

April 25, 2024

Cars24 Financial Services Private Limited: Rating confirmed as final for PTCs issued under a used car loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HUMMER 02 2024	Series A1 PTC	45.00	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional rating to the Series A1 Pass-Through Certificates (PTCs) issued by HUMMER 02 2024 under a securitisation transaction originated by Cars24 Financial Services Private Limited (CFSP/Originator). The PTCs are backed by a pool of used car loan receivables originated by CFSP with an aggregate principal outstanding of Rs 50.56-crore (pool receivables of Rs 70.34-crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the March 2024 payouts is shown in the table below:

Parameter	HUMMER 02 2024
Months post securitisation	1
Pool amortisation	2.49%
Series A1 PTC amortisation	3.40%
Cumulative prepayment rate	0.97%
Cumulative collection efficiency ¹	98.08%
Loss-cum 0+ days past due (dpd) ²	0.96%
Loss cum 30+ dpd ³	0.00%
Loss cum 90+ dpd ⁴	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), over-collateralisation/subordination and cash collateral (CC)
- All contracts in the pool were current as on the pool cut-off date
- More than 92% of the contracts in the pool have a CIBIL score greater than 700

Credit challenges

- High geographical concentration with top 3 states (Karnataka, Delhi and Maharashtra) accounting for a ~64% share in the pool

¹ Cumulative collections/ (Cumulative billings + Opening overdues at the time of securitisation)

² Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitisation

³ Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

- Increase in delinquencies in recent months; peaking of delinquencies yet to happen as the majority of the portfolio has not completed a cycle, given the limited vintage of the business
- Pool's performance would remain exposed to macro-economic shocks / business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, during the tenure of Series A1 PTC, the collections from the pool will be used to make the promised interest payouts and the expected principal payouts (to the extent of principal billed) to Series A1 PTC. The final maturity date for the tranche of PTCs is May 20, 2029.

During the tenure of Series A1 PTC, the collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTC (not promised). Any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. A part of the residual cash flow from the pool (60% of the residual cash flows), after making the promised and expected payouts and the replenishment of the CE (to the extent used and not reimbursed till the previous month), would be used for the prepayment of the Series A1 PTC principal while the remaining part of residual cash flows (40% of the residual cash flow) would be passed on to the Originator. Hence, the actual tenure of the PTC is expected to be shorter owing to such acceleration.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 11.00% of the pool principal (includes the principal payable to the equity tranche PTC). Further credit support is available in the form of an EIS. A CC of 4.00% of the initial pool principal (Rs. 2.02 crore), provided by CFSPL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool was high at ~12 months as on the pool cut-off date. The pool had high geographical concentration with the top 3 states contributing ~64% to the initial pool principal amount. The performance of the pool would remain exposed to macroeconomic shocks/business disruptions.

Past rated pools: ICRA has ratings outstanding on 13 PTC transactions of CFSPL. The performance of all the pools, which have completed at least one payout till March 2024, has been satisfactory with a cumulative collection efficiency of more than 94% with nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the past performance of the originator's portfolio and rated pools as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.25-5.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 4.8%-18.0% (with a mean of 12.0%) per annum.

Liquidity position: Superior

The liquidity for the PTC instruments in the transaction is superior after factoring in the CE available to meet the promised payouts to the investors. The total CE would be 6.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Incorporated in September 2018, CFSPL is registered with the Reserve of India (RBI) as a non-banking financial company (NBFC). It is a wholly-owned subsidiary of Cars24 Services Private Limited (CSPL). The company's lending operations are classified into two segments: digital business lending (DBL) and digital retail lending (DRL).

DBL represents loans extended to used car dealers empanelled with CSPL. This is primarily a revolving line of credit extended to used car dealers. Currently, CFSPL caters to ~10,000 used car dealers empanelled with CSPL. The DBL product is further classified into Unnati regular and Unnati plus. Under the DRL segment, CFSPL provides loans to retail customers primarily for purchasing used cars. CFSPL started as a captive financing unit of its parent (CSPL), however, currently 75% of its origination is through the leads generated by CSPL's online marketplace and balance 25% is through the other channels (dealer partners). The company provides financing for the purchase of used cars to its customers.

Key financial indicators

CF SPL	FY2022	FY2023	9M FY2024*
	IGAAP	IGAAP	IndAS
Total income	78.0	163.56	200.17
Profit after tax	(16.6)	1.64	10.11
Assets under management	598	1,317	2,048
Gross non-performing assets (NPA)#	0.5%	0.8%	1.1%
Net NPA	0.0%	0.5%	0.7%

Source: Company data, ICRA Research; Amount in Rs. crore; *Provisional financials; # Based on 90+ delinquency numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name		Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023
					Apr 25, 2024	Mar 06, 2024	-
1	HUMMER 02 2024	Series A1 PTC	45.00	45.00	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
HUMMER 02 2024	Series A1 PTC	February 2024	10.10%	May 2029	45.00	[ICRA]A+(SO)

**Scheduled maturity date at transaction initiation; may change on account of prepayments*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Kumar Pramanik

+91 22 6114 3462

sumit.pramanik@icraindia.com

Rushabh Gohel

+91 22 6114 3450

rushabh.gohel@icraindia.com

Palak Bhatt

+91 22 6114 3456

palak.bhatt@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.