IndoStar Capital Finance Limited (Revised)

November 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,500.00	CARE AA-; Stable	Revised from CARE A+; Stable
Non-convertible debentures	6,200.00	CARE AA-; Stable	Revised from CARE A+; Stable
Market-linked debentures	300.00	CARE PP-MLD AA-; Stable	Revised from CARE PP-MLD A+; Stable
Commercial paper	2,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The long-term ratings of IndoStar Capital Finance Limited's (ICFL's) facilities and instruments is upgraded from 'CARE A+; Stable' to 'CARE AA-; Stable' and the short term rating of commercial paper is reaffirmed at 'CARE A1+'. The rating factors removal of audit qualifications, conclusion of control review exercise, changes in underwriting and internal control processes, demonstrated support of Brookfield in terms of management bandwidth and active involvement with stakeholders (including debt provider to ensure continued fund raise recently), distribution of bonds to large funds, beginning of flow of new lines from banking system, comfortable capitalisation and pick up in disbursements. The rating is however constrained by overall moderate asset quality (including exposure to wholesale assets), moderate earning profile, adequate but improving borrowing profile.

CARE Ratings Limited (CARE Ratings) takes a note that on November 11, 2023, ICFL has disclosed that potential transaction of IndoStar Home Finance Private Limited (IHFPL) with JM Financial Home Loans Limited shall not proceed ahead as planned.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

- Continued ability to raise resources and diversification of funding sources at competitive rates.
- Ability to increase scale of operations, while maintaining stable asset quality.
- Sustained improvement in profitability (return on total assets (ROTA) above 2.5%) on a sustained basis.

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Any change in ownership structure which results in reduction of Brookfield's stake in ICFL below 51% or moderation in linkages or expected support from the majority shareholder and promoter, Brookfield.
- Significant deterioration in the earnings profile.
- Significant deterioration in the asset quality of the newly-generated commercial vehicle (CV) portfolio or losses from wholesale exposures.
- Significant increase in gearing levels above 4x.
- Any challenges in raising incremental funds.

Analytical approach:

ICFL and its subsidiary IndoStar Home Finance Private Limited (IHFPL) are together referred to as the IndoStar group. Consolidated approach has been taken as they have significant operational, financial, and managerial integration and operate under a common brand. Furthermore, CARE Ratings has factored in linkages and support from the majority shareholder and promoter, Brookfield.

Outlook: Stable

Stable outlook factors in that IndoStar will continue to receive relevant support from its majority shareholder and promoter, Brookfield. The outlook also reflects that the company will continue to grow its portfolio while maintaining healthy asset quality. Furthermore, the outlook considers that the company will continue to avail funding lines.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Strong institutional support from the majority shareholder and promoter, Brookfield:

Brookfield is the largest shareholder of ICFL with 56.20% shareholding as on September 30, 2023. Listed on the New York Stock Exchange and the Toronto Stock Exchange, it is on the leading global alternative asset manager offering investment strategies in property, infrastructure, renewable energy, private equity, and public securities to institutional investors with significant funding capabilities. ICFL represents Brookfield's inaugural foray into private equity investments in India and marks its initial venture into the financial services sector. The initial investment occurred in May 2020, with Brookfield injecting ₹1,225 crore into ICFL. Subsequently, through BCP V Multiple Holdings Pte. Ltd, Brookfield launched an open offer to acquire an additional 26% of ICFL's shares, resulting in a total investment of ₹2,330 crore. In India Brookfield has assets under management (AUM) of around US$24 billion across sectors and has significant relationship with lenders in India.

Leveraging its extensive franchise and global banking relationships, Brookfield has played an important role in assisting ICFL in securing funds. The company raised ₹770 crore bank facility from Barclays Bank PLC, in June 2022, on the back of this support. Demonstrating a high level of engagement, Brookfield actively participates in the company's governance through its representation on the board and takes an active role in discussions with the key stakeholders including lenders and investors in the non-convertible debentures (NCDs).

CARE Ratings expects Brookfield to provide continued support to ICFL and any reduction in its stake or support will be a key rating driver.

Increased granularity of loan book owing to retail focus:

ICFL's business is divided in four segments including commercial vehicle financing, small & medium enterprise (SME) financing, home financing and corporate lending with consolidated AUM of ₹7,726 crore as on September 30, 2023. While the company has primarily been in the wholesale financing space which formed 74% of the total AUM in FY18, the same has been consciously run down since FY19, as part of the group's retailisation strategy and currently forms 4.72% of the AUM as on September 30, 2023. The retail book, which comprises commercial vehicle financing (56.73% of the AUM), home financing (24.51%), and SME financing (13.70%), has an outstanding AUM of ₹7,361.60 crore as on September 30, 2023, accounting for 95.28% of total AUM.

The AUM doesn't include investments in security receipts (SRs) amounting to ₹1,038.60 crore, of which ₹687 crore are backed by wholesale book and the balance ₹351.6 crore are backed by CV book. The SRs backed by the wholesale book are stage 2 assets while that backed by CV book are stage 2 and 3 assets.

Currently, the company's focus is to grow its used CV financing and affordable housing finance segment aligning with its objective to gradually reduce exposure in SME and corporate lending. Accordingly, the company has stopped incremental sanctioning for corporate loans and the incremental disbursements are the balance based on the existing sanctions. Also, no incremental disbursements are done under the SME segment since Q1FY23.

Although ICFL and IHFPL are gradually scaling up its CV and home financing book, ability of the companies to successfully scale-up its businesses while maintaining its asset quality will be a key monitorable.

Comfortable capitalisation metrics:

Consolidated tangible net worth (TNW) of ICFL increased to ₹2,433.37 crore as on September 30, 2023 from ₹2,250.10 crore as on March 31, 2022 on the back of internal accruals. As a result, gearing improved to 1.91x in H1FY24. Capital adequacy ratio (CAR) for ICFL (standalone) stood at 32.8% as on September 30, 2023, which is well above the regulatory requirement of 15% providing sufficient cushion to the company to achieve the desired growth. CAR for housing finance stands at 70.8% as on September 30, 2023.

Going forward, with growth in the CV and housing portfolio, gearing is expected to increase. CARE Ratings expects Brookfield to provide continued support to the company in terms of arranging funds by leveraging its relationships with financial institutions.

Key weaknesses

Moderate earnings profile:

On a consolidated basis, ICFL has reported losses from FY20 to FY22 as a result of high provisioning done owing to the COVID-19 pandemic as well as the control deficiencies identified in the CV portfolio. Nonetheless, the company has recorded consolidated profit after tax (PAT) of ₹225.15 crore for FY23 and reported return on total assets (ROTA) of 2.58% on account of write backs resulting from the recoveries during the year against the provisioning made during the previous years.

Furthermore, yields have improved by 37 bps y-o-y in FY23 as the company is focusing and targeting high yield used CV financing and home financing segment. Additionally, fee and other income has also increased by 30 bps in tandem with the growth in loan origination, DA & PTC income, and investments. Increased borrowing costs and operating expenses, however, offset the same. The operating expenditure (opex) has increased by 59 bps as a result of increasing employee costs, investments in technological upgrades, and business expansion.

The net interest income has decreased from ₹243.56 crore in H1FY23 to ₹225.98 crore in H1FY24 registering a degrowth of 7% primarily due to decrease in income from two stage 2 corporate loan assets sold to Phoenix ARC during the quarter. Overall operating expense has increased from ₹214.06 crore to ₹233.75 crore due to increase in branches, technology and employee cost. Resultant, ROTA moderated to 1.51% in H1FY24.

A decrease in ROTA to around 1% is anticipated in FY24 due to elevated borrowing expenses and opex. Additionally, any delinquencies reported in the SME and corporate books will impact the credit costs and thereby the profitability. The company's ability to increase operations while maintaining/improving profitability will be a key monitorable.

Moderate asset quality metrics; albeit improving:
On consolidated basis gross stage 3 (GS3) stands at 6.7% as of September 2023 (7.1% as of September 30, 2022) while net stage 3 (NS3) stands at 3.3% (as of September 30, 2022: 2.9%) during the same period. The company's net restructured assets improved to 2.7% as of September 30, 2023, compared to 6.2% as of March 31, 2023.

While CV portfolio primarily had control deficiencies, the new management has taken slew of measures to improve underwriting and risk management process while disbursing the loans which include audit by external firm to check on credit policy implementation, external valuation of assets, digitisation of whole process from origination to collections and more conservative borrower filters as compared to the earlier practise. The better performance of the newly originated portfolio (loans disbursed from July 2022 onwards), where the 90+ dpd of the CV book originated in this period stood at 0.25% as of September 30, 2023. However, the newly-generated portfolio is largely unseasoned and hence asset quality is yet to be tested. Additionally, the company's ability to recover/monetise the investments in security receipts will remain key monitorable.

Adequate resource profile:
Identification of control deficiencies in March 2022 had impacted subsequently ICFL's fund raising which consequently impacted its business operations in FY23. The management has been actively engaging with bankers and investors to avail funding lines and has been able to raise funds aggregating to ₹2,105 crore during H1FY24. While 74% of the funds raised during H1FY24 are in the form of NCDs, 14% in the form of working capital demand loans (WCDLs), 9% in form of commercial papers (CPs), and only 4% comprise term loan.

Post H1FY24, ICFL has started getting sanctions from banks and we expect this trend to continue. The incremental borrowing cost is also expected to reduce gradually in the medium term. CARE Ratings expects the company to diversify its incremental borrowings including off balance sheet sourcing. Accordingly, the company's ability to avail funds while diversifying its borrowing mix is a key rating factor.

Liquidity: Adequate

As on September 30, 2023, the liquidity position of ICFL is adequate with no negative cumulative mismatches in any time bucket. The company had unencumbered cash and bank balances of ₹341 crore, liquid investments of ₹98 crore, along with ₹265 crore of undrawn sanction lines as of September 2023. Furthermore, regular collections from the scheduled advances, amounting to ₹1,942 crore (including interest income), will support liquidity. Against this, the company has debt obligations of ₹1,571 crore (including interest payment) over the next one year. Ability of the company to avail funding lines will be a rating monitorable.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments

Market Linked Notes
Non Banking Financial Companies
Policy on Withdrawal of Ratings

Environment, social, and governance (ESG) risk

Given the service-oriented business of the IndoStar group, its direct exposure to environmental risks and climate risks is not significant. The company has constituted an ESG Working Committee with an object to implement and oversee the Business Responsibility Policies. The committee comprises of Ms. Priya Prasad (Head – Human Resource), Mr. Mihir Bhavsar (Chief Information Security Officer) and Mr. K V Bharadwaj (Head – Credit).

Environment: The company has made efforts to revamp its Loan Origination System (LOS) and move towards a mobile-first, cloud-based architecture stack that leads to significant reduction in paperwork and also reduces manual intervention by having seamless integration with multiple channels.

Social: With regards to social risk, IndoStar extends its support to organisations in their initiatives towards education, inequity reduction, and learning improvement, among others. As a part of this, the company on a continuous basis reaches out to remote parts of rural India through NGOs like Smile Foundation – Swabhimaan, Ladli Foundation – Masik Satya, etc.

Governance: With respect to governance risks, in light of the control deficiencies/gaps noted in its loan book, the company has strengthened controls, reviewed policies and upgraded technology and systems. The governance structure is characterized by 3 Non-Executive Independent Directors, Investor grievance committee and adequate disclosures.

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

Incorporated in July 2009, ICFL is registered with Reserve Bank of India (RBI) as a systemically-important non-deposit taking NBFC. Brookfield, one of the leading global alternative asset managers is the largest shareholder and promoter of ICFL, holding 56.20%, followed by the Everstone group at 18.8% as on September 30, 2023. The Everstone group has completed the sale of 14.21% of the total paid-up equity share capital of the company through an Offer for Sale, to comply with the minimum public shareholding requirements as per Securities and Exchange Board of India (SEBI). Pursuant to the same, the Everstone group's holding stands at 18.79% and public shareholding in the company increased to 25.01% w.e.f. May 5, 2023.

The company started with corporate lending in 2011, ventured into SME financing from 2015 and CV Financing from 2017 to have a diversified and a granular portfolio. It further diversified into retail home financing from FY18 through its subsidiary viz., IndoStar Home Finance Private Limited (IHFPL). In March 2019, the company acquired the CV business of India Infoline Finance Limited (IIFL). The company's focus is to grow its CV financing book and housing finance book going forward. The AUM as of September 2023, on a consolidated basis, is ₹7,726 crore. Currently, ICFL has a network of 476 branches across 22 states in India.

Consolidated financials

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total income	1,174.29	1,179.65	612.76
PAT	-736.51	225.15	63.70
Interest coverage (times)	-0.66	1.41	1.22
Total tangible assets	9,031.48	8,482.05	8,445.01
Net NPA (%)	6.4%	3.2%	3.3%
ROTA (%)	-7.89%	2.57%	1.51%

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Interest coverage, total tangible assets and other ratios are as per CARE Ratings calculations.
ROTA = PAT/Average total tangible assets

Status of non-cooperation with previous CRA:
None

Any other information:
Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Standalone) (Proposed)	-	-	-	-	2000.00	CARE A1+
Debentures-Market-linked debentures	INE896L07785	25-Aug-21	10-year G-sec linked	23-Feb-24	75.00	CARE PP-MLD AA-; Stable
Debentures-Market-linked debentures	INE896L07777	18-May-21	G-sec linked	18-May-23	0.00	Withdrawn
Debentures-Market-linked debentures (Proposed)	-	-	-	-	225.00	CARE PP-MLD AA-; Stable
Nonconvertible debentures	INE896L07702	25-Nov-19	9.75%	25-Oct-24	25.00	CARE AA-; Stable
Non-convertible debentures	INE896L07074	06-Jun-13	11.40%	06-Jun-23	0.00	Withdrawn
Non-convertible debentures	INE896L07728	26-Jun-20	9.25%	06-Jun-23	0.00	Withdrawn
Non-convertible debentures (Proposed)	-	-	-	-	6,175.00	CARE AA-; Stable
Fund-based-Long-term bank facilities	-	-	-	30-Jun-27	1,911.25 *	CARE AA-; Stable

Fund-based-Long-term bank facilities (Proposed)	-	-	-	-	1,588.75	CARE AA-; Stable

* Includes undrawn WCDL and CC limits

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial paper-Commercial paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (31-Mar-23) 2)CARE A1+ (RWN) (27-Dec-22) 3)CARE A1+ (CW with Negative Implications) (10-Oct-22) 4)CARE A1+ (CW with Negative Implications) (09-Aug-22) 5)CARE A1+ (CW with Developing Implications) (16-May-22)	1)CARE A1+ (20-Aug-21)	1)CARE A1+ (08-Oct-20) 2)CARE A1+ (17-Aug-20) 3)CARE A1+ (CW with Developing Implications) (17-Apr-20)
2	Non-convertible debentures	LT	6200.00	CARE AA-; Stable	-	1)CARE A+; Stable (31-Mar-23) 2)CARE A+ (RWN) (27-Dec-22) 3)CARE A+ (CW with Negative Implications) (10-Oct-22) 4)CARE A+ (CW with	1)CARE AA-; Stable (20-Aug-21)	1)CARE AA-; Stable (08-Oct-20) 2)CARE AA-; Stable (17-Aug-20) 3)CARE AA- (CW with Developing Implications) (17-Apr-20)

						Negative Implications) (09-Aug-22) 5)CARE AA- (CW with Developing Implications) (16-May-22)		
3	Debentures-Market-linked debentures	LT	100.00	CARE PP-MLD AA-; Stable	-	1)CARE PP-MLD A+; Stable (31-Mar-23) 2)CARE PP-MLD A+ (RWN) (27-Dec-22) 3)CARE PP-MLD A+ (CW with Negative Implications) (10-Oct-22) 4)CARE PP-MLD A+ (CW with Negative Implications) (09-Aug-22) 5)CARE PP-MLD AA- (CW with Developing Implications) (16-May-22)	1)CARE PP-MLD AA-; Stable (20-Aug-21)	1)CARE MLD AA-; Stable (08-Oct-20) 2)CARE MLD AA-; Stable (17-Aug-20) 3)CARE MLD AA- (CW) (17-Apr-20)
4	Commercial paper-Commercial paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (31-Mar-23) 2)CARE A1+ (RWN) (27-Dec-22) 3)CARE A1+ (CW with Negative Implications) (10-Oct-22) 4)CARE A1+ (CW with Negative Implications)	1)CARE A1+ (20-Aug-21)	1)CARE A1+ (08-Oct-20) 2)CARE A1+ (17-Aug-20) 3)CARE A1+ (CW with Developing Implications) (17-Apr-20)

						(09-Aug-22) 5)CARE A1+ (CW with Developing Implications) (16-May-22)		
5	Debentures-Market-linked debentures	LT	200.00	CARE PP-MLD AA-; Stable	-	1)CARE PP-MLD A+; Stable (31-Mar-23) 2)CARE PP-MLD A+ (RWN) (27-Dec-22) 3)CARE PP-MLD A+ (CW with Negative Implications) (10-Oct-22) 4)CARE PP-MLD A+ (CW with Negative Implications) (09-Aug-22) 5)CARE PP-MLD AA- (CW with Developing Implications) (16-May-22)	1)CARE PP-MLD AA-; Stable (20-Aug-21)	-
6	Fund-based-Long term bank facilities	LT	3500.00	CARE AA-; Stable	-	1)CARE A+; Stable (31-Mar-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Market-linked debentures	Highly Complex
3	Non-convertible debentures	Simple
4	Fund-based-Long-term bank facilities	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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