

## Indostar Capital Finance Limited

June 12, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper Programme	1,500 (Enhanced from Rs.1,250 crore)	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
Total	1,500 (Rupees One Thousand Five Hundred crore only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating factors in IndoStar Capital Finance Ltd.'s (ICF's) strong institutional sponsors as well as their capital, operational and management support. The rating further takes into account the company's experienced management, good risk management processes, strong capitalization levels as well as comfortable gearing, healthy financial performance and comfortable asset quality parameters & liquidity position. The rating is, however, constrained due to the limited track record of operations, client concentration risk and exposure to real estate segment which is relatively riskier asset class. Continued sponsor support, profitability, business diversification, client concentration and asset quality are its key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Strong sponsors

ICF had 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. The sponsors hold their stake in ICF through IndoStar Capital, Mauritius which holds 90.74% stake (P.Y.: 97.30%) in the company. IndoStar Capital, Mauritius is held by Everstone (49.4%), ACP Investments (16.4%), Goldman Sachs (18.8%), Baer Capital (10.8%) and CDIB Investment (4.7%). ICF's credit profile derives comfort from management and financial support of sponsor investors at regular intervals.

##### Experienced Management

ICF has management with rich experience in the financial sector. 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 by sponsors. During FY17, promoters infused equity capital of Rs.150 crore in the company. As on March 31, 2017, ICF's CAR stood at 32.71% (P.Y.: 34.15%) while Tier I CAR stood at 32.35% (P.Y.: 33.77%).

As on March 31, 2017, the liquidity profile of ICF stood comfortable post inclusion of undrawn bank lines. Further, as per company's prudent liquidity policy, ICF maintains cash/ cash equivalents and unutilized lines of credit to the tune of 15% of network.

##### 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.

##### Robust profitability parameters

During FY17 (based on provisional financials), the company reported 11.58% y-o-y growth in total income vis a vis 21.46% growth in outstanding loan portfolio. Deceleration in portfolio growth during FY17 is owing to subdued economic factors. The company's Net interest Margins (NIMs) stood stable at 6.30% in FY17 (P.Y.: 6.35%). Cost to income ratio of the company increased to 18.29% during FY17 as against 16.03% during FY16 due to company's foray in SME financing and the resultant rise in branch and manpower expenses. Higher operating expenses and low portfolio growth adversely

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

impacted profitability parameters of the company in FY17. The company reported PAT of Rs.207 crore in FY17 as against PAT of Rs.191 crore in FY16 registering a growth of 8.34% y-o-y. Return on Total Assets (RoTA) for the company stood at 4.07% in FY17 as against 4.41% in FY16. Although, RoTA for the company has reduced during FY17, it still continues to remain robust.

#### **Comfortable Asset quality**

During FY17, company's GNPA and NNPA increased to 1.42% (P.Y.: 0.23%) and 1.22% (P.Y.: 0.19%), respectively. The increase in NPA levels during FY17 is attributed to the slippage from one of the large accounts amounting to Rs.56.6 crore. In absolute terms, GNPA's stood at Rs.74.3 crore (P.Y.: Rs.10 crore). The company's NNPA to Networth ratio stood at 3.4% as on March 31, 2017.

#### **Key Rating Weaknesses**

##### **Relatively low track record and portfolio seasoning**

ICF has a relatively short operating track record as it started its wholesale lending operations in April 2011 and SME financing in March 2015. Though a significant portion of its wholesale portfolio has witnessed churn (given the average tenure of the portfolio at around 4 years), its SME financing and incremental wholesale lending portfolio is fairly nascent. Going forward, the company's ability to maintain asset quality in newer lending products while expanding business operations is a key monitorable.

##### **High customer concentration risk**

Given the bulky nature of its lending operations (around 86% of ICF's portfolio is wholesale in nature as on March 31, 2017), ICF is exposed to concentration risk. The company has recently ventured into SME financing which is expected to reduce concentration levels going forward.

##### **Exposure to real estate segment**

ICF continues to have high exposure to relatively riskier real estate developer funding segment. The company's real estate portfolio continued to be on higher side and constituted 37% of total portfolio outstanding as on March 31, 2017 (P.Y.: 40%).

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for short-term instruments](#)

[Non-Banking Finance Companies](#)

[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. It was originally incorporated as R. V.Vyapar Pvt. Ltd. on July 21, 2009 and the company was renamed as 'IndoStar Capital Finance Pvt. Ltd.' on November 15, 2010. The company however started disbursements from Q1FY12. (refers to the period April 01 to June 30). The company was converted into a public limited company on May 28, 2014 and consequently its name was changed to 'IndoStar Capital Finance Limited'. ICF had been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments with the objective of developing an independent wholesale lending institution in India. During FY15, Ashmore Group PLC exited ICF with its stake being acquired by Everstone and ACP Investments. The promoters hold their stake in ICF through IndoStar Capital, Mauritius which holds 90.74% stake in the company as on March 31, 2017.

ICF is engaged mainly into wholesale lending with products ranging from corporate finance, developer finance, working capital finance, acquisition finance & loan against shares. With a view to diversify its operations, the company has ventured into SME financing wherein Small and Medium Enterprises are given business loans against security of the property. ICF's loan portfolio and networth stood at Rs.5,222 crore and Rs.1,882 crore respectively as on March 31, 2017.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr. Ravi Kumar

Tel: 022-67543421

Mobile: + 91- 9004607603

Email: [ravi.kumar@careratings.com](mailto:ravi.kumar@careratings.com)

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7-364 days	1500.00	CARE A1+

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	1500.00	CARE A1+	-	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Aug-16) 3)CARE A1+ (07-Jul-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (13-Jul-15)	1)CARE A1+ (09-Jan-15) 2)CARE A1+ (30-Jul-14)
2.	Debt	LT	3750.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Dec-16) 2)CARE AA- (07-Jul-16)	1)CARE AA- (13-Jul-15)	1)CARE AA- (09-Jan-15) 2)CARE AA- (30-Jul-14) 3)CARE AA- (08-Apr-14)

**CONTACT****Head Office Mumbai****Mr. Mehul Pandya**

Cell: +91-98242 56265

E-mail: [mehul.pandya@careratings.com](mailto:mehul.pandya@careratings.com)**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: [sajan.goyal@careratings.com](mailto:sajan.goyal@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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