INDOSTAR

ICFL/LS/0002/2023-24

1 April 2023

BSE Limited
Listing Department, 1st Floor,
P J Towers, Dalal Street, Fort,
Mumbai - 400 001.

Scrip Code: 541336

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

Symbol: INDOSTAR

Sub: Intimation of Revision of Credit Rating of IndoStar Capital Finance Limited ("the Company") by Care Ratings

Respected Sir/Madam,

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that Care Ratings has reaffirmed the ratings and assigned a 'Stable' Outlook the following ratings of the Company for its Bank facilities:

Instrument Type	**Amount (crore)**	**Rating**	**Rating Action**
Long-term bank facilities	INR 3,500.00	CARE A+; Stable	Reaffirmed and removed from Rating Watch with Negative Implications; **Stable outlook assigned**
Long-term instruments	INR 6,200.00	CARE A+; Stable	Reaffirmed and removed from Rating Watch with Negative Implications; **Stable outlook assigned**
Market-linked debentures	INR 300.00	CARE PP-MLD A+; Stable	Reaffirmed and removed from Rating Watch with Negative Implications; **Stable outlook assigned**
Commercial paper	INR 2,000.00	CARE A1+	Reaffirmed and removed from Rating Watch with Negative Implications

The rating rationale is enclosed.

We request you to take the afore-mentioned information in record and oblige.

Thanking you.

Yours faithfully,

For **IndoStar Capital Finance Limited**

JITENDRA BHATI

Digitally signed by JITENDRA BHATI
Date: 2023.04.01 18:14:40 +05'30'

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

IndoStar Capital Finance Limited

March 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,500.00	CARE A+; Stable	Reaffirmed and removed from Rating Watch with Negative Implications; Stable outlook assigned
Long-term instruments	6200.00	CARE A+; Stable	Reaffirmed and removed from Rating Watch with Negative Implications; Stable outlook assigned
Market-linked debentures	300.00	CARE PP-MLD A+; Stable	Reaffirmed and removed from Rating Watch with Negative Implications; Stable outlook assigned
Commercial paper	2,000.00	CARE A1+	Reaffirmed and removed from Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings and assigned a 'Stable' Outlook, to the instruments and facilities of IndoStar Capital Finance Limited (ICFL). The ratings continue to draw comfort from the strength of the promoters, Brookfield and Everstone, and their demonstrated support to ICFL in terms of management bandwidth and active role in arranging funds. The rating action factors the demonstrated ability of the company to raise resources from the market, continued support of banking system to ICFL with no recall of borrowings from any lenders, resumption of disbursements, improvement in earning profile with quarter-on-quarter positive profit after tax (PAT), moderate gearing backed by healthy capitalisation and comfortable liquidity position.

CARE Ratings notes removal of comment made by the statutory auditors in FY22 results related to uncertainty as a "going concern" from financial statements for the quarter ending September 30, 2022. The ratings, however, remains constrained due to qualified audit opinion on the financial statements of the company, limited seasoning of the new loan book, and moderate asset quality metrics.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- 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 (ROTA above 2%) on a sustained basis.
- Improvement in asset quality metrics on a sustainable basis.
- Satisfactory outcome of conduct review & unqualified audit opinion on financial statements.

Negative factors

- 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 promoters (Brookfield and Everstone).
- Significant deterioration in the earnings profile and/or asset quality.
- Significant increase in gearing levels above 4x.

Analytical approach: Consolidated

ICFL and its subsidiary IndoStar Home Finance Pvt Ltd (IHFPL) are together referred to as 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 promoters (Brookfield and Everstone).

Outlook: Stable

A 'Stable' outlook has been assigned on account of company's demonstrated ability to raise resources through banking system, debt capital market and continued support from the promoters of the company.

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

Key strengths

Strong institutional support from the promoters Brookfield and Everstone

Brookfield is the largest shareholder with 56.20% shareholding in the company as on December 31, 2022. 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. Globally, it is one of the largest managers of real estate assets with significant funding capacity. ICFL is Brookfield's first private equity investment in India as well as first investment in the financial services space. It had received an equity infusion of ₹1,225 crore from Brookfield in May 2020. Also, it made an open offer through BCP V Multiple Holdings Pte. Ltd to acquire additional 26% shares, thereby total investment coming to ₹2,330 crore.

Brookfield has used its larger franchise as well as strong global banking relationships to help ICFL in raising of funds post public disclosure of auditor qualifications and observations. The company has been able to raise ₹770 crore bank facility from Barclays Bank PLC, in June 2022, on the back of this support. Brookfield has been actively involved in the day-to-day operations of the company. Everstone, the second-largest shareholder holding 33.01% in the company, was founded in 2006 and is focused on cross-border North America – Asia investments as well as domestic investments in India and Southeast Asia.

Strong capitalisation with healthy net worth

The tangible net worth of ICFL increased from ₹2,299 crore in FY22 to ₹2462 crores in 9MFY23, primarily due to reported PAT of ₹149 core during the period. As a result, gearing improved to 2.21x for 9MFY23 as against 2.71x in FY22. Also, the capital adequacy ratio (CAR) improved to 33% during the period as against 26% in FY22. The promoters have demonstrated continued support to the entity in terms of arranging funds by explicit support to funds raised from Barclays and by leveraging relationships with domestic lenders.

Increased granularity of loan book owing to retail focus

ICFL's business is divided in four segments which are Commercial Vehicle (CV) finance, SME finance, Housing Finance and Corporate lending. Out of which, CV Finance, SME finance and Housing Finance are grouped together as retail segment. The wholesale segment consisting of corporate lending which formed 73% of the total book in FY18, has been consciously run down in a span of three years, as part of retailisation strategy of the group, and currently forms 16% of the portfolio. Going ahead, the company intends to focus on growing its book in the used CV financing and affordable housing finance segment.

During FY22, control deficiencies were observed in the CV portfolio, primarily due to deviations from standard mechanisms. Consequently, as a book cleaning attempt, the CV portfolio was reduced to ₹3,469 crore in 9MFY23 from ₹4,908 crore in FY22. The loss-making old portfolio of CV book has been reduced and only ₹160 crore (book value) of the same remains in the loan book, as of December 31, 2022. Write backs were observed in the portfolio during the period, due to conservative provisioning done earlier. New CV financing business has been discontinued and the CV book now consists of largely used CV. The portfolio is more granular, with the reduction in average ticket size from ₹7.4 lakh in FY22 to ₹5.5 lakh during 9MFY23.

Continued strong performance of housing finance subsidiary.

IndoStar Home Finance Private Limited (IHFPL), the company's housing finance subsidiary, continued to register strong performance. The AUM for IHFPL increased from ₹1,406 crore in FY22 to ₹1,526 crore in 9MFY23. It registered a PAT of ₹35 crore (PAT margin: 22%) for 9MFY23 as against a PAT of ₹34 crore (PAT margin: 23.8%) in FY22. The decrease in PAT margin is on account of rising employee cost and other operating expenses as the company is scaling up its operations. Consequently, the operating cost (operating expenses/ average total assets), increased from 3.96% in FY22 to 6.03% for 9MFY23. This is expected to go down with increase in volumes and better absorption of overheads. The average yield on advances has remained in the same level as earlier at 13.9%, however, the average cost of funds has gone up from 7.1% in FY22 to 8.2% during 9MFY23.

Removal of auditor's comments over "Going concern".

The comment made by the statutory auditors in FY22 audited financials related to uncertainty as a "going concern" has been removed from financial statements for the quarter ending September 30, 2022 (LR), based on infusion of funds, available liquidity with the company and no recall of borrowings by any lenders.

Furthermore, in response to the identified control deficiencies, corrective measures were taken by the company to strengthen entity level controls. Changes in policies have been introduced and upgraded technology systems are being used across the entire process from loan origination, credit appraisal, disbursal, and collection.

Key weaknesses

Moderate asset quality metrics

The GNPA and NNPA levels have improved to 7.90% and 3.60% in 9MFY23 against 13.60% and 7.10%, respectively, in FY22. While absolute NPA numbers have not increased on quarterly basis, the GNPA as a %, compared to last quarter, has shown an uptick due to de-growth in the AUM as well as implementation of recent RBI norms related to NPA wherein an account once in Stage 3 can be moved to Stage 1 only when all dues/arrears are cleared. The high GNPA in FY22 was primarily due to control deficiencies in stressed CV portfolio of Rs. 1391 crores, wherein restructuring had been undertaken without complying with the internal/RBI policy combined with impact of pandemic on its borrowers. The restructured loan book for 9MFY23 amounts to ₹238 crore. The reported credit cost was -0.52% for the period of 9MFY23 as against 11.7% in FY22, on account of conservative provisioning combined with recoveries registered during the period.

Improving but moderate earnings profile

ICFL has reported a PAT of ₹149 crore (PAT margin - 16.80%) and ROTA of 2.20% during the period of 9MFY23 as against a net loss of ₹737 crore in FY22. The same was due to reduction in credit cost resulting from write-backs and recoveries during the period. The company had incurred losses in FY21 and FY22 due to high provisioning for impairment on its loan portfolio during the two years, resulting in a credit cost of 11.73% (₹1,158 crore) for the period. Of the impairment of ₹1,158 crore, ₹1,092 crore were recorded in the CV business. The same was owing to the effect of the pandemic, control deficiencies in CV portfolio and resultant defaults in the loan portfolio.

The operating cost (Opex/average total assets) of the company rose slightly to 4.48% for 9MFY23 as against 3.42% in FY22. This increase is primarily on account of rising operating cost for the home finance subsidiary of the company, as it is scaling up its operations. This is expected to come down with increase in volumes and better absorption of overhead. Also, as incremental disbursements in CV financing are being done at a higher lending rate, the management expects future earnings to grow. CARE Ratings notes that the movement in asset quality as the portfolio seasons over time, remains a key monitorable.

Qualified opinion of auditor

While the company has started reporting profits and there is no significant deterioration in asset quality, most of the actions due to the control deficiencies pertain to period prior to March 31, 2022. The impact of action taken in prior period has been accounted for in this financial year. Thus, unless the financial statement of prior period is reinstated, financial statements of current year will continue to account for accounting losses of earlier period and hence will not reflect true and fair financial position (more in terms of P/L) only for the current financial year. CARE Ratings expects financial statement for the period starting from April 1, 2023, to reflect financial position pertaining to that period only. Accordingly, the financial results for quarter ending June 30, 2023, are expected to reflect true and fair view of financial statement for that period.

Liquidity: Adequate

The standalone ALM of ICFL as of December 31, 2022, and HFC as of September 30, 2022, reflects no negative cumulative mismatches across any time buckets. ICFL, at a consolidated level, has comfortable liquidity with cash and cash equivalents of ₹956 crore as on December 31, 2022. Additionally, it has undrawn funding lines to the extent of ₹405 crore.

Environment, social, and governance (ESG) risks

Given the service-oriented business of the Group, its direct exposure to environmental risks and material physical climate risks is not significant. With regards to social risk, data security and customer privacy are among the key sources of vulnerability. The company has not faced any such lapses over the years. Further, the company has made efforts to revamp its loan origination system (LOS) and move to a mobile-first, cloud-based architecture stack that leads to significant reduction in paperwork and manual data entry. The system once implemented, is expected to help improve employee productivity, reduce errors, and reduce disbursement turnaround time. In addition, it will reduce paperwork from current levels, thus contributing to the company's ESG goals. 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 Company is committed to remain compliant with sound corporate governance and risk management practices.

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](#)
[Non-Banking Financial Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry
Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Investment Company

ICFL is registered with Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. 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) for a consideration of Rs. 2415 crores. The company plans to tie up with smaller NBFCs which have reach in Tier III and Tier IV cities to further its penetration and presence in the used vehicle business. ICFL has a network of 423 locations and 22 states across India, as of December 31, 2022. Currently, it is working on geography and product expansion along with digitalisation of procedures. The company had added 186 number of branches across Commercial Vehicle and Affordable housing finance businesses in FY22. However, the growth slowed during FY23 due to auditor qualifications on the business and control deficiencies observed in the portfolio. With the positive developments during 9MFY23 and the fresh funding raised during the period, the company plans to resume growth of its branch network and scale of operations.

Brief Financials (₹ crore) *	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2022 (UA)
Total operating income	1,287	1,174	890
PAT	-214	-737	149
Interest coverage (times)	0.69	-0.66	1.37
Total Assets	10,084	9,661	8,879
Net NPA (%)	0.69	7.10	3.60
ROTA (%)	-2.17	-7.46	2.15

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*As per CARE's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Proposed)	-	-	-	-	2000.00	CARE A1+
Debentures-Market Linked Debentures	INE896L07785	August 25 2021	NA	February 23 2024	75.00	CARE PP-MLD A+; Stable
Debentures-Market Linked Debentures	INE896L07785	May 18 2021	NA	May 18 2023	45.90	CARE PP-MLD A+; Stable
Debentures-Market Linked Debentures (Proposed)	-	-	-	-	179.10	CARE PP-MLD A+; Stable
Debt – Non-convertible debentures	INE896L07702	November 25 2019	NA	October 25 2024	25.00	CARE A+; Stable
Debt – Non-convertible debentures	INE896L07074	June 06 2013	NA	June 06 2023	15.00	CARE A+; Stable
Debt – Non-convertible debentures	INE896L07728	June 26 2020	NA	June 26 2023	50.00	CARE A+; Stable
Debt – Non-convertible debentures (Proposed)	-	-	-	-	6110.00	CARE A+; Stable
Fund-based-Long Term Bank facilities	-	-	-	March 25 2027	2942.81	CARE A+; Stable
Fund-based-Long Term Bank facilities (Proposed)	-	-	-	-	557.19	CARE A+; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	1)CARE A1+ (RWN) (27-Dec-22) 2)CARE A1+ (CW with Negative Implications) (10-Oct-22) 3)CARE A1+ (CW with	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)	1)CARE A1+ (09-Oct-19)

					Negative Implications) (09-Aug-22) 4)CARE A1+ (CW with Developing Implications) (16-May-22)			
2	Debt – Non-convertible debentures	LT	6200.00	CARE A+; Stable	1)CARE A+ (RWN) (27-Dec-22) 2)CARE A+ (CW with Negative Implications) (10-Oct-22) 3)CARE A+ (CW with Negative Implications) (09-Aug-22) 4)CARE AA- (CW with Developing Implications) (16-May-22)	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)	1)CARE AA-; Stable (09-Oct-19) 2)CARE AA-; Positive (02-Apr-19)
3	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+ (RWN) (27-Dec-22) 2)CARE PP-MLD A+ (CW with Negative Implications) (10-Oct-22) 3)CARE PP-MLD A+ (CW with Negative Implications) (09-Aug-22) 4)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)	1)CARE PP-MLD AA-; Stable (09-Oct-19)

4	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	1)CARE A1+ (RWN) (27-Dec-22) 2)CARE A1+ (CW with Negative Implications) (10-Oct-22) 3)CARE A1+ (CW with Negative Implications) (09-Aug-22) 4)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)	-
5	Debentures-Market Linked Debentures	LT	200.00	CARE PP-MLD A+; Stable	1)CARE PP-MLD A+ (RWN) (27-Dec-22) 2)CARE PP-MLD A+ (CW with Negative Implications) (10-Oct-22) 3)CARE PP-MLD A+ (CW with Negative Implications) (09-Aug-22) 4)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	LT	3500.00	CARE A+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the 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	Debentures-Market Linked Debentures	Simple
4	Debt – Non-convertible Debentures	Simple
5	Fund-based-Long Term	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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