

Rating Rationale

April 26, 2023 | Mumbai

IndoStar Capital Finance Limited

'CRISIL AA-/Watch Negative' assigned to NCD; Ratings continues on 'Watch Negative'

Rating Action

| | |
|---|---|
| Total Bank Loan Facilities Rated | Rs.8000 Crore |
| Long Term Rating | CRISIL AA-/Watch Negative (Continues on 'Rating Watch with Negative Implications') |
| Rs.500 Crore Non Convertible Debentures | CRISIL AA-/Watch Negative (Assigned; Placed on 'Rating Watch with Negative Implications') |
| Rs.1225 Crore (Reduced from Rs.1950 Crore) Non Convertible Debentures | CRISIL AA-/Watch Negative (Continues on 'Rating Watch with Negative Implications') |
| Rs.2000 Crore Commercial Paper | CRISIL A1+/Watch Negative (Continues on 'Rating Watch with Negative Implications') |

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA-**' rating to Rs 500 crore non-convertible debentures (NCDs) of IndoStar Capital Finance Limited (IndoStar) and placed it on '**Rating Watch with Negative Implications**'. Outstanding rating on long term debt instruments and bank facilities continue to be on '**Rating Watch with Negative Implications**'.

CRISIL Ratings has **withdrawn** its rating on NCD programmes aggregating Rs 200 crore on receipt of independent confirmation that the instruments are fully redeemed. This is in line with the CRISIL Ratings withdrawal policy.

On August 12, 2022, CRISIL Ratings had revised its rating watch on the bank facilities and NCDs of IndoStar to 'Watch with Negative Implications' from 'Watch with Developing Implications', and had placed its rating on the company's commercial paper programme on 'Watch with Negative Implications'. The rating action was on account of the potential impact of the fiscal 2022 results on fund raising and business of the company. Still, the ratings reflect the clear articulation and demonstration of support by the majority shareholder, Brookfield.

The ratings factor in the comfortable capital position of IndoStar, as indicated by overall capital adequacy ratio (CAR) of 33% and gearing of 1.8 times as on December 31, 2022.

IndoStar has adequate liquidity at present. As on March 31, 2023, the company had Rs 1106 crore of cash and equivalents, and Rs 135 crore of undrawn working capital bank limit. Regular collections should support liquidity. The company had debt obligation of Rs 909 crore over the six months ended September 30, 2023, of which Rs. 260 crore is in the form of Working Capital Limits and which is subject to roll over.

CRISIL Ratings has taken note of the company's performance for the quarter through December 2022 and the management guidance on key business metrics. The company has taken measures to reduce its gross non-performing assets (NPAs) through various initiatives including collection, repossession and selling of the vehicles and settlement with borrowers. Gross NPAs stood at 9.1% as on December 31, 2022, with net NPAs at 4.1%.

On a standalone basis, the company reported profit after tax (PAT) of Rs 114.2 crore for the nine months through December 2022 against a net loss of Rs 1.9 crore in the corresponding period of the previous fiscal. During this period the Company wrote back Rs 517.3 crore of provisions (net of a write off of Rs 478.37 crore)

On a consolidated basis, the company wrote back provisions of Rs 520.72 crore of provisions (net of a write off of Rs. 485.06 crore), and had PAT of Rs 150 crore and return on assets (RoA) of 1.9% for the nine months through December 2022.

Considering the improved asset liability management profile and liquidity, auditors have removed comments regarding the going concern made in the second quarter.

CRISIL Ratings has also taken note of corrective actions by the IndoStar management. IndoStar has revamped its business processes by strengthening its risk and control management frameworks and governance mechanism. The company raised

Rs 2,893 crore from April to December 2022 (including Rs 756 crore through securitisation transactions) from various banks and institutions. During the quarter ended March 2023, the Company raised Rs 650 crore through term loan and NCD issuance. The management has made appointments for several leadership positions such as chief financial officer (CFO) and chief risk officer (CRO) who has been elevated as Chief Executive Officer (CEO) since Feb 14, 2022.

CRISIL Ratings will continue to monitor fund raising by IndoStar as the developments of the previous period(s), which were reported in the first quarter of FY 2023 had impacted lender and investor confidence, delaying return to normalcy in fund raising, and therefore business. CRISIL Ratings will continue to engage with the company's management to assess portfolio performance and likely ultimate losses from the identified portfolio, and to monitor progress on fund raising and return to business normalcy. The rating watch will be resolved once there is clarity regarding these aspects. Should the rating change, it is unlikely to be by more than a notch. CRISIL Ratings has also taken note of the recent announcement pertaining to preliminary discussions around potential combination and listing of the retail mortgage portfolios of JM Financial and the home finance business of IndoStar Home Finance Private Limited (a 100% subsidiary of IndoStar). This includes other mortgage-backed business of IndoStar. We are in the process of evaluating the impact of this development and will release our opinion on the same shortly.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of IndoStar and its subsidiaries, collectively referred to herein as IndoStar, as the entities have significant operational, financial, and managerial integration and operate under a common brand.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Demonstrated support from majority shareholder, Brookfield

Majority ownership by Brookfield has helped enhance the capital base and financial flexibility of IndoStar. Post infusion of Rs 1,225 crore in May 2020, Brookfield now owns 56.20% of IndoStar.

The ratings factor in the clear articulation and demonstration of support by Brookfield, which has been actively engaged in discussions with key stakeholders and arranged a sizeable funding line of Rs 770 crore through its global relationships. This has been instrumental in bolstering the liquidity of IndoStar. Steps have been taken to strengthen the management team and bring in experienced people in key positions such as the CFO, CRO, internal audit head and head of commercial vehicle (CV) credit.

Brookfield has articulated its intent to continue supporting IndoStar in raising debt and equity, which is a key rating sensitivity factor.

Adequate capitalisation

IndoStar continues to have adequate capitalisation, even after the additional provisioning in the financial statements for fiscal 2022. Consolidated network was Rs 3,086 crore as on December 31, 2022 (up from Rs 2,929 crore as on March 31, 2022), while gearing remained low at 2.8 times. Overall CAR stood well above the regulatory requirement at 33% as on December 31, 2022. With retailisation of the portfolio, the gearing is expected to increase over the medium term. However, the management should prudently manage the same.

Retailisation of portfolio, though successful scale up to be demonstrated

Consolidated assets under management (AUM) stood at Rs 7,669 crore as on December 31, 2022, compared to Rs 9658 crore as on March 31, 2022. Of this, the retail book accounted for Rs 6,427 crore (84% of AUM) as on December 31, 2022, against Rs 8,090 crore (84%) as on March 31, 2022. This is a significant change from earlier when IndoStar was a wholesale-focused lender. The company has been running down the corporate loan portfolio in the past few years.

In the retail space, IndoStar operates in CV finance (AUM worth Rs 3,469 crore), and small and medium enterprises (SME) finance (mainly comprised secured loans against property; AUM: Rs 1,432 crore) and in affordable home finance (Rs 1,526 crore) through its wholly owned subsidiary, IndoStar Home Finance Pvt Ltd. Performance of the housing finance business remains better than other businesses.

While there have been challenges in the CV portfolio, CRISIL Ratings notes the better performance of the recently originated portfolio (post November 2020), as indicated by gross NPAs of 2.7%. The company is reorienting its underwriting policies and shifting focus on the customer side to small fleet owners, resulting in more granularity, and on the product side to used CVs, especially medium CVs and small CVs (from heavy CVs). Growth will likely be driven by these segments and affordable housing. That said, on-ground execution remains key and will continue to be closely monitored.

Weakness:

Weak asset quality, impacting earnings

Overall asset quality weakened as gross stage 3 (GS3) and net stage 3 assets increased sharply to 15.5% and 8.3%, respectively, as on March 31, 2022, from 4.3% and 2.3%, respectively, on December 31, 2021. The GS3 increased because of the staging policy adopted by the company in the light of control deficiencies identified primarily in the CV loan book and to some extent in the SME loan book.

As a result of the rising provisioning requirement, with credit costs increasing to Rs 1,158 crore in fiscal 2022 from Rs 487 crore in fiscal 2021, consolidated net loss expanded to Rs 737 crore from Rs 214 crore. Pre-provision profit, however, remained stable at Rs 262 crore in fiscal 2022 vis-à-vis Rs 268 crore in the previous fiscal.

As on December 31, 2022, GS3 assets reduced to 9.1% on account of sale of assets of Rs 784 crore to an asset reconstruction company during the FY ended 2023. Nevertheless, the company needs to demonstrate improved asset quality metrics on a sustained basis, which should support profitability over the long term.

Liquidity: Adequate

As on March 31, 2023, the company had Rs 1,106 crore of cash and cash equivalents, and Rs 135 crore of undrawn working capital bank limit. Regular collections should support liquidity. The company had debt obligation of Rs 909 crore for the six months ended September 30, 2023.

Rating Sensitivity Factors

Upward Factors

- Substantial improvement in fund raising, and successful execution of planned business strategy
- Significant improvement in profitability, with RoA beyond 3.0% on a sustained basis
- Material and sustained improvement in asset quality

Downward Factors

- Stake of Brookfield reducing below 51% or any reduction in expectation of support from the majority shareholder
- Delay in fund raising other than through the securitisation route, impacting business growth
- Weakening in capital adequacy
- Continued stress in asset quality and profitability

About the Company

IndoStar, incorporated in November 2011, is registered with the Reserve Bank of India as a systemically important, non-deposit taking non-banking financial company. The company was founded and incorporated by private equity players (Everstone, Goldman Sachs Baer Capital Partners, ACPI Investment managers, and CDIB International) with an initial capital of around Rs 900 crore. In May 2020, Brookfield invested Rs 1,225 crore and became the largest shareholder and co-promoter. As on September 30, 2022, Brookfield held 56.20% stake, followed by IndoStar Capital Mauritius (owned by the Everstone group and other marquee private equity investors) at 30.47%.

IndoStar started business as a wholesale financier in fiscal 2011, and entered the SME finance (loans against property) segment in fiscal 2015. In fiscal 2018, the company started offering vehicle finance and housing finance (through wholly owned subsidiary, IndoStar Home Finance Pvt Ltd). In fiscal 2019, IndoStar acquired the CV finance business of IIFL Finance Ltd. The company plans to focus on used CV financing and housing finance hereon.

Key Financial Indicators

| For the period ended March 31 (consolidated) | Unit | 2022 | 2021 |
|--|----------|-------|--------|
| Total assets | Rs crore | 9,661 | 10,082 |
| Total income (net of interest) | Rs crore | 635 | 579 |
| PAT | Rs crore | -737 | -214 |
| GS3 assets | % | 15.5 | 4.4 |
| Gearing | % | 2.1 | 1.6 |
| Return on assets | % | -7.5 | -2.1 |

| For the period ended December 31 (consolidated) | Unit | 2022 | 2021 |
|---|----------|------|------|
| Total assets | Rs crore | 8880 | 9712 |
| Total income (net of interest) | Rs crore | 461 | 433 |
| PAT | Rs crore | 150 | 17 |
| GS3 assets | % | 7.9% | 4.3% |
| Gearing | % | 1.8 | 1.5 |
| Return on assets | % | 1.9 | 0.2 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Crore) | Complexity level | Rating assigned with outlook |
|--------------|----------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA | Commercial paper programme | NA | NA | 7-365 Days | 2000 | Simple | CRISIL A1+/Watch Negative |
| INE896L07850 | Non-convertible | 20-Mar-23 | 9.95% | 20-Sep-24 | 400 | Simple | CRISIL AA-/Watch |

| | debentures | | | | | | Negative |
|--------------|-----------------------------|-----------|----------------|-----------|--------|--------|---------------------------|
| INE896L07868 | Non-convertible debentures | 20-Mar-23 | 9.95% | 20-Mar-25 | 100 | Simple | CRISIL AA-/Watch Negative |
| INE896L07843 | Non-convertible debentures | 29-Dec-22 | Linked to repo | 01-Jan-24 | 92.0 | Simple | CRISIL AA-/Watch Negative |
| INE896L07827 | Non-convertible debentures | 29-Dec-22 | Linked to repo | 29-Mar-24 | 40.0 | Simple | CRISIL AA-/Watch Negative |
| INE896L07819 | Non-convertible debentures | 29-Dec-22 | Linked to repo | 28-Jun-24 | 40.0 | Simple | CRISIL AA-/Watch Negative |
| INE896L07835 | Non-convertible debentures | 29-Dec-22 | Linked to repo | 27-Sep-24 | 108.0 | Simple | CRISIL AA-/Watch Negative |
| INE896L07801 | Non-convertible debentures | 29-Dec-22 | Linked to repo | 27-Dec-24 | 120.0 | Simple | CRISIL AA-/Watch Negative |
| NA | Non-convertible debentures* | NA | NA | NA | 825 | Simple | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 23-Jan-24 | 49.67 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Mar-26 | 75.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 07-Apr-25 | 37.50 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 29-Jun-25 | 56.12 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Dec-24 | 65.63 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Mar-24 | 193.75 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 30-Sep-23 | 25.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 11-Mar-24 | 25.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 30-Dec-24 | 25.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Mar-24 | 25.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 30-Dec-24 | 46.67 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 25-Sep-23 | 96.88 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Mar-25 | 25.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-May-23 | 7.50 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 10-May-24 | 112.53 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 10-May-24 | 88.00 | NA | CRISIL AA-/Watch Negative |

| | | | | | | | |
|----|---|----|----|-----------|---------|----|---------------------------|
| NA | Term loan | NA | NA | 20-Dec-23 | 12.50 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Jan-25 | 492.59 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 31-Mar-24 | 36.20 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 01-May-25 | 52.08 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 23-Jun-24 | 700.00 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 23-Jul-24 | 44.44 | NA | CRISIL AA-/Watch Negative |
| NA | Term loan | NA | NA | 27-Feb-26 | 50.00 | NA | CRISIL AA-/Watch Negative |
| NA | Cash credit and working capital demand loan | NA | NA | NA | 395.00 | NA | CRISIL AA-/Watch Negative |
| NA | Proposed long-term bank loan facility | NA | NA | NA | 5262.94 | NA | CRISIL AA-/Watch Negative |

*Yet to be issued

Annexure - Details of Rating Withdrawn

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs,Crore) | Complexity level |
|--------------|----------------------------|-------------------|------------------------------|---------------|-----------------------|------------------|
| INE896L08049 | Non-convertible debentures | 30-Jul-21 | Linked to 3 M Treasury Bills | 30-Aug-22 | 150 | Simple |
| INE896L07793 | Non-convertible debentures | 03-Jan-22 | 7.80% | 3-Jan-24 | 50 | Simple |

Annexure - List of Entities Consolidated

| Names of Entities Consolidated | Extent of Consolidation | Rationale for Consolidation |
|---------------------------------|-------------------------|-----------------------------|
| IndoStar | Full | Holding company |
| IndoStar Home Finance Pvt Ltd | Full | Subsidiary |
| IndoStar Asset Advisory Pvt Ltd | Full | Subsidiary |

Annexure - Rating History for last 3 Years

| Instrument | Type | Current | | 2023 (History) | | 2022 | | 2021 | | 2020 | | Start of 2020 |
|----------------------------|------|--------------------|---------------------------|----------------|---------------------------|----------|-----------------------------|----------|-------------------|------------|-------------------|---------------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 8000.0 | CRISIL AA-/Watch Negative | 19-04-23 | CRISIL AA-/Watch Negative | 12-08-22 | CRISIL AA-/Watch Negative | 07-07-21 | CRISIL AA-/Stable | 06-11-20 | CRISIL AA-/Stable | -- |
| | | | -- | 01-02-23 | CRISIL AA-/Watch Negative | 17-05-22 | CRISIL AA-/Watch Developing | -- | -- | -- | -- | |
| Commercial Paper | ST | 2000.0 | CRISIL A1+/Watch Negative | 19-04-23 | CRISIL A1+/Watch Negative | 12-08-22 | CRISIL A1+/Watch Negative | 07-07-21 | CRISIL A1+ | 06-11-20 | CRISIL A1+ | CRISIL A1+ |
| | | | -- | 01-02-23 | CRISIL A1+/Watch Negative | 17-05-22 | CRISIL A1+ | -- | 28-02-20 | CRISIL A1+ | -- | |
| Non Convertible Debentures | LT | 1725.0 | CRISIL AA-/Watch Negative | 19-04-23 | CRISIL AA-/Watch Negative | 12-08-22 | CRISIL AA-/Watch Negative | 07-07-21 | CRISIL AA-/Stable | 06-11-20 | CRISIL AA-/Stable | -- |
| | | | -- | 01-02-23 | CRISIL AA-/Watch Negative | 17-05-22 | CRISIL AA-/Watch Developing | -- | -- | -- | -- | |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|----------|-------------------|----------------|--------|
|----------|-------------------|----------------|--------|

| | | | |
|---|---------|---|---------------------------|
| Cash Credit & Working Capital Demand Loan | 10 | DBS Bank India Limited | CRISIL AA-/Watch Negative |
| Cash Credit & Working Capital Demand Loan | 25 | DCB Bank Limited | CRISIL AA-/Watch Negative |
| Cash Credit & Working Capital Demand Loan | 135 | IndusInd Bank Limited | CRISIL AA-/Watch Negative |
| Cash Credit & Working Capital Demand Loan | 115 | Kotak Mahindra Bank Limited | CRISIL AA-/Watch Negative |
| Cash Credit & Working Capital Demand Loan | 25 | YES Bank Limited | CRISIL AA-/Watch Negative |
| Cash Credit & Working Capital Demand Loan | 85 | RBL Bank Limited | CRISIL AA-/Watch Negative |
| Proposed Long Term Bank Loan Facility | 5262.94 | Not Applicable | CRISIL AA-/Watch Negative |
| Term Loan | 49.67 | Bank of India | CRISIL AA-/Watch Negative |
| Term Loan | 75 | Bank of Maharashtra | CRISIL AA-/Watch Negative |
| Term Loan | 37.5 | CSB Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 56.12 | Central Bank Of India | CRISIL AA-/Watch Negative |
| Term Loan | 700 | Axis Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 193.75 | IDFC FIRST Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 88 | Small Industries Development Bank of India | CRISIL AA-/Watch Negative |
| Term Loan | 12.5 | The South Indian Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 52.08 | YES Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 44.44 | DBS Bank India Limited | CRISIL AA-/Watch Negative |
| Term Loan | 65.63 | ICICI Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 50 | RBL Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 7.5 | Kotak Mahindra Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 112.53 | National Bank For Agriculture and Rural Development | CRISIL AA-/Watch Negative |
| Term Loan | 50 | Bajaj Finance Limited | CRISIL AA-/Watch Negative |
| Term Loan | 96.67 | Indian Bank | CRISIL AA-/Watch Negative |
| Term Loan | 96.88 | IndusInd Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 25 | The Karnataka Bank Limited | CRISIL AA-/Watch Negative |
| Term Loan | 492.59 | State Bank of India | CRISIL AA-/Watch Negative |
| Term Loan | 36.2 | Union Bank of India | CRISIL AA-/Watch Negative |

This Annexure has been updated on 26-Apr-2023 in line with the lender-wise facility details as on 21-Mar-2023 received from the rated entity.

Criteria Details

Links to related criteria[Rating Criteria for Finance Companies](#)[CRISILs Criteria for rating short term debt](#)[CRISILs Criteria for Consolidation](#)

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