the tenure of the asset book resulting in a comfortable liquidity position. The company generally maintains liquidity reserve in the form of liquid debt instruments of at least 15% of its net-worth.

Good risk management processes and secured lending portfolio

ICF has drawn experience of its global promoters for creating its risk management framework. It has formed a credit committee comprising of investors-directors for the approval of all credit and investment proposals. All credit proposals are pre-screened by the company's management committee before consideration of the credit committee. The credit proposals are referred to the board in case of any conflict of interest within the credit committee in respect to any proposal being considered. ICF has implemented risk management framework for approving and monitoring its portfolio. It has well-defined criteria for the sanction of loans including assessing track record & borrowing capacity of borrower, credit history of borrower, quality of collaterals and external credit ratings. It has a defined policy on single exposure and group exposure norms.

For strengthening the internal control systems, it has also taken professional services and has appointed firms, viz, S. R. Batliboi & Company (for statutory and tax audit), PWC (for tax advisory) and Deloitte Haskins & Sells (for internal audit).

ICF is focusing on secured lending portfolio and has plans to grow the book in secured wholesale lending and maintain a collateral cover of around 1.5 times. It has forayed across the product segments including corporate finance, builder funding/loan against property working capital loans, acquisition funding and loan against shares. ICF's loan portfolio stood at Rs.2,425 crore as on December 31, 2013 (Rs.1,768 crore as on March 31, 2013), in which the company had security coverage of around 1.5 times (except for the short-term loans). The security is mainly in the form of tangible assets including fixed assets, viz, plant & machinery, land & building, current assets and securities.

Limited track record and asset quality

ICF has a relatively short operating track record of 30 months as it started its operation in April 2011. It started disbursements in Q1FY12 and has built a portfolio of Rs.1,768 crore at the end of March 31, 2013 which increased to Rs.2,379 crore as on December 31, 2013.

Given the recent nature of operations, the small portfolio size relative to the growth plans of the company and the expected average tenure of portfolio of 4-5 years, the seasoning of the loan portfolio of the company is expected to remain low over the medium term. ICF saw one account slipping into NPA category during Q3FY14 due to which its Gross NPA ratio stood at 0.82% and Net NPA ratio stood at 0.73% as on December 31, 2013. The Net NPAs constituted 1.59% of net worth as on December 31, 2013. The business model of ICF is unique and the operations are recent and the asset quality performance would remain a key sensitivity as the portfolio seasons. While the experience of the management and promoters is expected to drive business origination and is reflected in good recent origination, the actual growth of the business under this business model remains a key factor to be monitored.

High concentration risk

ICF is growing its book in corporate loan segment and customer concentration risk is expected to be high. In the developer financing/loan against property funding portfolio, ICF currently focuses mainly on the Mumbai market which is expected to be maintained over the medium term, leading to regional concentration of risk.

Financial performance

ICF has reported a Profit After Tax (PAT) of Rs.90 crore in FY13 (refers to the period April 1 to March 31) on a total income of Rs.242 crore as against a profit after tax of Rs.53 crore on a total income of Rs.90 crore in FY12. A substantial growth in loan book coupled with improvement of Net interest Margins (NIM) has helped ICF in reporting 70% y-o-y growth in PAT in FY13. During 9MFY14, ICF reported a PAT of Rs.79 crore on a total income of Rs.288 crore.

Financial Results

(Rs. Cr)

As on / Year ended March 31	2011	2012	2013
	12 m, (A)	12 m, (A)	12 m, (A)
Interest Income	0.18	45.20	203.95
Total Income	0.23	89.85	241.58
Interest expense	-	0.30	75.86
Operating Expenses	7.41	21.54	32.50
Depreciation and Amortization	-	0.21	0.77
Provisions and write-offs	-	8.82	2.76
PAT	(7.18)	53.21	90.10
Total Loan Portfolio	-	870.25	1767.92
Investments (including bank fixed deposits)	0.12	171.56	384.2
Tangible Net worth	657.91	931.03	1021.11
Total borrowings	-	99.33	1104.33
Total Assets	661.63	1,050.81	2,202.74
Key Ratios (%)			
Total Gearing (times)	-	0.11	1.08
CAR	NM	85.83	50.30
ROTA	NM	6.21	5.54
RONW	NM	6.70	9.23

NM= Not Meaningful

Analyst Contact

Name: Abhinav Sharma
Tel: 022-6754 3508
Email: abhinav.sharma@careratings.com

(This follows our brief rationale for entity published on 08 April, 2014)

DISCLAIMER

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra
Managing Director
Mobile : +91-98204 16002
E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi
Dy. Managing Director
Mobile +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi
Vice President –Bank Loan & Instrument Rating
Mobile: +91-9819009839
mail: meenal.sikchi@careratings.com

Mr.Ankur Sachdeva
Vice President – Banking & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LTD.

HEAD OFFICE | 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 |Tel: +91-022- 6754 3456 | E-mail: care@careratings.com | Fax: +91-022- 6754 3457.

KOLKATA | **Ms. Priti Agarwal** | Cell: +91-98319 67110 | Tel: +91-33- 4018 1600/ 1602 | E- mail: priti.agarwal@careratings.com | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

CHENNAI | **Mr. V Pradeep Kumar** | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 | Email: pradeep.kumar@careratings.com | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

AHMEDABAD | **Mr. Mehul Pandya** | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 | E-mail:mehul.pandya@careratings.com | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

NEW DELHI | **Ms. Swati Agrawal** | Cell: +91-98117 45677 | Tel: +91-11-2331 8701/ 2371 6199 | E-mail: swati.agrawal@careratings.com | 3rd Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

BENGALURU | **Mr. Dinesh Sharma** | Cell: +91 9900041975 | Tel: +080-4115 0445/ 4165 4529| Tele fax: 080-41514599 | E-mail: dinesh.sharma@careratings.com | Unit No.1101-1102, 11th Floor, Prestige Meridian II No-30, M .G. Road, Bengaluru -560001.

HYDERABAD | **Mr. Saikat Roy** |Tel: +91-40-40102030 |E-mail: saikat. roy@careratings.com | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029.

PUNE | **Mr. Rahul Patni** | Cell: +91-78754 33355 | Tel: +91-20- 4000 9000 |E-mail: rahul.patni@careratings.com | 9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road, Shivaji Nagar, Pune - 411 015.

JAIPUR| **Mr. Rahul Jain** | Cell: +91-9314921496 | Tel: +91-0141-4020213/14 |E-mail: rahul.jain@careratings.com | 304, Pashupati Akshat Heights, Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park , Jaipur – 302016.