

**STAR PCG SME DA DEC 2019 -
Originated by IndoStar Capital Finance Limited**

Brickwork Ratings reaffirms ‘BWR AA (SO)’/Stable for the Assignee Payouts under the Partial Credit Guarantee scheme backed by SME loan receivables issued and originated by IndoStar Capital Finance Limited

Particulars

Instrument	Amount (₹ Cr)			Payout Maturity Date	Tenure	Rating*	
	Rated	Previous	Present			Previous (Jan, 2022)	Present
Assignee Payouts under STAR PCG SME DA DEC 2019	204.23	129.81	96.63	15 June 2034	Long Term	BWR AA (SO) Stable	BWR AA (SO) Stable (Reaffirmation)
Total	204.23	129.81	96.63	INR Ninety Six Crore and Sixty Three Lakhs Only			

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of the instrument are provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the ‘BWR AA (SO)’/Stable rating for the assignee payouts under the Partial Credit Guarantee (PCG) scheme backed by the receivables of SME loans given against property, issued and originated by IndoStar Capital Finance Limited (ICFL or the company), as tabulated above. The rating factors in the satisfactory pool performance until November 2022 collections, credit enhancement available in the form of the Excess Interest Spread (EIS) and the cash collateral available in the form of a fixed deposit (placed with Bank of Baroda), and ICFL’s servicing capabilities.

IDBI Trusteeship Services Limited (ITSL) is the appointed trustee for the said transaction to monitor the transaction on behalf of the Assignee. Collection and Payout account is with Bank of Baroda.

Transaction Structure: ICFL has sold part of its SME loan to Bank of Baroda on an as-is where-is and as-is what-is basis. The transaction envisages a valid and absolute sale (True Sale) of the receivables, arising from the loans to its customers by ICFL, to Bank of Baroda, thereby assigning all the rights, title and interest in the receivables.

On the settlement date, the seller transfers the receivables to the assignee. The assignment shall be to the end and intent that the Assignee shall thereafter be deemed to be the legal and beneficial owner of the said receivables.

The loans identified for transfer shall be subject to the Assignee’s due diligence and agreed eligibility criteria.

Credit Enhancement: The credit enhancements available in the instrument is an FD of 15% of the initial POS i.e. 15% of 204.23 Crs. = Rs. 30.6 Crs. The FD stands at 32.60% of the remaining pool principal post Nov 2022 collections. There has been no utilisation of the FD up till Dec 2022 payouts. The same has been confirmed over email by the originator and via monthly payout reports by the trustee.

Payment Mechanism: The collection of the Receivables from the Obligor and if necessary, invocation of the security interest in the Underlying Assets and utilisation of the Credit Enhancement shall be done in the following manner (assuming that the Payout Dates are Business Days, and day “T” is the scheduled Payout Date:

Day	Activity
T-2 (by 11.00 p.m.)	Servicer shall provide the monthly report as per the Servicer Agreement with details of amounts collected during the preceding month
T-1 (by 5.00 p.m.)	In the event that there are shortfalls in the amounts required to meet the payments, the Credit Enhancement shall be drawn upon In the event that any of the loans have remained overdue for more than 90 days, the Partial Credit Guarantee shall be called upon for recovering all amounts due and payable under the said loans, subject to the amount drawn under the Partial Credit Guarantee not exceeding; (i) the amounts which are available and can be drawn under the partial Credit Guarantee; and (ii) the amount due and payable as Assignee Payouts from the amounts which are yet to be realised from relevant loan
T-1 (by 5.00 p.m.)	Servicer shall deposit the amounts collected during the preceding month into the Collection and Payout Account and confirm the same to the Assignee Representative
T-1 (by 5.00 p.m.)	The amounts invoked in respect of the Credit Enhancement shall be deposited in the Collection and Payout Account
T (Scheduled Payout Date)	The Assignee Representative shall pay out the funds from the Collection and Payout Account

Pool Characteristics

- Total no of contracts in the pool are 173.
- Pool comprises SME Loans given against property.
- Average loan outstanding in the pool is Rs 1.21 Crs. with 42% of loans having ticket size higher than Rs 2 Crs.
- Average tenure is ~14 years with 91% of the pool having a tenure between 10-20 years.
- Top 3 states contribute to 72.87% of the loans with Maharashtra contributing 25.38%, followed by Karnataka (25.02%) and Telangana (22.47%)
- Average seasoning of the pool is ~18 months However, ~50% of the pool outstanding has a seasoning between 12-20 months.
- ~65% of the pool loans have LTV between 60-80% and ~90% of the pool has interest rate between 11-13%.

KEY RATING DRIVERS

Key Credit Strengths

- Credit enhancement is available in the form of an EIS of 1.92 % (12 months) and cash collateral available in the form of a fixed deposit (32.6% of the balance pool principal after December 2022 payout).
- 52.69% of the pool is amortised after December 2022 payout, resulting in higher credit enhancement available to cover balance investor payouts.
- The utilisation of the cash collateral as per the December 2022 payout report is Nil.

Key Credit Weakness

- Commingling risk may arise due to liquidity issues faced by the company due to continued net losses over the last three years on the back of provisioning & writeoff relating to CV & SME portfolio.
- Top 3 states contribute to 72.87% of the loans with Maharashtra contributing 25.38%, followed by Karnataka (25.02%) and Telangana (22.47%).

POOL PERFORMANCE SUMMARY

Pool Performance	Till November 2022 Collections (Dec 2022 Payout)
Months post Securitisation	35
Pool Amortisation %	52.69%
Assignee Payout Amortisation %	52.69%
30+ Overdue Principal as a % of Balance POS	0.13%
90+ Overdue Principal as a % of Balance POS	0.06%
30+DPD as a % of initial POS	0.41%
90+DPD as a % of initial POS	0.20%
Cash Collateral as a % of Balance POS	32.6%
Cash Collateral Utilisation %	Nil

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

The rating is based on the performance of the pool until December 2022 (the payout month), based on payout reports given by the Trustee, the present delinquency profile of the pool contracts, performance expected over the balance pool tenure, credit profile of the servicer and the credit support available in the transaction.

It was envisaged that for this transaction, the assignee will avail the PCG under the PCG scheme offered by the Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from NBFCs/Housing Finance Companies (HFCs). Brickwork Ratings has not factored in the PCG while arriving at the assigned rating.

KEY RATING ASSUMPTIONS

To assess the collection shortfalls and gross default rates for this transaction, BWR has analysed the pool characteristics vis-a-vis the company's overall portfolio, the performance of the static pool of ICFL's loan portfolio and the current operating environment that could impact the performance of the underlying pool contracts. BWR expected the base case peak shortfall as per the initial pool to be between 6.50% – 7.00% of the pool principal. However, the same may deteriorate given the moratorium availed by the underlying customers and/or a stressed market scenario.

Counterparty Risk Assessment:

Capacity	Counterparty Name	Counterparty Ratings/ Track Record	Impact on credit rating in case of non-performance
Originator & Seller	Indostar Capital Finance Limited (ICFL)	ICFL- CARE A+/A1+ (Credit watch with negative Implications) revised on August 9, 2022	Negligible impact
Collection and servicing agent	Indostar Capital Finance Limited (ICFL)	ICFL- CARE A+/A1+ (Credit watch with negative Implications) revised on August 9, 2022	Significant impact., because of change in servicing quality and replacement cost of servicer.
Cash collateral in the form of FD	Bank of Baroda	CRISIL AA+(Stable) reaffirmed on 16 November, 2022	Negligible Impact. Bank with whom the fixed deposit is maintained can be changed without impacting the rating.
Collection & Payout Account Bank	Bank of Baroda	CRISIL AA+(Stable) reaffirmed on 16 November, 2022	Negligible Impact. Account bank can be changed without impacting the rating.
Assignee Representative	IDBI Trusteeship Limited	Adequate Track Record	Negligible impact, It can be replaced with minimal cost.

RATING SENSITIVITIES

The rating is driven by the strength of cash flows of the underlying pool, credit enhancement in the form of cash collateral in the form of the fixed deposit and ICFL's (originator) servicing capabilities.

Positive: An improvement in the collection efficiency of the underlying pool accounts, substantial improvement is credit enhancement coupled with an improvement in the originator's credit profile, will be key rating positives.

Negative: Decline in the collection efficiency of the underlying pool and a subsequent deterioration in the credit enhancement available, shortfall in the cash flows and deterioration in the servicing capabilities of the originator will be key rating sensitivities

LIQUIDITY POSITION: ADEQUATE

The credit-cum-liquidity enhancement available in the transaction after the December 2022 month payout is Rs. 30.6 Crs (32.60% of the remaining pool principal), in the form of a fixed deposit. The transaction also has credit enhancement in the form of the monthly EIS.

COMPANY PROFILE - ORIGINATOR

IndoStar Capital Finance Ltd. (ICFL) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. Brookfield Asset Management is the largest shareholder and holds ~56.2% as on 31st December, 2022, which is the ultimate holding entity of the Brookfield group, is listed on the New York Stock Exchange and the Toronto Stock Exchange. The company enjoys strong support from the Institutional investor Brookfield as evident from representation in the Board of Directors and this provides significant financial flexibility to IndoStar. The company's focus is to become a retail



oriented NBFC catering to small and medium CV owners and catering to the affordable housing segment. The company got listed in May 2018. The share price for ICFL (BSE: INDOSTAR) was Rs. 154.45 as of 17th January 2023.

ICFL has management with rich experience in the financial sector. Bobby Parikh is the Chairman and Non-Executive Independent Director of the company. Mr. Deep Jaggi is the CEO of the company. Dhanpal Jhaveri, a former chairman, continues to stay on the board as non-executive director. Mr Aditya Joshi and Mr Munish Dayal have been appointed as directors representing Brookfield Asset Management on the board.

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, These CV and SME portfolio was severely impacted due to Covid-19. ICFL reported loss for last three consecutive Financial years.

Control deficiencies were identified in the vehicle loan portfolio of Indostar during the statutory audit for fiscal 2022, leading to a rise in GNPA levels of Indostar to 15.5% in March 2022. Qualified opinion was issued by the Statutory auditor with material uncertainty with respect to Going Concern Status of the Company. Focus of management has shifted to addressing identified deficiencies through appropriate policies and processes, the track record of which is to be established.

The auditor has removed the qualification pertaining to Going Concern in 2QFY23 with the improvement in operating profile, liquidity and asset quality of the Company. GNPA and NNPA reduced to 8.3% and 3.4% during 1HFY23. The company was able to raise funding of Rs.2527 Cr during 1HFY23 (at consolidated level) on the basis of strong relationship with the lenders and improvement in liquidity and asset quality.

Liquidity position is adequate as evident by Unencumbered Cash & Cash equivalent of ~Rs 834 rs and Unutilized Bank Lines of ~Rs 625 Crs as on 30th September 2022 at consolidated level.

KEY FINANCIAL INDICATORS - ICFL STANDALONE

Key Parameters	Units	FY20	FY21	FY22	1H FY23
Result Type		Audited	Audited	Audited	Unaudited
Revenue from Operations	Rs. Crores	1470.44	1287	1042	495
Net Profit/(Loss)	Rs. Crores	(340.09)	(214.1)	(769.2)	83
Tangible Net Worth	Rs. Crores	2385.42	3698.3	2574.4	2659
Total Portfolio	Rs. Crores	9137	8397	9658	7908
Gearing	Times	2.87	1.62	2.1	1.6
GNPA	%	4.48	4.4	15.5	8.3
Total CRAR	%	25.30	35.00	25.8	34.1

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)

Sr. No	Instrument	Current Rating (2023)			Rating History		
		Type	Outstanding Amt (Rs in Crs)	Rating	20-Jan-22	13-Jan-21	11-Jan-20
1	Assignee Payouts under Partial Credit Guarantee (PCG) Scheme	Long Term	96.63	BWR AA (SO) 'Stable'	BWR AA (SO) 'Stable'	BWR AA (SO) 'Stable'	BWR AA (SO) 'Stable'
	Total		96.63	Rupees Ninety Six Crore and Sixty Three Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS - Highly Complex

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Securitisation Transactions](#)

Analytical Contacts	
Forum Parekh Senior Manager - Ratings 022 – 6745 6666 Forum.rp@brickworkratings.com	Piparaiya BK Principal Director - Ratings +022 6745 6666 piparaiya.bk@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

Indostar Capital Finance Ltd.

ANNEXURE I

Details of Instrument rated by BWR

Instrument	Date of Allotment	Date of First Payout	Initial Pool Principal (Rs Cr)	Outstanding Amount (Rs. Cr)	Coupon Rate %	Maturity Date	ISIN
Assignee Payouts under STAR PCG SME DA DEC 2019	30 November 2019	15 January 2020	204.23	96.63#	9.85	15 June 2034**	NA

** as per original cash flows

Amount outstanding after December 2022 payout.



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the



possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.