

CARE/HO/RR/2018-19/1706

**Mr. Pankaj Thapar**

**Chief Financial Officer**

IndoStar Capital Finance Ltd.

One Indiabulls Center, 17<sup>th</sup> Floor, Tower 2A,

Jupiter Mills Compound, Senapati Bapat Marg,

Mumbai- 400013.

August 27, 2018

Dear Sir,

**Rating of Bank facilities**

Please refer to our letters dated August 23,2018 on the above subject.

2. The rationale for the ratings is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.
3. A write-up (brief rationale) on the above ratings is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - II**.

If you have any further clarifications, you are welcome too approach us.

Thanking you,

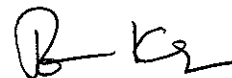


**[Shailee Sanghvi]**

Analyst

[Shailee.sanghvi@careratings.com](mailto:Shailee.sanghvi@careratings.com)

Yours faithfully,



**[Ravi Kumar Dasari]**

AGM

[ravi.kumar@careratings.com](mailto:ravi.kumar@careratings.com)

Encl: As above

**Annexure-I**  
**Rating Rationale**

**IndoStar Capital Finance Limited**

**Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Long-term debt programme	6,900	<b>CARE AA-; Positive</b> [Double A Minus; Outlook: Positive]	<b>Reaffirmed</b>
Market-linked Debentures	100	<b>CARE PP-MLD AA-; Positive</b> [Double A Minus; Outlook: Positive]	<b>Reaffirmed</b>
Commercial Paper	2,000	<b>CARE A1+</b> [A One Plus]	<b>Reaffirmed</b>
<b>Total</b>	<b>9,000</b> <b>(Rs. Nine Thousand Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings factor in strong institutional sponsors of IndoStar Capital Finance Ltd. (ICF) as well as their capital, operational and management support. The ratings further take into account the company's experienced management, good risk management processes and efforts to diversify by entering into newer segments. The ratings also take into account ICF's strong capitalization levels as well as comfortable gearing, moderate financial performance and comfortable asset quality parameters & liquidity position. The ratings remain constrained due to concentration risks in its predominantly wholesale book, albeit diversification to retail asset classes. Continued sponsor support, profitability, business diversification, client concentration and asset quality are its key rating sensitivities. Further, ICF's ability to scale up & stabilize its newly setup segments is a key rating sensitivity.

**Outlook: Positive**

The outlook has been revised to 'Positive' on expectation of portfolio growth with continued improvement in granularity of the credit book with increasing proportion of retail advances while maintaining profitability and asset quality. The outlook may be revised to 'Stable' if the credit book granularity does not improve as anticipated or there is significant moderation in profitability and asset quality.

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## **Key Rating Strengths**

### **Strong Institutional sponsors**

ICF has been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments. During FY15, Ashmore Group PLC exited ICF with its stake being acquired by Everstone and ACP Investments. During Q1FY19, Company received fresh equity infusion of Rs. 700 crores out of the total IPO issue of Rs. 1844 crores. Post the listing, the promoter & promoter group companies continue to hold 57.71% in the company. ICF's credit profile derives comfort from management and financial support of sponsor investors at regular intervals. Besides, the rich experience of the sponsor investors in Indian and global financial markets are expected continue to help ICF in strengthening its business opportunities.

### **Experienced Management**

ICF has management with rich experience in the financial sector. Some of the key management personnel include Mr. R. Sridhar, Executive vice chairman & CEO of ICF (Former MD and CEO of Shriram Transport Finance Company Ltd.), Mr. Pankaj Thapar, CFO (Former Managing Director in the Private Equity business of Everstone Capital Advisors, has more than 25 years of experience in the financial and corporate sector), Mr. Shailesh Shirali, MD & Head- Corporate Lending & Markets (Former CEO- Corporate lending at Future Capital Holdings Ltd.), Mr. Prashant Joshi, Chief Operating Officer (Former head – private and business clients at Deutsche Bank and GM – SME Banking at Standard Chartered Bank) and Mr. Hansraj Thakur, Business Head – SME Finance (Previously worked at IDFC Bank and Standard Chartered Bank), Mr.A.Gowthaman – Business Head- Vehicle Finance (Previously worked with Cholamandalam and Shriram Transport with an overall 20+ years of experience). The Board of Directors and management team at all levels have been drawn from leading players in the financial services space.

### **Strong solvency parameters and comfortable liquidity position**

The company continues to maintain robust capitalization levels supported by regular equity infusions. During Q1FY18, Company received fresh equity infusion of Rs. 700 crores due to its IPO listing. As on 31<sup>st</sup> March, 2018, ICF's CAR stood at 28.10% [P.Y.: 33.74%] while Tier I CAR stood at 27.80% [P.Y.: 33.77%]. Further, the company had comfortable gearing levels of 2.27x as on March 31, 2018 [P.Y.: 1.82x]. As on March 31, 2018, the liquidity profile of ICF was comfortable post inclusion of undrawn bank lines. While the average loan book tenure as on 31.03.2018 is 5.67 years, the company has tapped similar tenure bank/ market borrowings. The cash and cash equivalents and undrawn bank lines as on 31<sup>st</sup> March, 2018 stood at Rs.485 crores.

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### **Well defined risk management processes & secured lending**

ICF draws experience from its global investors for creating its risk management framework. It has well-defined credit criteria for sanction of loan including assessing track record & borrowing capacity of borrower, credit history of borrower, quality of collaterals. Over the last few quarters with a view to diversify the portfolio risk, the Company has recently started with Commercial Vehicle financing. As on March 31, 2018, ICF's loan portfolio stood at Rs.5,960 crore of which real estate developer funding comprised 35.62% [P.Y.: 38.23%], corporate financing 38.10% [P.Y.: 50.88%], SME financing 24.07%(PY: 10.86%) while the remaining 2.19% being CV Financing.

### **Moderate profitability and comfortable asset quality parameters**

During FY18, the company reported 3.42% y-o-y growth in interest income vis a vis 14% growth in the previous year which was primarily on account of decline in portfolio growth owing to large prepayments, change in the portfolio mix due to increase in retail portfolio which are relatively a lower yielding asset classes. Despite slowdown in portfolio growth, the company witnessed improved interest spreads due to reduction in cost of borrowings that declined by roughly 180 bps. Cost to income ratio of the company stood at 15.91% as on March 31, 2018. Operating costs shall continue to remain on a higher side due to company's plans to increase their retail portfolio and the resultant rise in branch and manpower expenses. Higher operating expenses and low portfolio growth has impacted profitability parameters of the company in FY18. Also, there has been substantial growth in the treasury income. The company's Net interest Margins (NIMs) stood stable at 5.31% in FY18 (P.Y.: 6.51%). The company reported PAT of Rs.235 crore in FY18 as against PAT of Rs.205 crore in FY17 registering a growth of 14.63 % y-o-y. Return on Total Assets (RoTA) for the company stood at 3.68% in FY18 as against 4.11% in FY17. Although, RoTA for the company has reduced during FY18, it still continues to remain robust.

### **Established track record in the loan book**

ICF has a established operating track record as it started its wholesale lending operations in April 2011. The portfolio witnesses churn owing to larger prepayments but still continue to form 73.70% of the outstanding portfolio as on March 31, 2018. The Wholesale book as on March 31, 2018 stood at Rs.4394.30 crores of which Rs.2123 crores belongs to the real estate book. The Company has ventured into newer asset classes but wholesale book shall still continue to occupy 60% of the loan book going forward as per the management.

### **Key Rating Weaknesses**

#### **Efforts to diversify albeit low seasoning**

Company started its SME operations in 2015 and CV Financing in 2017. In FY18, Company has expanded geographically by opening 75 branches for CV financing and 9 branches for SME financing. ICF has also hired experienced professionals for managing the businesses which has also led to rise in manpower expenses. As on

March 31, 2018, the SME and CV loan book stood at Rs.1435 crores and Rs. 131 crores respectively. Given the nascent stage of operations, the portfolio remains relatively unseasoned, hence company's ability to maintain yields coupled with good asset quality continues to remain a key monitorable going forward.

### Customer concentration risk

Given the bulky nature of its lending operations, ICF is exposed to concentration risk. As on March 31, 2018 top 10 exposures constituted 53.03% of total portfolio [P.Y.: 52.97%]. Also there is significant concentration in real estate sector i.e. it accounts 35.62% of the total portfolio. Further, considering the higher ticket sizes of its wholesale loan book, slippages in few large accounts can have an adverse impact on asset quality. The company is making efforts by diversifying into SME financing and CV financing to mitigate the risk.

### Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Non Banking Financial Companies

Financial ratios – Financial Sector

Factor Linkages in Ratings

### About the Company

IndoStar Capital Finance Ltd. (ICF) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. ICF had been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments with the objective of developing an independent wholesale lending institution in India. ICF is engaged mainly into wholesale lending with products ranging from corporate finance, developer financing, working capital financing, acquisition financing & loan against shares. Mr Sridhar has joined as a CEO in April, 2017 and who was earlier associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company Limited (STFC) from 2000-2012.

The Company has recently started with Commercial Vehicle financing. ICF's loan portfolio and networth stood at Rs.5960 crore and Rs.2127 crore respectively as on March 31, 2018. The Company got listed in May 2018 and received a fresh equity infusion of Rs. 700 crores. The Promoters & Promoters Group stake as on June 30, 2018 stood at 58.28%.

### Financial Performance:

(Rs. Cr)

As on / Year ended March 31,20	FY16	FY 17	FY18
	A	A	A
Interest Income	564	643	665
Other Operational Income	77	72	117
Other Income	1	1	49

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Total Income	641	715	830
Operating Expenses	56	69	132
Total Provision / Write offs	3	12	8
Depreciation and Impairment of Fixed Assets	1	2	4
Interest Expenditure	290	312	325
PBT	292	320	360
Tax	101	111	125
PAT	191	209	235
Total Loan Portfolio	4265	5148	5960
Investments	10	196	1048
Tangible Net worth	1530	1882	2127
Total borrowings	3018	3424	4822
Total Assets	4682	5485	7295
Key Ratios (%)			
Total Gearing (times)	1.97	1.82	2.27
Interest Coverage (times)	2.01	2.03	2.11
Interest Income/ Avg. Interest earning assets	13.42	12.96	11.97
Interest / Avg. Borrowed Funds	10.34	9.68	7.88
Interest Spread	3.08	3.28	4.08
Other Operational Income/Avg. Int earning assets	1.81	1.87	2.50
Other Income/Avg. Int earning assets	0.02	0.02	0.75
Net Interest Margin	6.32	6.51	5.31
Cost to Income Ratio	16.03	17.57	15.90
CAR	34.15	33.74	28.10
Tier I CAR	33.77	33.37	27.80
ROTA	4.41	4.11	3.68
RONW	13.61	12.25	11.72
Gross NPA Ratio (%)	0.23	1.44	1.28
Net NPA Ratio (%)	0.19	1.32	1.07

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**(This follows our brief rationale for entity published on August 29, 2018)**

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

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## About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debentures	6-Jun-13	-	6-Jun-23	15.00	CARE AA-;Positive
Non-Convertible Debentures	18-Mar-14	-	27-Feb-19	10.00	CARE AA-;Positive
Non-Convertible Debentures	13-Aug-15	-	14-Sep-18	50.00	CARE AA-;Positive
Non-Convertible Debentures	13-Aug-15	-	14-Sep-18	50.00	CARE AA-;Positive
Non-Convertible Debentures	8-Jan-16	-	8-Jan-21	50.00	CARE AA-;Positive
Non-Convertible Debentures	8-Jan-16	-	8-Dec-20	50.00	CARE AA-;Positive
Non-Convertible Debentures	23-Mar-16	-	22-Mar-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	5-Jun-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	10-May-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	4-Apr-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	2-May-19	25.00	CARE AA-;Positive

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Non-Convertible Debentures	12-May-16	-	12-Apr-19	20.00	CARE AA-;Positive
Non-Convertible Debentures	19-May-16	-	3-Oct-18	2.50	CARE AA-;Positive
Non-Convertible Debentures	30-Jun-16	-	28-Jun-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	8-Feb-17	-	8-Feb-22	50.00	CARE AA-;Positive
Non-Convertible Debentures	15-Feb-18	-	4-Apr-19	35.00	CARE AA-;Positive
Non-Convertible Debentures	15-Feb-18	-	15-Apr-21	11.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	24-Sep-21	30.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	26-Feb-20	25.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	23-Aug-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	15-Apr-21	8.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Mar-23	100.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Mar-21	150.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Mar-21	25.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	12-Sep-21	50.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Apr-21	13.00	CARE AA-;Positive
Non-Convertible Debentures	27-Mar-18	-	27-Mar-21	10.00	CARE AA-;Positive
Non-Convertible Debentures	27-Mar-18	-	15-Apr-21	5.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	15-Apr-21	44.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	15-Apr-21	50.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	19-May-21	40.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	18-Sep-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	2-May-18	-	2-May-23	500.00	CARE AA-;Positive
Non-Convertible Debentures	25-May-18	-	24-Jun-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	28-May-18	-	28-Aug-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	4-Jun-18	-	15-Jun-21	100.00	CARE AA-;Positive
Non-Convertible Debentures	7-Jun-18	-	4-Jun-21	75.00	CARE AA-;Positive
Commercial Paper	-	-	7days to 1 year	2000.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	635	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	1-Apr-20	88.88	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	29-Jan-21	58.31	CARE AA-; Positive

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Fund-based - LT-Term Loan	-	-	12-Jun-21	143.75	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	13-Nov-18	12.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	24-Aug-21	40.63	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	25-Feb-20	32.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	23-May-20	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	26-Mar-22	93.75	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	20-Sept-21	40.63	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	28-Sept-20	30.94	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	25-Feb-20	13.33	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Jun-19	26.67	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Sept-21	87.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-July-19	25.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-May-19	100.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Dec-22	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Mar-19	16.67	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Sept-21	40.62	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	12-Mar-20	9.72	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	15-Dec-20	15.63	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Nov-22	25.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Mar-21	37.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Sept-21	43.75	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	10-Jan-22	112.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	10-Apr-23	200.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Dec-21	21.87	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	1-Jan-21	30.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	2-Nov-22	50.00	CARE AA-; Positive

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Fund-based - LT-Term Loan	-	-	31-Dec-20	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Aug-21	40.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Jun-22	100.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	26-May-20	35.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	22-Dec-20	90.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Jun-21	200.00	CARE AA-; Positive
Proposed Debt	-	-	-	2383.90	CARE AA-; Positive

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	2000.00	CARE A1+	-	1)CARE A1+ (09-Feb-18) 2)CARE A1+ (22-Aug-17) 3)CARE A1+ (11-Jul-17) 4)CARE A1+ (12-Jun-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Aug-16) 3)CARE A1+ (07-Jul-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (13-Jul-15)
2.	Debt	LT	6900.00	CARE AA-; Positive	1)CARE AA-; Stable (08-Jun-18)	1)CARE AA-; Stable (13-Mar-18) 2)CARE AA-; Stable (11-Jul-17)	1)CARE AA-; Stable (30-Dec-16) 2)CARE AA-; (07-Jul-16)	1)CARE AA-; (13-Jul-15)

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3.	Debentures-Market Linked Debentures	LT	100.00	CARE PP- MLD AA-; Positive	-	1)CARE PP- MLD AA-; Stable  (13-Mar-18)	-	-
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**Annexure-II**  
**INDOSTAR CAPITAL FINANCE LIMITED**

**Ratings**

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term debt programme	6,900	CARE AA-; Positive [Double A Minus; Outlook: Positive]	Reaffirmed
Market-linked Debentures	100	CARE PP-MLD AA-; Positive [Double A Minus; Outlook: Positive]	Reaffirmed
Commercial Paper	2,000	CARE A1+ [A One Plus]	Reaffirmed
<b>Total</b>	<b>9,000</b> <b>(Rs. Nine Thousand Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings factor in strong institutional sponsors of IndoStar Capital Finance Ltd. (ICF) as well as their capital, operational and management support. The ratings further take into account the company's experienced management, good risk management processes and efforts to diversify by entering into newer segments. The ratings also take into account ICF's strong capitalization levels as well as comfortable gearing, moderate financial performance and comfortable asset quality parameters & liquidity position. The ratings remain constrained due to concentration risks in its predominantly wholesale book, albeit diversification to retail asset classes. Continued sponsor support, profitability, business diversification, client concentration and asset quality are its key rating sensitivities. Further, ICF's ability to scale up & stabilize its newly setup segments is a key rating sensitivity.*

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*The outlook has been revised to 'Positive' on expectation of portfolio growth with continued improvement in granularity of the credit book with increasing proportion of retail advances while maintaining profitability and asset quality. The outlook may be revised to 'Stable' if the credit book granularity does not improve as anticipated or there is significant moderation in profitability and asset quality.*

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Strong Institutional sponsors**

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**Experienced Management**

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ICF has management with rich experience in the financial sector. Some of the key management personnel include Mr. R. Sridhar, Executive vice chairman & CEO of ICF (Former MD and CEO of Shriram Transport Finance Company Ltd.), Mr. Pankaj Thapar, CFO (Former Managing Director in the Private Equity business of Everstone Capital Advisors, has more than 25 years of experience in the financial and corporate sector), Mr. Shailesh Shirali, MD & Head- Corporate Lending & Markets (Former CEO- Corporate lending at Future Capital Holdings Ltd.), Mr. Prashant Joshi, Chief Operating Officer (Former head – private and business clients at Deutsche Bank and GM – SME Banking at Standard Chartered Bank) and Mr. Hansraj Thakur, Business Head – SME Finance (Previously worked at IDFC Bank and Standard Chartered Bank), Mr. A. Gowthaman – Business Head- Vehicle Finance (Previously worked with Cholamandalam and Shriram Transport with an overall 20+ years of experience). The Board of Directors and management team at all levels have been drawn from leading players in the financial services space.

#### **Strong solvency parameters and comfortable liquidity position**

The company continues to maintain robust capitalization levels supported by regular equity infusions. During Q1FY18, Company received fresh equity infusion of Rs. 700 crores due to its IPO listing. As on 31<sup>st</sup> March, 2018, ICF's CAR stood at 28.10% [P.Y.: 33.74%] while Tier I CAR stood at 27.80% [P.Y.: 33.77%]. Further, the company had comfortable gearing levels of 2.27x as on March 31, 2018 [P.Y.: 1.82x]. As on March 31, 2018, the liquidity profile of ICF was comfortable post inclusion of undrawn bank lines. While the average loan book tenure as on 31.03.2018 is 5.67 years, the company has tapped similar tenure bank/ market borrowings. The cash and cash equivalents and undrawn bank lines as on 31<sup>st</sup> March, 2018 stood at Rs.485 crores.

#### **Well defined risk management processes & secured lending**

ICF draws experience from its global investors for creating its risk management framework. It has well-defined credit criteria for sanction of loan including assessing track record & borrowing capacity of borrower, credit history of borrower, quality of collaterals. Over the last few quarters with a view to diversify the portfolio risk, the company has started SME financing and CV financing. As on March 31, 2018, ICF's loan portfolio stood at Rs.5,960 crore of which real estate developer funding comprised 35.62% [P.Y.: 38.23%], corporate financing 38.10% [P.Y.: 50.88%], SME financing 24.07% (PY: 10.86%) while the remaining 2.19% being CV Financing.

#### **Moderate profitability and comfortable asset quality parameters**

During FY18, the company reported 3.42% y-o-y growth in interest income vis a vis 14% growth in the previous year which was primarily on account of decline in portfolio growth owing to large prepayments, change in the portfolio mix due to increase in retail portfolio which are relatively a lower yielding asset classes. Despite slowdown in portfolio growth, the company witnessed improved interest spreads due to reduction in cost of borrowings that declined by roughly 180 bps. Cost to income ratio of the company stood at 15.91% as on March 31, 2018. Operating costs shall continue to remain on a higher side due to company's plans to increase their retail portfolio and the resultant rise in branch and manpower expenses. Higher operating expenses and low portfolio growth has impacted profitability parameters of the company in FY18. Also, there has been substantial growth in the treasury income. The company's Net interest Margins (NIMs) stood stable at 5.31% in FY18 (P.Y.: 6.51%). The company reported PAT of Rs.235 crore in FY18 as against PAT of Rs.205 crore in FY17 registering a growth of 14.63 % y-o-y. Return on Total Assets (RoTA) for the company stood at 3.68% in FY18 as against 4.11% in FY17. Although, RoTA for the company has reduced during FY18, it still continues to remain robust.

#### **Established track record in the loan book**

ICF has a established operating track record as it started its wholesale lending operations in April 2011. The portfolio witnesses churn owing to larger prepayments but still continues to form 73.70% of the outstanding portfolio as on March 31, 2018. The Wholesale book as on March 31, 2018 stood at Rs.4394.30 crores of which

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Rs.2123 crores belongs to the real estate book. The Company has ventured into newer asset classes but wholesale book shall still continue to occupy 60% of the loan book going forward as per the management.

## Key Rating Weaknesses

### Efforts to diversify albeit low seasoning

Company started its SME operations in 2015 and CV Financing in 2017. In FY18, Company has expanded geographically by opening 75 branches for CV financing and 9 branches for SME financing. ICF has also hired experienced professionals for managing the businesses which has also led to rise in manpower expenses. As on March 31, 2018, the SME and CV loan book stood at Rs.1435 crores and Rs. 131 crores respectively. Given the nascent stage of operations, the portfolio remains relatively unseasoned, hence company's ability to maintain yields coupled with good asset quality continues to remain a key monitorable going forward.

### Customer concentration risk

Given the bulky nature of its lending operations, ICF is exposed to concentration risk. As on March 31, 2018 top 10 exposures constituted 53.03% of total portfolio [P.Y.: 52.97%]. Also there is significant concentration in real estate sector i.e. it accounts 35.62% of the total portfolio. Further, considering the higher ticket sizes of its wholesale loan book, slippages in few large accounts can have an adverse impact on asset quality. The company is making efforts by diversifying into SME financing and CV financing to mitigate the risk.

**Analytical approach:** Standalone

### Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for short-term instruments

Non-Banking Finance Companies

Financial ratios - Financial Sector

### About the Company

IndoStar Capital Finance Ltd. (ICF) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. ICF had been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments with the objective of developing an independent wholesale lending institution in India. ICF is engaged mainly into wholesale lending with products ranging from corporate finance, developer financing, working capital financing, acquisition financing & loan against shares. Mr Sridhar has joined as a CEO in April, 2017 and who was earlier associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company Limited (STFC) from 2000-2012.

The Company has also started with Commercial Vehicle financing and SME Financing. ICF's loan portfolio and networth stood at Rs.5960 crore and Rs.2127 crore respectively as on March 31, 2018. The Company got listed in May 2018 and received a fresh equity infusion of Rs. 700 crores. The Promoters & Promoters Group stake as on June 30, 2018 stood at 58.28%.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	643	665
PAT	209	235
Interest coverage (times)	2.03	2.11

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Total Assets	5485	7295
Net NPA (%)	1.32	1.07
ROTA (%)	4.11	3.68

A: Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the	Date of	Coupon	Maturity	Size of the Issue	Rating assigned along with Rating
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Instrument	Issuance	Rate	Date	(Rs. crore)	Outlook
Non-Convertible Debentures	6-Jun-13	-	6-Jun-23	15.00	CARE AA-;Positive
Non-Convertible Debentures	18-Mar-14	-	27-Feb-19	10.00	CARE AA-;Positive
Non-Convertible Debentures	13-Aug-15	-	14-Sep-18	50.00	CARE AA-;Positive
Non-Convertible Debentures	13-Aug-15	-	14-Sep-18	50.00	CARE AA-;Positive
Non-Convertible Debentures	8-Jan-16	-	8-Jan-21	50.00	CARE AA-;Positive
Non-Convertible Debentures	8-Jan-16	-	8-Dec-20	50.00	CARE AA-;Positive
Non-Convertible Debentures	23-Mar-16	-	22-Mar-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	5-Jun-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	10-May-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	4-Apr-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	10-May-16	-	2-May-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	12-May-16	-	12-Apr-19	20.00	CARE AA-;Positive
Non-Convertible Debentures	19-May-16	-	3-Oct-18	2.50	CARE AA-;Positive
Non-Convertible Debentures	30-Jun-16	-	28-Jun-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	8-Feb-17	-	8-Feb-22	50.00	CARE AA-;Positive
Non-Convertible Debentures	15-Feb-18	-	4-Apr-19	35.00	CARE AA-;Positive
Non-Convertible Debentures	15-Feb-18	-	15-Apr-21	11.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	24-Sep-21	30.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	26-Feb-20	25.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	23-Aug-19	25.00	CARE AA-;Positive
Non-Convertible Debentures	26-Feb-18	-	15-Apr-21	8.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Mar-23	100.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Mar-21	150.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Mar-21	25.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	12-Sep-21	50.00	CARE AA-;Positive
Non-Convertible Debentures	15-Mar-18	-	15-Apr-21	13.00	CARE AA-;Positive
Non-Convertible Debentures	27-Mar-18	-	27-Mar-21	10.00	CARE AA-;Positive
Non-Convertible Debentures	27-Mar-18	-	15-Apr-21	5.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	15-Apr-21	44.00	CARE AA-;Positive

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Non-Convertible Debentures	13-Apr-18	-	15-Apr-21	50.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	19-May-21	40.00	CARE AA-;Positive
Non-Convertible Debentures	13-Apr-18	-	18-Sep-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	2-May-18	-	2-May-23	500.00	CARE AA-;Positive
Non-Convertible Debentures	25-May-18	-	24-Jun-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	28-May-18	-	28-Aug-19	50.00	CARE AA-;Positive
Non-Convertible Debentures	4-Jun-18	-	15-Jun-21	100.00	CARE AA-;Positive
Non-Convertible Debentures	7-Jun-18	-	4-Jun-21	75.00	CARE AA-;Positive
Commercial Paper	-	-	7days to 1 year	2000.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	635	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	1-Apr-20	88.88	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	29-Jan-21	58.31	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	12-Jun-21	143.75	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	13-Nov-18	12.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	24-Aug-21	40.63	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	25-Feb-20	32.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	23-May-20	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	26-Mar-22	93.75	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	20-Sept-21	40.63	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	28-Sept-20	30.94	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	25-Feb-20	13.33	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Jun-19	26.67	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Sept-21	87.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-July-19	25.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-May-19	100.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Dec-22	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Mar-19	16.67	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Sept-21	40.62	CARE AA-; Positive

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Fund-based - LT-Term Loan	-	-	12-Mar-20	9.72	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	15-Dec-20	15.63	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Nov-22	25.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Mar-21	37.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Sept-21	43.75	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	10-Jan-22	112.50	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	10-Apr-23	200.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Dec-21	21.87	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	1-Jan-21	30.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	2-Nov-22	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Dec-20	50.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	31-Aug-21	40.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Jun-22	100.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	26-May-20	35.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	22-Dec-20	90.00	CARE AA-; Positive
Fund-based - LT-Term Loan	-	-	30-Jun-21	200.00	CARE AA-; Positive
Proposed Debt	-	-	-	2383.90	CARE AA-; Positive

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	2000.00	CARE A1+	-	1)CARE A1+ (09-Feb-18) 2)CARE A1+ (22-Aug-17) 3)CARE A1+ (11-Jul-17) 4)CARE A1+ (12-Jun-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Aug-16) 3)CARE A1+ (07-Jul-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (13-Jul-15)
2.	Debt	LT	6900.00	CARE AA-; Positive	1)CARE AA-; Stable	1)CARE AA-; Stable	1)CARE AA-; Stable	1)CARE AA- (13-Jul-15)

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					(08-Jun-18)	(13-Mar-18) 2)CARE AA-; Stable (11-Jul-17)	(30-Dec-16) 2)CARE AA- (07-Jul-16)	
3.	Debtures-Market Linked Debtures	LT	100.00	CARE PP- MLD AA-; Positive	-	1)CARE PP- MLD AA-; Stable (13-Mar-18)	-	-

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