ICFL/LS/0038/2021-22

07 May 2021

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 for voluntarily withdrawal of credit rating assigned by India Ratings and Research Private Limited to long-term debt program

Ref.: Regulation 30 read with Para A of Part A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR")

Dear Sir/ Madam,

Pursuant to Regulation 30 read with Schedule III of SEBI LODR, we wish to inform that the Company had requested India Ratings and Research Private Limited for voluntarily withdrawal of credit rating assigned to its long-term debt program (non-convertible debentures and bank loans). On request of the Company, India Ratings and Research Private Limited has vide Press Release dated 6 May 2021, re-affirmed and withdrawn the credit rating assigned to long-term debt program with immediate effect. The said Press Release is attached herewith as **Annexure I**.

Further, request you to kindly note that as on date there are no long-term debt program issued or outstanding under abovementioned credit rating.

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

Thanking you,

For **IndoStar Capital Finance Limited**

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

IndoStar Capital Finance Limited *

Encl: As Above

IndiaRatings & Research
A Fitch Group Company

India Ratings Affirms and Withdraws IndoStar Capital Finance's Debt Ratings

06

MAY 2021

By Jinay Gala

India Ratings and Research (Ind-Ra) has affirmed IndoStar Capital Finance Limited's (IndoStar) debt instruments at 'IND AA-' with a Stable Outlook and has simultaneously withdrawn the ratings. The detailed rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Non-convertible debentures (NCDs)*#	-	-	-	INR0.5 (reduced from INR2.25)	WD	Affirmed and withdrawn
Proposed NCDs	-	-	-	INR3.50	WD	Withdrawn (the company did not proceed with the instrument as envisaged)
Bank loans*	-	-	-	INR0.47 (reduced from INR1.34)	WD	Affirmed and withdrawn

*Affirmed at 'IND AA-'/Stable before being withdrawn

#Details in Annexure

Analytical Approach: Ind-Ra continues to take a consolidated view of IndoStar and IndoStar Home Finance Private Limited (100% stake), while arriving at the ratings.

Ind-Ra has withdrawn the ratings on IndoStar's on company's request. The agency is no longer required to maintain the ratings for the utilised limits as it has received a no-objection certificate from the lender. This is consistent with the Securities and Exchange Board of India's circular dated 3 January 2020 for credit rating agencies.

KEY RATING DRIVERS

Adequate Capital Buffers: In May 2020, BCP V Multiple Holdings Pte. Ltd.(Brookfield entity) as per its agreement with IndoStar's promoters Everstone Capital, infused INR12.2 billion in IndoStar (INR8.75 billion of equity and INR3.5 billion of compulsorily convertible preference shares). Following which, IndoStar's capital Tier I ratio strengthened to 35.3% in 9MFY21 (FY20: 20.4%, FY19: 21.7%) and the leverage (debt to equity) reduced below 1.8x (FY20: 2.6x, FY19: 3.0x). The adequate capital buffers would help IndoStar to absorb asset quality pressures emanating from the ongoing pandemic. The company expects the leverage to increase gradually to 4.0x-5.0x in the medium term, depending on expansion opportunities under retail segment and maintain capital floor of around 20%. The franchise is looking for aggressive growth over the next five years and willing to explore both organic as well as inorganic opportunities for scaling up the franchise, which could lead to faster absorption of the current capital base.

Liquidity Indicator – **Adequate:** The asset-liability maturity profile at end-December 2020 shows a positive surplus in less than one-year bucket. At FYE21, the quantum of on-balance sheet liquidity stood at INR16.6 billion, and unutilised working capital lines and sanctioned undrawn bank lines stood at INR1.5 billion; sufficient to meet the debt repayments (principal plus interest) of INR11 billion for April-June2021 barring collections and factoring in nil disbursements. The management has guided to maintain at least next four months of repayment obligations or 15% of the net worth, whichever is higher, in the form of liquid assets.

Asset Quality Impacted due to COVID-19: IndoStar has been focused on developing a retail granular portfolio (74.9% of the total consolidated net assets under management (AUM) at 9MFYE21), comprising vehicle financing (45.1%), small and medium enterprises (SME; 20.3%) and affordable housing loans (10.1%). The borrower segment in the vehicle financing portfolio is generally vulnerable, as it largely focusses on used segments, with weaker buffers to absorb downsides in business. This would result in increase in softer delinquencies. The slowdown in the economy prior to the COVID-19-related lockdown, and the resultant idle capacity and fall in freight availability, had impacted the asset quality of the portfolio (gross non-performing assets (GNPAs): FY20: 7%, FY19: 6.2%). IndoStar sold its vehicle finance portfolio worth INR1.26 billion in 3QFY21 to asset reconstruction company, along with restructuring 3.97% of vehicle AUM, bringing down the overall GNPA in the vehicle segment to around 2.3%. However, with the COVID-19-led lockdown continuing in May, there would be a dent in cash flows at borrower end, impacting vehicle asset quality in the medium term.

The SME segment (GNPA: 9MFY21: 1.8%, FY19: 3.1%), which has already faced various headwinds such as demonetisation, introduction of Goods and Services Tax, and the overall economic slowdown, is now facing the brunt of the pandemic, which has adversely affected demand and working capital cycle. With borrowers facing a dilution in the liquidity buffers and deterioration in debt servicing capacity, IndoStar could witness rising credit costs. The borrowers in these segments benefitted from Emergency Credit Line Guarantee Scheme, under which IndoStar disbursed around INR1.1 billion covering 42% of the borrowers in these segments, along with restructuring of 4.8% of SME AUM, thereby moderating asset quality challenges in these segments. However, with the country witnessing the second wave of infections, the borrowers would again find it challenging to maintain their cash flows for debt servicing, as there is demand moderation across sectors.

IndoStar plans to exit the real estate sector (20.7% of the net AUM) by down selling the book and reducing the total corporate exposure to 10% by March 2022. The segment has faced challenges due to delay in project completion, moderation in sales, cost escalation and moderate sales velocity across projects, thereby impacting developer servicing capability. More than two-third of IndoStar's developers availed date for commencement of commercial operations extension benefit, thereby reducing an immediate impact on asset quality.

IndoStar's consolidated GNPAs stood at 2.8% in 9MFY21 (FY20: 4.8%), with provision coverage at 36%. Including management overlay, provision coverage stood to 150%. The company has been carrying expected credit loss provision of around INR6 billion i.e. 7.3% of gross loan book with includes COVID-19 provision of 3.2% (INR2.5 billion) of gross loan book, providing adequate cover for existing asset quality stress. The collection efficiency has normalized in major retail verticals, except for commercial vehicle segment, as on 31 March 2021. IndoStar has restructured around 3.6% of its retail AUM as at 9MFYE21.

Funding Could Benefit from New Investor Coming Onboard: NCDs constitute more than one-third of IndoStar's borrowings, while bank loans account 46.9%. The funding environment for non-banking financial companies (NBFCs) has been extremely challenging, with mutual funds taking exposure only on top-rated NBFCs and banks reaching their sectorial caps, thereby limiting sector exposures. As IndoStar has sufficient on balance sheet liquidity, an incremental need to raise funds in these challenging environment remains moderate, due to modest growth opportunities. The company has demonstrated fund mobilisation through the securitisation route (15.6% of total borrowings at 9MFYE21), since its retail assets qualify as priority sector, however, the window can only be accessed when the environment becomes conducive. To remove cyclicality from fund mobilisation, It has entered into a co-origination arrangement with a large private bank, where it would act as a servicer for the assets originated on its platform. IndoStar plans to keep commercial papers at less than 5% of total borrowings in the medium term.

Continued Moderate Profitability: IndoStar's return on assets stood at 1.3% in 9MFY21, post deterioration in asset quality in FY20, due to write offs witnessed in corporate accounts and incremental provision required to minimise the impact of pandemic on retail book in FY21. IndoStar has been feeling pressure on asset quality across all product lines, except housing, thereby requiring to maintain the provision buffer created for the first wave of pandemic. Amid the second wave of pandemic, the asset quality pressures would continue keeping credit cost elevated in the medium term, as growth would take a backstage. With increase in proportion of retail assets, which are high yielding in nature, along with certain repricing in the borrowing book, would help the company to maintain margins in medium term, thereby providing buffer to absorb incremental stress due to the ongoing pandemic, which would elongate the normalisation process.

COMPANY PROFILE

IndoStar is a systemically important NBFC, offering long-term wholesale and retail funding. The company is sponsored by large financial institutions such as BCP V Multiple Holdings, Everstone Capital, and others. It is listed on BSE Ltd and National Stock Exchange of India Limited, post its initial public offering in May 2018.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY21	FY20	FY19
Total assets (INR billion)*	113.3	95.1	122.8
Total equity (INR billion)*	39.0	25.5	29.9
Net income (profit after tax) (INR billion)	1.0	-3.2	2.4
Return on average assets (%)	1.3	-3.0	2.5
Source: IndoStar, Ind-Ra analysis *net of deferred tax asset			

STANDALONE FINANCIAL SUMMARY

Particulars	FY20	FY19
Total assets (INR billion)*	94.5	122.6
Total equity (INR billion)*	25.6	30.1
Net income (PAT) (INR billion)	-3.4	2.6
Return on average assets (%)	-3.1	2.6

Tier 1 capital (%)	20.4	21.7
Source: IndoStar, Ind-Ra analysis *net of deferred tax asset		

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	7 May 2020	12 June 2019	20 March 2018
NCDs	Long-term	INR4.00	WD	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable
Bank loans	Long-term	INR0.47	WD	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable

ANNEXURE

ISIN	Date of issue	Coupon (%)	Maturity Date	Amount Outstanding (billion)	Rating
INE896L07306	8 January 2016	10.05	8 December 2020	INR0.25	WD
INE896L07421	8 February 2017	9.25	8 February 2022	INR0.50	WD
INE896L07678	25 February 2019	11.25	26 February 2021	INR1.50	WD
Total outstanding NCDs				**INR0.50**	
Unutilised NCDs				**INR3.50**	
Total				**INR4.00**	

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Bank loan	Low
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria

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