CARE Ratings
Professional Risk Opinion

Indostar Capital Finance Limited (Revised)
October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term debt programme	9,900.00 (Rs. Nine Thousand Nine Hundred Crore Only)	**CARE AA-; Stable [Double A Minus; Outlook Stable]**	**Reaffirmed**
Market-linked Debentures	100.00 (Rs. One Hundred Crore Only)	**CARE PP-MLD AA-; Stable [PP-Market Linked Debentures Double A Minus; Outlook: Stable]**	**Reaffirmed**
Commercial Paper	2,000.00 (Rs. Two Thousand Crore Only)	**CARE A1+ [CARE A One Plus]**	**Reaffirmed**
Total	**12,000.00 (Rs. Twelve Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instruments of Indostar Capital Finance Limited (ICFL) derives strength from ICFL's strong capitalization levels, comfortable gearing levels, and strong liquidity position. The ratings also take into account the company's experienced management, good risk management processes, increasing proportion of retail advances, strong institutional sponsors of ICFL as well as their capital, operational and management support. The ratings also derive comfort from improvement in networth due to equity infusion of Rs.1,225 crore from BCP V Multiple Holdings (Brookfield).

The ratings remain constrained due to weakening asset quality, moderate financial performance, concentration risks in its wholesale book, and low seasoning in the retail segments. Moreover, CARE continues to assess the impact of the ongoing COVID-19 pandemic on the company and the sector's performance at large.

Rating Sensitivities

Factors that could lead to positive rating action / upgrade

- Growth in business operations with continued profitability in line with similar rated entities
- Diversification of the product portfolio to predominantly retail
- Ability to mobilize resources from diverse sources at competitive costs
- Continuous support from the sponsor / promoter

Factors that could lead to negative rating action / downgrade

- Deterioration of asset quality in the portfolio
- Weakening of the liquidity maintained
- Significant deterioration in gearing levels

Detailed description of the key rating drivers

Key Rating Strengths

Strong Institutional sponsors

Post the equity infusion of Rs. 1,225 crs from Brookfield, and post the subsequent Open Market Offer and secondary purchase of shares by Brookfield, the promoter & promoter group companies' stake increased to 93.74% in the company as on July 10, 2020. Brookfield is listed on the New York Stock Exchange (NYSE:BAM) and the Toronto Stock Exchange (TSX:BAM.A). It is a global alternative asset manager offering investment strategies in property, infrastructure, renewable energy, private equity and public securities to institutional investors. Brookfield is one of the largest global managers of real estate assets and has significant funding capacity, with approximately Rs.36,00,000 Crores in assets under management. Brookfield group has invested more than Rs.59000 Crores in India since 2009.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Shareholding Structure	Pre-Capital Infusion	Post Capital Infusion
	% shareholding	% shareholding
Promoter and Promoter Group		
- ECP III FVCI Pte Ltd	2.50%	1.88%
- Indostar Capital (Mauritius)	56.89%	38.64%
- Everstone Capital Partners II LLC	1.23%	0.92%
- BCP V Multiple Holdings Pte Ltd	**0.00%**	**52.30%**
Promoter and Promoter Group Total	**60.62%**	**93.74%**
Public	39.38%	6.26%
Total	**100.00%**	**100.00%**

ICFL's credit profile derives comfort from management and financial support of sponsor investors / promoters. Besides, the rich experience of the sponsor investors in Indian and global financial markets they are expected to continue to help ICFL in strengthening its business opportunities.

Experienced Management

ICFL has management with rich experience in the financial sector. Some of the key management personnel include Mr. R. Sridhar, Executive vice chairman & CEO of ICFL (Former MD and CEO of Shriram Transport Finance Company Ltd.) and 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). The Board of Directors and management team at all levels have been drawn from leading players in the financial services space.

With Brookfield Asset Management (Brookfield) now becoming the Co-owner with the largest shareholding of 52.3% as on July 2020, there have been certain changes in the top management. Bobby Parikh, Non-Executive Independent Director, has become the Chairman of the company. Mr. Dhanpal Jhaveri, former Chairman of the board, continues to stay on the board as non-executive director. Also, Mr Aditya Joshi and Mr Sridhar Rengan have been appointed as directors representing Brookfield Asset Management on the board.

Strong solvency parameters and strong liquidity position

The company continues to maintain robust capitalization levels supported by equity infusions. Also post the receipt of Rs.1,225 crore equity infusion from Brookfield in Q1FY21, the tangible networth of ICFL stood at Rs.3,530 crores as on June 30, 2020. The gearing has reduced from 3.29x in FY19 to 1.92x in Q1FY21 and continues to remain comfortable.

The liquidity position of the company remains strong as on August 31, 2020. On a standalone basis, as on August 31, 2020, ICFL also possess liquidity to the tune of Rs. 2214 crore which comprises of cash and cash equivalents of Rs.593 crore and investments of Rs. 1621 crore.

The company also has undrawn bank lines (cash credit and WCDL) of Rs.297 crore as on August 31, 2020.

Increasing retail focus; 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% in FY18 to 71% in FY20 partly due to the acquisition of the CV portfolio from IIFL. As on March 31, 2020, ICFL's loan portfolio stood at Rs.9,968 crore (AUM) of which corporate lending comprised 29% while CV Finance, SME and Housing Finance together accounted for the remaining 71%. The proportion of CV financing in particular substantially increased on account of the acquisition of the CV portfolio from IIFL amounting to Rs. 3,514 crores (AUM). The seasoning of the CV business originated by ICFL is low however, IIFL's CV portfolio taken over by the company has to some extent higher seasoning. Post the integration and rationalisation IIFL branches, ICFL's branch network stood at 212 with an employee base of 2,014 at end-June 2020. The average LTV in CV and SME stand at 80% and 65% respectively as on March 31, 2020.

Key Rating Weaknesses

Weakening asset quality

The GNPA and NNPA increased from 2.77% and 1.75% in FY19 to 4.78% and 3.82% respectively in FY20. This is partly due to the CV portfolio acquired from IIFL and stress in corporate lending segment. The company plans to run down a substantial portion of the corporate lending book over the next 12 to 18 months to protect its balance sheet from the risks associated and to make the company predominantly a Retail Finance company. Moreover, the asset quality of CV portfolio continues to remain a key monitorable going forward

On the other hand, the SME segment continues to face adverse impact due to the ongoing lockdown, supply chain disruption, short term demand contraction, stretched debtor cycle and margin pressure. New disbursals are likely to be subdued with uncertainty around demand and assessment of credit quality.

Moderate profitability levels

In FY20, the company recorded a net loss of Rs.340 crore on a total income of Rs.1,470 crore compared to a net profit of Rs.255 crore on a total income of Rs.1,177 crore in FY19. This was because of the higher slippages in the CV portfolio due to poor economic environment and also due to spike in provisioning as the company took full amount of the RBI prescribed 10% provision on the moratorium book in Q4 while the RBI has allowed companies to take it over Q4FY20 and Q1FY21. In addition, the company also took a COVID-19 related provision of Rs. 100 crore, resulting in total COVID-19 related provision of Rs.280 crore. The company reported a pre-provisioning operating profit of Rs.368 crore in FY20 down 10% y-o-y. The NIMs stood at 5.33% while the ROTA and RONW turned negative in FY20.

In Q1FY21, ICFL recorded a net profit of Rs.43 crores on a total income of Rs.307 crore compared to a net profit of Rs.34 crore on a total income of Rs.404 crore in 1QFY20. The NIMs declined to 4.37% in Q1FY21 from 5.82% in Q1FY20.

Concentration in the wholesale book; albeit declining

ICFL 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.2,929 as on June 30, 2020. Amid the tight liquidity environment, the company consciously ran down its corporate lending portfolio during FY20.

AUM of Corporate lending book was Rs.2,929 crs as on June 30, 2020 as against Rs 4,307 crore as on June 30, 2019 and forms around ~83% on networth. Though it is on a declining trend, but still continues to remain a key monitorable going forward. Real Estate portfolio is on a declining trend because of the company's conscious plans of bringing it down, but still it continues to remain a key monitorable going forward.

Liquidity Profile: Strong

The liquidity profile of ICFL is strong as on August 2020 with cumulative positive mismatch in all the time buckets. As on 31 August 2020, the company has contractual debt repayments of Rs. 2416 crore upto one year against which the contractual inflows from advances is expected at Rs. 2988 crore upto one year. On a standalone basis, as on August 31, 2020, ICFL possess liquidity to the tune of Rs. 2214 crore which comprises of cash and cash equivalents of Rs.593 crore and investments of Rs. 1621 crore. The company also has undrawn bank lines (WCDL and Cash Credit) of Rs. 297 crore.

COVID-19 Impact

The COVID-19 pandemic has led to a significant impact on company's regular operations including lending and collection activities. ICFL extended moratorium to all its customers as it went for 'Opt-Out' Strategy in the initial phase. However, the company has changed the strategy to 'Opt-in' in Moratorium II. As on July 31, 2020, 51% customers (in numbers and value) of the total retail customers (CV+SME+AHF) availed moratorium. In terms of collection efficiency, the company managed to collect 50% of pre-COVID monthly billings at end-July 2020. On a standalone basis, ICFL has recorded a management overlay allowance of Rs.278.44 crore as part of its Expected Credit Loss, to factor in an increased risk of deterioration in macro-economic factors caused by COVID-19 pandemic.

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. (ICFL) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. In Q1FY21, Brookfield Asset Management Inc. (BAM) acquired 52.30% stake in Indostar Capital Finance Limited. BAM, which is the ultimate holding entity of the Brookfield group, is listed on the New York Stock Exchange and the Toronto Stock Exchange. Other major shareholders of ICFL include global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments. The company's objective is to become retail oriented NBFC catering to small and medium CV owners and catering to the affordable housing segment. 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.
ICFL started with SME from 2015 and CV Financing from May, 2017 onwards, with an intent to increase retail assets in the overall loan book and to have a diversified and granular portfolio. The company got listed in May 2018 and received an equity infusion of Rs. 700 crores.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	1,177	1,470
PAT	255	-340
Interest coverage (times)	1.70	0.43
Total Assets	11957	9144
Net NPA to Net Advances (%)	1.61	3.58
ROTA (%)	2.67	-3.22

A: Audited; All ratios are as per CARE Ratings' Calculations

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

NCD/MLD	ISIN No	Allotment Date	Coupon Rate	Maturity	Outstanding	Rating assigned along with Rating Outlook
Non-Convertible Debenture	INE896L07074	06-Jun-13	-	06-Jun-23	15.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07306	08-Jan-16	-	08-Dec-20	25.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07421	08-Feb-17	-	08-Feb-22	50.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07447	15-Feb-18	-	15-Apr-21	11.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07454	27-Feb-18	-	24-Sep-21	30.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07447	26-Feb-18	-	15-Apr-21	8.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07488	15-Mar-18	-	15-Mar-23	100.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07538	15-Mar-18	-	15-Mar-21	150.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07504	15-Mar-18	-	15-Mar-21	25.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07512	15-Mar-18	-	12-Sep-21	50.00	CARE AA-; Stable

Non-Convertible Debenture	INE896L07447	15-Mar-18	-	15-Apr-21	13.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07520	27-Mar-18	-	27-Mar-21	10.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07447	27-Mar-18	-	15-Apr-21	5.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07447	13-Apr-18	-	15-Apr-21	44.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07447	13-Apr-18	-	15-Apr-21	50.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07546	13-Apr-18	-	19-May-21	40.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07561	02-May-18	-	02-May-23	500.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07587	04-Jun-18	-	15-Jun-21	100.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07595	07-Jun-18	-	04-Jun-21	75.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07652	27-Aug-18	-	10-Aug-21	10.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07652	06-Sep-18	-	10-Aug-21	5.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07660	02-Nov-18	-	02-Nov-21	250.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07660	07-Jan-19	-	02-Nov-21	250.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07678	25-Feb-19	-	26-Feb-21	150.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07702	25-Nov-19	-	25-Oct-24	25.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07710	21-May-20	-	21-Feb-23	100.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07728	26-Jun-20	-	26-Jun-23	50.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07736	18-Aug-20	-	18-Feb-22	200.00	CARE AA-; Stable
Non-Convertible Debenture	INE896L07744	16-Sep-20	-	16-Dec-21	50.00	CARE AA-; Stable
Market Linked Debentures	INE896L07694	27-Aug-18	-	10-Aug-21	10.00	CARE PP MLD AA-; Stable
Fund-based - LT-Term Loan	-	-	-	-	3,153.89	CARE AA-; Stable
Proposed Facilities	-	-	-	-	4,445.11	CARE AA-; Stable
Commercial Paper	-	-	-	-	2,000.00	CARE A1+; Stable

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+	1) CARE A1+ (17-Aug-20) 2) CARE A1+;Credit watch with developing implications (17-Apr-20)	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-; Stable	1)CARE AA-; Stable (17-Aug-20) 2) CARE AA-; Credit watch with developing implications (17-Apr-20)	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-; Stable	1) CARE PP-MLD AA-; Stable (17-Aug-20) 2) CARE PP-MLD AA-; Credit watch with developing implications (17-Apr-20)	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)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	*Name of Instrument*	*Complexity Level*
1	*Commercial Paper – Commercial Paper*	*Simple*
2	*Long Term Instruments – Debt*	*Simple*
3	*Debentures – Market Linked Debentures*	*Highly Complex*

***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.*

Contact us

Media Contact
Name - Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Name - Mr. Himanshu Shethia
Contact no.- +91-22-6754 3468
Email ID – himanshu.shethia@careratings.com

Analyst Contact 2
Name - Mr. Sanjay Kumar Agarwal
Contact no. – +91-22-6754 3500 / 582
Email ID – sanjay.agarwal@careratings.com

Business Development Contact
Name: Mr. Ankur Sachdeva
Contact no. : +91-22-6754 3495
Email ID – ankur.sachdeva@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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