

April 05, 2022

## Cars24 Financial Services Private Limited: Provisional ratings assigned to PTCs backed by used car loan receivables issued by Heather 03 2022

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Heather 03 2022	Series A1 PTC	14.25	Provisional [ICRA]A-(SO); Assigned
	Series A2 PTC	0.64	Provisional [ICRA]BBB(SO); Assigned
	Series A3 PTC	0.80	Provisional [ICRA]BB+(SO); Assigned

\*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents

No rating would have been assigned as it would not be meaningful

### Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Cars24 Financial Services Private Limited (CFSP). The PTCs are backed by a pool of Rs. 20.87-crore used car loan receivables (underlying pool principal of Rs. 16.01 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.00% of the pool principal to be provided by CFSP, (ii) subordination of 11.00% of the pool principal for Series A1 PTC, 7.00% of the pool principal for Series A2 PTC and 2.00% of the pool principal for Series A3 PTC, (iii) subordination of the excess interest spread (EIS) in the structure and the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), overcollateralisation/subordination and cash collateral (CC)
- All contracts in the pool are current as on pool cut-off date
- Around 80% contracts in the pool have a CIBIL score greater than 700

## Credit challenges

- High geographical concentration with top three states (Maharashtra, Karnataka & Delhi) accounting for ~61% share in the pool
- Limited vintage of business; peaking of delinquencies is yet to happen across vintages as majority of the portfolio has not completed a cycle
- Pool performance remain exposed to fresh disruptions caused due to the Covid-19 pandemic

## Description of key rating drivers highlighted above

As per the transaction structure, Series A2 PTC and Series A3 PTC are subordinate to Series A1 PTC. 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 (to the extent of 100% of pool principal billed). This will be followed by the expected interest payouts to Series A2 PTC and then the expected interest payouts to Series A3 PTC. The principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payouts. Post the maturity of Series A1 PTC, Series A2 PTC and Series A3 PTC would follow a similar pattern, i.e. interest payouts on the outstanding senior tranche will be promised every month, while the principal will be passed to the extent of 100% of the pool principal billed. The final maturity date for all the tranches of the PTCs is August 22, 2026.

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 Series A2 PTC and Series A3 PTC). After Series A1 PTC has been fully paid, subordination of 7.00% of the pool principal could be available for Series A2 PTC (includes the principal payable to Series A3 PTC). After Series A2 PTC has been fully paid, subordination of 2.00% of the pool principal could be available for Series A3 PTC.

Further credit support is available in the form of an EIS. A CC of 5.00% of the initial pool principal (Rs. 0.80 crore), to be 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 shortfall.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is moderate at ~8 months as on the pool cut-off date. The pool has high geographical concentration with the top 3 states (Maharashtra, Karnataka and Delhi) contributing ~61% to the initial pool principal amount. The pool's performance would remain exposed to disruptions caused by the pandemic.

**Past rated pools:** ICRA has ratings outstanding on five PTC transactions of CFSPL. The performance of all the pools, which have completed at least one payout till February 2022, has been satisfactory with a collection efficiency of more than 98% 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 5.00-6.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0% per annum.

## Liquidity position

### Strong for Series A1 PTC

As per the transaction structure, only the interest amount is promised to the Series A1 PTC holders on a monthly basis while the entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the Series A1 PTC investors.

### Adequate for Series A2 PTC

After Series A1 PTC is fully paid, the interest amount is promised to the Series A2 PTC holders on a monthly basis and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to the Series A2 PTC investors.

### Stretched for Series A3 PTC

After Series A1 PTC and Series A2 PTC are fully paid, the interest amount is promised to the Series A3 PTC holders on a monthly basis and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be stretched to meet the promised payouts to the Series A3 PTC investors.

## Rating sensitivities

**Positive factors** – The ratings 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 credit enhancement (CE) cover for the remaining payouts.

**Negative factors** – Pressure on the ratings 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.

## Analytical approach

The rating action is based on the analysis of the performance of CFSP's portfolio till December 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

Incorporated in September 2018, CFSP 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, CFSP caters to ~1,400 used car dealers empanelled with CSPL. The DBL product is further classified into Unnati regular and Unnati plus. Under the DRL segment, CFSP provides loans to retail customers primarily for purchasing used cars. CFSP serves as the captive financing unit of its parent (CSPL) and extends funding to customers purchasing used cars through CSPL's online platform.

## Key financial indicators

CFSP	FY2020	FY2021	9M FY2022*
Total Income	10.9	24.3	53.84
Profit after Tax	(7.8)	(14.5)	(13.1)
Assets under Management	66.4	170.4	408.9
Gross Non-performing Assets (NPA; %) <sup>#</sup>	0.0%	0.5%	1.0%
Net NPA (%)	0.0%	0.0%	0.0%

*Source: Company data, ICRA Research; Amount in Rs. crore; \*Provisional financials; # Based on 180+ 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 (FY2023)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1	Heather 03 2022				April 05, 2022	-	-	-
		Series A1 PTC	14.25	14.25	Provisional [ICRA]A-(SO)	-	-	-
		Series A2 PTC	0.64	0.64	Provisional [ICRA]BBB(SO)	-	-	-
		Series A3 PTC	0.80	0.80	Provisional [ICRA]BB+(SO)	-	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	Moderately Complex
Series A3 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: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Heather 03 2022	Series A1 PTC	March 2022	10.65%	August 2026	14.25	Provisional [ICRA]A-(SO)
	Series A2 PTC	March 2022	14.00%	August 2026	0.64	Provisional [ICRA]BBB(SO)
	Series A3 PTC	March 2022	14.00%	August 2026	0.80	Provisional [ICRA]BB+(SO)

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

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Not Applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Samridhhi Chowdhary**

+91 22 6114 3411

[samridhhi.chowdhary@icraindia.com](mailto:samridhhi.chowdhary@icraindia.com)

**Sohil Mehta**

+91 22 6114 3449

[sohil.mehta@icraindia.com](mailto:sohil.mehta@icraindia.com)

**Rushabh Gohel**

+91 22 6114 3434

[rushabh.gohel@icraindia.com](mailto:rushabh.gohel@icraindia.com)

**Palak Bhatt**

+91 22 6114 3450

[palak.bhatt@icraindia.com](mailto:palak.bhatt@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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