

May 17, 2022

Indostar Home Finance Private Limited: Rating placed on watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	200	200	[ICRA]A1+@; Placed on rating watch with negative implications

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating, ICRA takes a consolidated view of the credit profiles of Indostar Capital Finance Limited (Indostar) and its wholly-owned subsidiary – Indostar Home Finance Private Limited (IHFPL), referred to as the Group or Indostar, owing to the shared brand name and management oversight in addition to synergetic benefits.

The rating action follows the disclosure by Indostar Capital Finance Limited regarding preliminary findings of the commercial vehicles (CV) loan portfolio review. The portfolio review has been initiated because of certain observations and control deficiencies identified during the course of the interim statutory audit of the annual financial statements of the company. While the loan portfolio review is still ongoing, the preliminary findings by an independent external agency pertain to certain control deficiencies observed with respect to 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, and restructured loans. In this regard, the independent external agency has suggested that the company may be required to make an additional estimated credit loss provisioning between Rs 557 crore to Rs. 677 crore.

ICRA has placed the rating outstanding on rating watch with negative implications. While Indostar's capitalisation stood comfortable with CRAR of 35.1% as of December 31, 2021, the company's net worth and hence capital buffers could get impacted materially. Nevertheless, the company is expected to continue to be adequately capitalised with comfortable cushion over the regulatory level (CRAR of over 25%). Reduced capital buffers along with the resultant impact on the reported asset quality will be a key rating sensitivity. Moreover, the likely impact of this development on the business operations and lender confidence over the short to medium term will be a monitorable.

ICRA favourably notes that Indostar's liquidity position is currently adequate with on-balance sheet liquidity of Rs. 569 crore (standalone; as of May 06, 2022), undrawn bank lines aggregating Rs. 664 crore and scheduled inflows of about Rs. 1,000 crore during next five months compared to repayments of ~Rs. 1,748 crore to be made uptill September 2022. IHFPL's liquidity position is also adequate with on-balance sheet liquidity of Rs. 78 crore (as of May 06, 2022) and undrawn bank lines aggregating Rs. 110 crore compared to repayments of ~Rs. 59 crore to be made uptill September 2022. ICRA also notes that the collection efficiency (including overdues) against the billing stood around 150% for the CV finance business in FY2022.

ICRA will continue to monitor developments and take suitable rating action once more clarity emerges on the outcome of the portfolio review being conducted by the independent external agency and the resulting impact on the company's financial results - particularly the asset quality and additional provisioning requirements. Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, Liquidity position, and Rating sensitivities:

[Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Rating Approach – Consolidation
Parent/Group Support	-
Consolidation/Standalone	Consolidation; To arrive at the rating, ICRA has taken a consolidated view of the credit profiles of Indostar Capital Finance Limited (Indostar) and its subsidiary – Indostar Home Finance Private Limited (IHFPL), referred to as the Group or Indostar, owing to the common management, shared infrastructure, as well as the strategic importance of IHFPL to the Group.

About the company

Incorporated in January 2016, Indostar Home Finance Private Limited (IHFPL) is a housing finance company (HFC). It is a wholly-owned subsidiary of IndoStar Capital Finance Limited (Indostar). IHFPL offers housing loans with a focus on the affordable housing segment, with ticket sizes ranging from Rs. 3 lakh to Rs. 30 lakh. As of December 31, 2021, IHFPL's on-book loan portfolio stood at Rs. 1,091 crore compared to Rs. 846 crore in March 2021 and Rs. 748 crore in March 2020. The loan book is currently equally split between the salaried and self-employed segments with 84% of the loan book concentrated in four states, i.e. Tamil Nadu, Maharashtra, Andhra Pradesh and Telangana.

In FY2021, the company reported a net profit of Rs. 28 crore on an asset base of about Rs. 906 crore compared to a net profit of Rs. 14 crore on an asset base of Rs. 800 crore in FY2020. In 9M FY2022, the company reported a net profit of Rs. 20 crore on an asset base of about Rs. 1,159 crore.

Key financial indicators

Indostar Home Finance Private Limited	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional
PAT	14	28	20
Net Worth	186	215	485
Gross Loan Book	748	846	1,091
Return on Average Assets	2.1%	3.3%	2.6%
Return on Average Equity	7.9%	13.9%	7.7%
Gearing (times)	3.1	3.0	1.3
CRAR	46.8%	49.2%	NA
Gross Stage 3 (%)	0.8%	1.8%	2.6%
Net Stage 3 (%)	0.7%	1.4%	1.9%
Net Stage 3/ Adjusted Net Worth	2.7%	5.6%	4.2%

Source: IHFPL, ICRA research; Amount in Rs. crore

Indostar Capital Finance Limited

IndoStar Capital Finance Limited (Indostar) is a systemically important non-banking financial company (NBFC). It offers vehicle finance for new and used vehicles, loans to small-to-medium-size enterprises, long-term wholesale funding to corporates (de-focused), and home finance through its wholly-owned subsidiary Indostar Home Finance Private Limited (IHFPL). As of December 31, 2021, the assets under Indostar's management (at consolidated level) aggregated Rs. 9,236 crore with 49% share of commercial vehicle (CV) finance book, 20% share of SME finance, 13% share of housing finance book, 16% share of real estate corporate funding segment, and 2% share of non-real estate corporate funding.

While Indostar commenced lending operations in 2011 with a primary focus on wholesale lending, it ventured into SME finance in FY2015, followed by used and new vehicle financing for transporters and loans to SME borrowers in FY2018. The proportion

of CV financing increased substantially (to 44% in Dec-19 from 9% in Sep-18) post the acquisition of Rs. 3,514-crore CV portfolio (AUM basis) from IIFL Finance in March 2019. With the acquisition of the CV portfolio from IIFL Finance, the branch network of the company also increased from 161 branches to 322 branches, before being rationalized/consolidated subsequently. As of December 31, 2021, the company's branch network comprised of 343 branches across 21 states.

As on December 31, 2021, Brookfield held 56% stake in Indostar, followed by IndoStar Capital Mauritius at 33% (including ECP II & ECP III). Brookfield Group invested Rs 1,225 crore in Indostar (through BCP V Multiple Holdings Pte Ltd) in May 2020 to become the largest shareholder and co-promoter of the company. Indostar was originally established by a group of financial institutions including Everstone Capital, Goldman Sachs Baer Capital Partners, CDIB Capital and ACPI Investment Managers through Indostar Capital Mauritius with an initial capital of about Rs 900 crore. Subsequently, the company got listed on stock exchanges in May 2018 and received a fresh equity infusion of Rs. 700 crore.

In FY2021, the company on a standalone basis reported a net loss of Rs. 241 crore on an asset base of about Rs. 10,172 crore compared to a net loss of Rs. 340 crore on an asset base of Rs. 10,338 crore in FY2020. In 9MFY2022, the company has reported a net loss of Rs. 2 crore.

On a consolidated basis, the Group reported a net loss of Rs. 214 crore in FY2021 on an asset base of about Rs. 10,480 crore compared to a net loss of Rs. 325 crore on an asset base of Rs. 10,408 crore in FY2020. In 9MFY2022, the company, on a consolidated level, reported a net profit of Rs. 17 crore on an on-book asset base of about Rs. 10,014 crore.

Key financial indicators

Indostar Capital Finance Limited	Standalone			Consolidated		
	FY2020	FY2021	9M FY2022	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional	Audited	Audited	Provisional
PAT	(340)	(241)	(2)	(325)	(214)	17
Adjusted* Net Worth	2,388	3,379	3,341	2,380	3,398	3,378
Assets under Management (AUM)	8,859	7,994	8,015	9,690	8,990	9,236
Return on Average Assets	-3.0%	-2.4%	0.0%	-2.9%	-2.1%	0.2%
Return on Average Equity	-13.3%	-8.4%	-0.1%	-12.8%	-7.4%	0.7%
Gearing (times)	3.0	1.7	1.6	3.0	1.8	1.7
CRAR	25.3%	34.6%	34.8%			
Gross Stage 3 (%)	4.5%	4.4%	4.4%	4.5%	4.3%	4.3%
Net Stage 3 (%)	3.7%	2.0%	2.3%	3.6%	2.0%	2.3%
Net Stage 3/ Adjusted Net Worth	13.2%	4.2%	5.0%	13.4%	4.5%	5.6%

Source: Indostar, IHFPL, ICRA research; *Adjusted for Rs. 300-crore goodwill; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	May 17, 2022	Apr 20, 2022	FY2022	FY2020	FY2019
							Apr 16, 2021	Mar 17, 2020	Dec 31, 2018
1	Commercial Paper	Short Term	200	0*	[ICRA]A1+ @	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Source: ICRA research; *As of March 31, 2022; @: Rating watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple

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

Annexure-1: Instrument details as on March 31, 2022

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Commercial Paper	NA	NA	7-365 days	200	[ICRA]A1+@

Source: ICRA; *Not placed; @: Rating watch with negative implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indostar Capital Finance Limited	Parent Entity	Full Consolidation
Indostar Home Finance Private Limited	Subsidiary	Full Consolidation
Indostar Asset Advisory Private Limited	Subsidiary	Full Consolidation

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