



ICFL/LS/0067/2022-23

13 August 2022

**BSE Limited**  
Listing Department, 1<sup>st</sup> Floor,  
P J Towers, Dalal Street, Fort,  
Mumbai - 400 001

**National Stock Exchange of India Limited**  
Exchange Plaza, C-1, Block G,  
Bandra Kurla Complex,  
Bandra (E), Mumbai – 400 051

**Scrip Code:** 541336

**Symbol:** INDOSTAR

**Sub.:** Update on credit ratings by CRISIL Ratings Limited

**Ref.:** Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

Dear Sir/ Madam,

In accordance with Regulation 30(6) of Listing Regulations, please find below the details of credit ratings of the Company issued by CRISIL Ratings Limited:

Facility / Instruments	Existing	Revised
Long-Term Instruments	CRISIL AA-/Watch Developing ('Rating Watch with Developing Implications')	CRISIL AA-/Watch Negative (Rating Watch with Negative Implications)
Short-Term Instruments	CRISIL A1+	CRISIL A1+/Watch Negative (Rating Watch with Negative Implications)

The Rating Rationale dated 12 August 2022 issued by CRISIL Ratings Limited is enclosed herewith at Annexure – I.

Request you to kindly take the above on record and disseminate the same on your website.

Thanking you,

Yours faithfully,

For IndoStar Capital Finance Limited

Jitendra Bhati  
SVP – Compliance & Secretarial  
(Membership No. F8937)



Encl.: As above

**IndoStar Capital Finance Limited**

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CIN : L65100MH2009PLC268160

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

# CRISIL

An S&P Global Company

## Rating Rationale

August 12, 2022 | Mumbai

### IndoStar Capital Finance Limited

*Long-term rating revised to 'Watch Negative'; CP placed on 'Watch Negative'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.8000 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AA-/Watch Negative (Revised to 'Rating Watch with Negative Implications' from 'Rating Watch with Developing Implications')</b>

<b>Rs.1950 Crore Non Convertible Debentures</b>	<b>CRISIL AA-/Watch Negative (Revised to 'Rating Watch with Negative Implications' from 'Rating Watch with Developing Implications')</b>
<b>Rs.2000 Crore Commercial Paper</b>	<b>CRISIL A1+/Watch Negative (Placed on 'Rating Watch with Negative Implications')</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has revised its rating watch on the bank facilities and non-convertible debentures of IndoStar Capital Finance Ltd (IndoStar) to **'Rating Watch with Negative Implications'** from 'Rating Watch with Developing Implications'. Further, CRISIL Ratings has placed its rating on the company's commercial paper programme on **'Rating Watch with Negative Implications'**.

CRISIL Ratings has also withdrawn its rating on three non-convertible debentures aggregating Rs 525 crore in line with its withdrawal policy. CRISIL Ratings has received independent confirmation that these instruments are fully redeemed.

On May 17, 2022, CRISIL Ratings had placed its long-term rating on IndoStar on 'Rating Watch with Developing Implications'. This followed the company's disclosure on May 6, 2022 pertaining to certain observations and control deficiencies identified by the statutory auditors, primarily in the commercial vehicle (CV) loan portfolio of the company. As a result of this, it was estimated that the company may require an additional estimated credit loss (ECL) provisioning between Rs 557 crore to Rs 677 crore. The final impact of this was expected to be disclosed in the audited financial statements for fiscal 2022, and the impact of the same was to be seen.

The current rating action reflects the potential impact of the recently released fiscal 2022 results on the future fund raising and the business of the company emanating from three key aspects (a) Higher than earlier estimated impairment allowance at Rs 886 crores on the commercial vehicle portfolio with total impairment allowance of Rs 1117 crore as on March 31, 2022, and total gross non-performing assets of 15.5% (b) Qualified opinion issued by the statutory auditors Deloitte Haskins & Sells LLP on the audit report for the year ended March 31, 2022 (c) Material uncertainty related to Going Concern noted in the Audit Report. However, Auditor opinion on the Statement is not modified in respect of the uncertainty related to Going Concern.

CRISIL Ratings believes that the above aspects could impact lender and investor confidence and potentially make future fund raising challenging for Indostar, which could in turn impact business growth.

At the same time, the rating factors in the clear articulation and demonstration of support by the majority shareholder, Brookfield, which has been actively engaged in discussions with key stakeholders, and also arranged a sizeable funding line of Rs 770 crore through its global relationships- this has been instrumental in bolstering the liquidity position of the company. Steps have also been taken to strengthen the management team of IndoStar. Brookfield has articulated its intent to continue to support the company in raising debt and equity as needed.

The rating also factors in the comfortable capital position of the company, with an overall capital adequacy ratio of 25.8% and gearing of 2.1 times as on March 31, 2022 after factoring in the incremental provisioning requirement.

The liquidity position of IndoStar is currently adequate. As on August 10, 2022, the company had Rs 914 crore of cash and cash equivalents, and Rs 234 crore on undrawn working capital lines, totaling Rs 1148 crore (This is excludes term loans, a sizeable portion of which is earmarked to be used only for disbursements). The company is also in advanced stages of two securitization transactions totaling around Rs 630 crore. Regular collections should also support the company's liquidity. Against this, the company has potential repayments of Rs 1284 of repayments in the current quarter, including Rs 700 crore of NCDs, where there is breach of asset quality covenants, and for which the management has already made a buyback

offer. Repayments in the second half of the year are at Rs 562 crore, almost equally split between the third and fourth quarters.

CRISIL Ratings takes note of the updates by the management on the June quarter performance and guidance on the key business metrics. Basis the collections performance, and the measures taken by the management to bring down the gross NPAs, including settlement with borrowers, and sale of a part of the portfolio to an asset reconstruction company, management expects the gross NPA level as on June 30, 2020 to be under 10% with net NPA below 5%. In line with this, management expects a provisioning write-back, supporting the overall profitability of IndoStar, and consequently, capital adequacy ratio to reach around 30%.

CRISIL Ratings will continue to engage with the management for further clarity on portfolio performance, steps taken to strengthen incremental asset quality, likely ultimate losses from the identified portfolio, and also monitor progress on fund raising and return to business normalcy. The rating watch will be resolved once greater clarity emerges regarding the impact of recent developments.

### **Details of the Audit Report**

The Audit Committee of IndoStar had appointed an independent external agency, Ernst & Young LLP (E&Y) to carry out a detailed review of the commercial vehicle (CV) and small and medium enterprises (SME) loan books. In IndoStar's disclosure on May 6, 2022, based on the preliminary findings of the loan portfolio review, additional ECL provisioning was estimated to be in the range of Rs Rs 557 crore to Rs 677 crore.

As noted in the financial results published on August 5, 2022, basis the report provided by the external agency, IndoStar recorded an impairment allowance (net of recoveries) of Rs 1158 crore for the year ended March 31, 2022. Further, the Audit Committee had appointed an external law firm to review the transactions pertaining to the CV and SME loan portfolio to identify the root cause of control deficiencies, evaluate the business rationale and understand the transactions which were processed through deficient controls. The external law firm has not yet submitted the report. Further, IndoStar has indicated that it cannot determine the prior period effects as it is not practicable to apply the same judgement without hindsight for the prior period(s). As a result, the Statutory Auditor, Deloitte Haskins & Sells LLP, has been unable to determine whether any adjustments are required for prior period(s) relating to the impairment recorded for the quarter and year ended March 31, 2022 and whether any additional adjustments for this period and prior period(s) are required relating to the outcome of the review. Consequently, the auditor has issued a qualified audit opinion on the audit report for the year ended March 31, 2022.

The Auditor has also noted material uncertainty related to going concern, stating that total liabilities exceed the total assets maturing within 12 months by Rs 2206 crore, and for certain borrowings, the gross NPA and/or net NPA ratios have exceeded the threshold for triggering accelerated repayment on liabilities. The Auditor also notes that there can be no assurance of success of management's plan to access additional sources of finance to the extent required, on terms acceptable to the company, and to raise these amounts in a timely manner.

CRISIL Ratings notes the management's plan to address the going concern uncertainty. The company has been able to raise funds post March 31, 2022, including post disclosure of the control deficiencies. Management has made a buyback offer for Rs 700 crore of non-convertible debentures where the asset quality thresholds have been breached. At this point, CRISIL Ratings understands that none of the bankers has recalled their loans - asset quality covenants impact Rs 1244 crore of the bank borrowings. CRISIL Ratings will continue to monitor developments on this front.

### **Analytical Approach**

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of IndoStar and its subsidiaries, together referred to herein as IndoStar. This is because they have significant operational, financial, and managerial integration and also 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**

IndoStar's majority ownership by Brookfield has helped enhance its capital base and provides it with added financial flexibility; post the infusion Rs 1,225 crore in May 2020, Brookfield now owns 56% of the company's equity.

The rating factors in the clear articulation and demonstration of support by the majority shareholder, Brookfield, which has been actively engaged in discussions with key stakeholders, and also arranged a sizeable funding line of Rs 770 crore through its global relationships- this has been instrumental in bolstering the liquidity position of the company. Steps have also been taken to strengthen the management team of IndoStar with Brookfield bringing back Mr. Pankaj Thapar as Director – Finance, to oversee the finance function of the company post exit of the previous CFO, and also bringing in experienced people in key positions such as the Chief Risk Officer, Internal Audit Head and Head of CV Credit. Senior resources in the housing finance subsidiary are also expected to come on board shortly

Brookfield has articulated its intent to continue support the company in raising debt and equity as needed, and this is a key rating sensitivity factor.

#### **Adequate capitalisation**

IndoStar continues to have adequate capitalization, even post the impact of the additional provisioning taken in the financial statements pertaining to fiscal 2022. Consolidated networth stood at Rs 2,929 crore as on March 31, 2022 (down from Rs

3,698 crore as on March 31, 2021), while gearing level remained low at 2.1 times as on the same date. Overall CAR stood well above the regulatory requirement at 25.8% as on March 31, 2022. Management has indicated an expectation of improvement in overall CAR to around 30% as on June 30, 2022, driven by staging improvement, resulting in ECL release and writebacks. Over the medium term, with retailisation of the portfolio, gearing is expected to increase from current levels. However, CRISIL Ratings expects management to be prudent in managing the same.

### **Retailisation of portfolio, though successful scale up to be demonstrated**

Consolidated AUM was Rs 9,266 crore as on March 31, 2022 compared to Rs 8,990 crore as on March 31, 2021. Out of this, retail book accounted for Rs 7,685 crore (83% of AUM) as on March 31, 2022, as compared with Rs 7,040 crore (78%) as on March 31, 2021. 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 last three years.

Among retail product offerings, the company operates in CV finance (AUM Rs 4,892 crore), and SME finance (mainly comprised secured loans against property, AUM Rs 1,570 crore) through IndoStar Capital and affordable home finance (AUM Rs 1,223 crore) through its wholly-owned subsidiary – IndoStar Home Finance.

While there have been challenges in the CV portfolio, CRISIL notes the better performance of the recently originated portfolio (post November 2020), where the gross NPAs stood at 1.9%. Further, the company is reorienting its underwriting policies and shifting focus on the customer side to small fleet owners, resulting in greater granularity, and on the product side to used CVs, especially medium CVs and small CVs, from heavy CVs. Future growth is expected to be driven by these segments and affordable housing. Performance of the housing finance business remains better than the other businesses.

Having said this, on-ground execution will be key and CRISIL will continue to monitor the same.

### **Weaknesses**

#### **Weak asset quality, impacting earnings profile**

Overall asset quality weakened as gross stage 3 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, as on December 31, 2021. The increase in GS3 was the result 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 increase in provisioning requirement, with credit costs of Rs 1158 crore in fiscal 2022, as against Rs 487 crore previous fiscal, the company reported a net loss of Rs 736 crore in fiscal 2022 as compared with a loss of Rs 214 crore in fiscal 2021. Pre-provision profits remained stable at Rs 262 crore in fiscal 2022, as against Rs 268 crore in previous fiscal.

As on June 30, 2022, Stage 3 assets are expected to reduce on account of (a) Sale of Rs 516 crore to an asset reconstruction company, (b) Write-offs of Rs 369 crore, and (c) run down/ resolution of Rs 94 crore. This, coupled with regular collections, is expected to lead to provision write-backs and hence, improved profitability in the first quarter of fiscal 2023.

Nevertheless, it will be important for the company to demonstrate improved asset quality metrics on a sustained basis, which should support profitability over the medium and long term.

### **Liquidity: Adequate**

The liquidity position of IndoStar is currently adequate. As on August 10, 2022, the company had Rs 914 crore of cash and cash equivalents, and Rs 234 crore of undrawn working capital lines, totaling Rs 1148 crore (This excludes term loans, a sizeable portion of which is earmarked for disbursements). The company is also in advanced stages of two securitization transactions totaling around Rs 630 crore. Regular collections should also support the company's liquidity. Against this, the company has potential repayments of Rs 1284 crore in the current quarter, including Rs 700 crore of NCDs, where there is breach of asset quality covenants, and for which the management has already made a buyback offer. Repayments in the second half of the year are at Rs 562 crore, almost equally split between the third and fourth quarters.

### **Rating Sensitivity Factors**

#### **Upward Factors**

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

#### **Downward Factors**

- Reduction in stake by Brookfield below 51% and/or any reduction in expectation of support by Brookfield
- Delay in fund raising other than through the securitisation route, impacting business growth
- Further deterioration in capital adequacy levels
- Continued stress in asset quality and profitability

### **About the Company**

IndoStar Capital Finance Limited, incorporated in November 2011, is registered with the Reserve Bank of India as a systemically important, non-deposit taking NBFC. 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 June 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%.

The company started its business as a wholesale financier in fiscal 2011, and then entered the SME finance (loan against property) segment in fiscal 2015. In fiscal 2018, the company started offering vehicle finance and housing finance (through its wholly owned subsidiary, IndoStar Home Finance Private Limited). In fiscal 2019, the company acquired the CV finance business of IIFL Finance Limited. Going ahead, the company plans to focus on used commercial vehicle financing and housing finance.

### 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

**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. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. 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 levels	Rating assigned with outlook
NA	Commercial paper programme	NA	NA	7-365 Days	2000	Simple	CRISIL A1+
INE896L08049	Non-convertible debentures	30-Jul-21	Linked to 3 M Treasury Bills	30-Aug-22	150	Simple	CRISIL AA-/Watch Negative
INE896L07793	Non-convertible debentures	3-Jan-22	7.80%	3-Jan-24	100	Simple	CRISIL AA-/Watch Negative
NA	Non-convertible debentures*	NA	NA	NA	1175	Simple	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	12-Sep-23	143.75	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	23-Jan-24	150.00	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Mar-26	100.00	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	07-Apr-25	24.77	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	29-Jun-25	100.00	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Dec-22	20.59	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	28-Sep-21	8.33	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	30-Jun-21	100.00	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	30-Sep-22	64.29	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Mar-22	47.50	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Mar-24	300.00	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	30-Dec-24	182.49	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Mar-24	77.50	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	25-Sep-23	146.88	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Dec-21	9.38	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Mar-25	50.00	NA	CRISIL AA-/Watch Negative

NA	Term Loan	NA	NA	31-May-23	98.75	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Dec-25	215.25	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	10-May-24	201.00	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	20-Dec-23	48.44	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Jan-25	380.77	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	31-Mar-24	111.70	NA	CRISIL AA-/Watch Negative
NA	Term Loan	NA	NA	01-May-25	100.00	NA	CRISIL AA-/Watch Negative
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	25.00	NA	CRISIL AA-/Watch Negative
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	135.00	NA	CRISIL AA-/Watch Negative
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	125.00	NA	CRISIL AA-/Watch Negative
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	25.00	NA	CRISIL AA-/Watch Negative
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	5,008.61	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 levels
INE896L07769	Non-convertible debentures	29-Dec-20	8.08%	29-Jun-22	100	Simple
INE896L08023	Non-convertible debentures	14-May-21	Linked to 3 M Treasury Bills	14-Jun-22	350	Simple
INE896L08031	Non-convertible debentures	04-Jun-21	Linked to 3 M Treasury Bills	04-Jul-22	75	Simple

**Annexure - List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
IndoStar Capital Finance Limited	Full	Holding company
IndoStar Home Finance Private Limited	Full	Subsidiary
IndoStar Asset Advisory Private Limited	Full	Subsidiary

**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	8000.0	CRISIL AA-/Watch Negative	17-05-22	CRISIL AA-/Watch Developing	07-07-21	CRISIL AA-/Stable	06-11-20	CRISIL AA-/Stable		--	--
Commercial Paper	ST	2000.0	CRISIL A1+/Watch Negative	17-05-22	CRISIL A1+	07-07-21	CRISIL A1+	06-11-20	CRISIL A1+	07-02-19	CRISIL A1+	CRISIL A1+
			--		--		--	28-02-20	CRISIL		--	--



									A1+			
<b>Non Convertible Debentures</b>	LT	1950.0	CRISIL AA-/Watch Negative	17-05-22	CRISIL AA-/Watch Developing	07-07-21	CRISIL AA-/Stable	06-11-20	CRISIL AA-/Stable		--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit & Working Capital Demand Loan	25	CRISIL AA-/Watch Negative
Cash Credit & Working Capital Demand Loan	135	CRISIL AA-/Watch Negative
Cash Credit & Working Capital Demand Loan	125	CRISIL AA-/Watch Negative
Cash Credit & Working Capital Demand Loan	25	CRISIL AA-/Watch Negative
<b>Proposed Long Term Bank Loan Facility</b>	<b>5008.61</b>	<b>CRISIL AA-/Watch Negative</b>
Term Loan	143.75	CRISIL AA-/Watch Negative
Term Loan	150	CRISIL AA-/Watch Negative
Term Loan	100	CRISIL AA-/Watch Negative
Term Loan	24.77	CRISIL AA-/Watch Negative
Term Loan	100	CRISIL AA-/Watch Negative
Term Loan	20.59	CRISIL AA-/Watch Negative
Term Loan	8.33	CRISIL AA-/Watch Negative
Term Loan	100	CRISIL AA-/Watch Negative
Term Loan	64.29	CRISIL AA-/Watch Negative
Term Loan	47.5	CRISIL AA-/Watch Negative
Term Loan	300	CRISIL AA-/Watch Negative
Term Loan	182.49	CRISIL AA-/Watch Negative
Term Loan	77.5	CRISIL AA-/Watch Negative
Term Loan	146.88	CRISIL AA-/Watch Negative
Term Loan	9.38	CRISIL AA-/Watch Negative
Term Loan	50	CRISIL AA-/Watch Negative
Term Loan	98.75	CRISIL AA-/Watch Negative
Term Loan	215.25	CRISIL AA-/Watch Negative
Term Loan	201	CRISIL AA-/Watch Negative
Term Loan	48.44	CRISIL AA-/Watch Negative
Term Loan	380.77	CRISIL AA-/Watch Negative
Term Loan	111.7	CRISIL AA-/Watch Negative
Term Loan	100	CRISIL AA-/Watch Negative

#### 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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