



ICFL/LS/0021/2022-23

6 May 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: Disclosure under Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Dear Sir/ Madam,

The Audit Committee of IndoStar Capital Finance Limited (“Company”) held a meeting today to consider and discuss matters pertaining to an ongoing review by an independent external agency appointed by the Company, and approved by the Audit Committee, with regard to certain observations and control deficiencies identified, during the course of the interim statutory audit of the annual financial statements of the Company, primarily relating to the commercial vehicles loan portfolio of the Company (“CV Loan Portfolio”).

With respect to the ongoing review and after appropriate deliberation by the Audit Committee on certain preliminary findings presented, the Company proposes to disclose as follows under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended) (“SEBI LODR Regulations”).

**Background**

The Audit Committee, in its meeting held on 31 March 2022, was informed by the management of the Company that certain observations and control deficiencies were observed during the course of the interim statutory audit of the annual financial statements of the Company specifically in the commercial vehicle loan segment as part of the review of Company’s loan portfolio, including a review of the policies and procedures. The Audit Committee was informed that the control deficiencies were primarily with respect to sanctioning of loans to existing customers, loan documentation and policy implementation gaps. It further appears that such aspects were primarily concerned with a part of the CV Loan Portfolio and may have arisen pursuant to liquidity concerns with customers caused by the onset of the COVID-19 pandemic.

In order to assess such deficiencies and to further understand any potential material gaps in implementation of the adopted policies, the Audit Committee of the Company proposed to appoint an independent external agency for conducting a detailed review of the CV Loan Portfolio. In this

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regard, the Audit Committee, in the same meeting approved the appointment of Ernst & Young LLP (“E&Y”) for conducting a review of the policies, procedures and practices of the Company relating to the sanctioning, disbursement and collection of CV Loan Portfolio along with assessing the adequacy of the expected credit loss allowance (“**Loan Portfolio Review**”).

#### **Preliminary Findings of the Commercial Vehicle Loan Portfolio Review**

While the Loan Portfolio Review is still ongoing, the Audit Committee in its meeting held on 6 May 2022, was informed by E&Y of certain preliminary findings of Loan Portfolio Review thus far (“**Preliminary Findings**”).

Briefly, the Preliminary Findings primarily pertain to certain control deficiencies that were observed with respect to the following:

- (a) deviations from the credit policy of the Company in approval processes for loans to existing customers and waivers in foreclosure cases in cases of certain loans;
- (b) for restructured loans the Company did not follow the steps as detailed in the control description.

In this regard, it is likely that the Company may be required to make an additional estimated credit loss (ECL) provisioning between INR 557 crores to INR 677 crores (“**Potential Additional Provisioning**”).

The Loan Portfolio Review is ongoing and the assessment of the Potential Additional Provisioning and relevant issues may undergo revisions.

#### **Next Steps**

The Loan Portfolio Review is expected to be completed by the time of finalisation of the audited financial statements of the Company for the year ended 31 March 2022 and the impact of the Loan Portfolio Review shall be disclosed in the audited financial statements of the Company.

While the Potential Additional Provisioning is expected to impact the Company’s net-worth and capital adequacy ratio, the Company is expected to continue to be adequately capitalized, will be in compliance with capital adequacy norms and have sufficient liquidity to satisfy its short-term and long-term liabilities.

The capital adequacy ratio (“**CAR**”) of the Company as of 31 December 2021 was 35.1%. Assuming the higher end of the range of Potential Additional Provisioning, the revised CAR as on 31 December 2021 would be approximately above 25%. These estimates are based on the Potential Additional Provisioning and are subject to finalisation of audited financial statements of the Company for the year ended 31 March 2022.

Separately, the Audit Committee is initiating a review for undertaking root cause analysis of deviations to policies and gaps in the internal financial controls and systems. The Company is committed to continue to operate at highest standard of compliance and governance.

Thanking you,

Yours faithfully,

For IndoStar Capital Finance Limited



Jitendra Bhati  
SVP – Compliance & Secretarial

