

October 27, 2022

## Cars24 Financial Services Private Limited: Ratings reaffirmed for PTCs issued under three used car loan securitisation transactions

### Summary of rating action

| Trust Name                        | Instrument*   | Initial Rated Amount (Rs. crore) | Amount O/S after Last Surveillance (Rs. crore) | Current Outstanding Amount after Sep-2022 Payout (Rs. crore) | Rating Action             |
|-----------------------------------|---------------|----------------------------------|--|--|---------------------------|
| <b>CredAvenue Kyrie 06 2021</b>   | PTC Series A1 | 12.74                            | NA   | 4.31   | [ICRA]A-(SO); Reaffirmed  |
|                                   | PTC Series A2 | 1.20                             | NA   | 1.20   | [ICRA]BBB(SO); Reaffirmed |
| <b>CredAvenue Everett 07 2021</b> | PTC Series A1 | 13.62                            | NA   | 5.16   | [ICRA]A-(SO); Reaffirmed  |
|                                   | PTC Series A2 | 0.61                             | NA   | 0.61   | [ICRA]BBB(SO); Reaffirmed |
| <b>Royal 09 2021</b>              | PTC Series A1 | 10.08                            | NA   | 4.97   | [ICRA]A-(SO); Reaffirmed  |
|                                   | PTC Series A2 | 0.45                             | NA   | 0.45   | [ICRA]BBB(SO); reaffirmed |
|                                   | PTC Series A3 | 0.57                             | NA   | 0.57   | [ICRA]BB+(SO); reaffirmed |

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) tabulated above are backed by used car loan receivables originated by Cars24 Financial Services Private Limited (CF SPL). The ratings reaffirmation factors in the sustained healthy collections witnessed in all the pools. Due to the moderate amortisation in all the transactions, there has been a build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools. Nonetheless, the ratings would remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic, leading to lower-than-expected collections.

A summary of the performance of the pools after the September 2022 payouts has been provided below.

### Pool performance summary

| Parameter  | CredAvenue Kyrie 06 2021 | CredAvenue Everett 07 2021 | Royal 09 2021 |
|--|--------------------------|----------------------------|---------------|
| Months post securitisation   | 14                       | 14                         | 11            |
| Pool amortisation  | 56.24%                   | 55.25%                     | 45.08%        |
| PTC Series A1 amortisation (as % of initial PTC Series A1 principal) | 66.17%                   | 62.14%                     | 50.65%        |
| PTC Series A2 amortisation (as % of initial PTC Series A2 principal) | 0.00%                    | 0.00%                      | 0.00%         |
| PTC Series A3 amortisation (as % of initial PTC Series A3 principal) | NA                       | NA                         | 0.00%         |
| Cumulative collection efficiency <sup>1</sup>                        | 98.18%                   | 98.56%                     | 98.83%        |
| Cumulative prepayment rate   | 18.79%                   | 16.85%                     | 13.19%        |
| Average monthly prepayment rate                                      | 1.48%                    | 1.31%                      | 1.35%         |
| Loss-cum-30+ dpd <sup>2</sup> (% of initial pool)                    | 1.59%                    | 1.78%                      | 0.90%         |
| Loss-cum-90+ dpd <sup>3</sup> (% of initial pool)                    | 0.76%                    | 0.42%                      | 0.24%         |
| Cumulative credit collateral (CC) utilisation                        | 0.00%                    | 0.00%                      | 0.00%         |
| Breakeven collection efficiency <sup>4</sup> for PTC Series A1       | 47.96%                   | 57.19%                     | 64.34%        |
| Cash collateral (CC) (% of balance pool)                             | 11.43%                   | 11.17%                     | 9.10%         |

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

<sup>2</sup> Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

<sup>3</sup> Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

<sup>4</sup> (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

| Parameter   | CredAvenue Kyrie 06<br>2021 | CredAvenue Everett<br>07 2021 | Royal 09 2021 |
|---|-----------------------------|-------------------------------|---------------|
| Excess interest spread (EIS; % of balance pool) for PTC A1 <sup>5</sup> | 17.01%                      | 15.65%                        | 13.35%        |

### Reset of credit enhancement

At CFSPL's request for resetting the CE for the CredAvenue Kyrie 06 2021 and CredAvenue Everett 07 2021 transactions, ICRA has analysed the transactions at a cash collateral (CC) of 4.6% and 4.5%, respectively, of the balance pool principal after the September 2022 payouts (against the currently available CC of 11.4% and 11.2%, respectively). Based on the pools' performance, the ratings for the PTCs will remain unchanged even after resetting the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

### Key rating drivers

#### Credit strengths

- Healthy amortisation of PTCs resulting in build-up of CC, principal subordination and excess interest spread (EIS) cover available for the balance PTC payouts
- Low delinquency build-up in the harder buckets across all the pools

#### Credit challenges

- Moderate average loan-to-value (LTV) of the contracts
- Pools' performance remains exposed to fresh disruptions caused by the pandemic

### Description of key rating drivers highlighted above

As per the transaction structure, PTC Series A2 and PTC Series A3<sup>6</sup> are subordinate to PTC Series A1. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts to PTC Series A1, will be used to make the expected principal payouts to PTC Series A1 (to the extent of 100% of pool principal billed). This will be followed by the expected interest payouts to PTC Series A2 and then the expected interest payouts to PTC Series A3. The principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payouts. Post the maturity of PTC Series A1, PTC Series A2 and PTC Series A3 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 pools' performance has remained healthy with a cumulative collection efficiency of more than 98% as of the September 2022 payout month and there has been no instance of CC utilisation. The loss-cum-90+ days past due (dpd) was low at sub-1% after the September 2022 payout month. Any shortfall in collections in the past was absorbed by the subordination/EIS in the structure with nil CC utilisation. For all the transactions, CC utilisation was nil as of the September 2022 payout month. As these pools are moderately amortised, there has been a significant build-up in the CE cover for the balance tenure of the PTC payouts even after CC utilisation.

ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations. Notwithstanding collections in recent months, ICRA notes that the performance of the pools would remain exposed to any fresh disruptions that may arise due to the pandemic, leading to lower-than-expected collections.

<sup>5</sup> (Pool Cash flows – Cash flows to PTC)/ Pool Principal outstanding

<sup>6</sup> PTC Series A3 is applicable only for Royal 09 2021 transaction

## 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 taking into account 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 loss and prepayments during the balance tenure of the pools are provided in the table below.

| Sr. No. | Transaction Name           | Expected Loss<br>(% of initial pool principal) | Prepayment       |
|---------|----------------------------|--|------------------|
| 1       | CredAvenue Kyrie 06 2021   | 1.75-2.75%                                     | 4.80-12.00% p.a. |
| 2       | CredAvenue Everett 07 2021 | 1.75-2.75%                                     | 4.80-12.00% p.a. |
| 3       | Royal 09 2021              | 2.00-3.00%                                     | 4.80-12.00% p.a. |

## Liquidity position

### For PTC Series A1 of CredAvenue Kyrie 06 2021, CredAvenue Everett 07 2021 and Royal 09 2021: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A1 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 CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 investors.

### For PTC Series A2 of CredAvenue Kyrie 06 2021, CredAvenue Everett 07 2021 and Royal 09 2021: Adequate

After PTC Series A1 is fully paid, the interest amount is promised to the PTC Series A2 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 adequate to meet the promised payouts to the PTC Series A2 investors.

### For PTC Series A3 of Royal 09 2021: Stretched

After PTC Series A1 and A2 are fully paid, the interest amount is promised to the PTC Series A3 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 remain stretched to meet the promised payouts to the PTC Series A3 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 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 performance of the pools till September 2022 (payout month), the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of these pools.

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Not Applicable   |

## 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                               | FY2021 | FY2022 | Q1 FY2023* |
|------------------------------------|--------|--------|------------|
|                                    | IGAAP  | IGAAP  | IndAS      |
| Total income                       | 24.3   | 78.0   | 35.8       |
| Profit after tax                   | (14.5) | (16.6) | 1.7        |
| Assets under management            | 170.4  | 597.9  | 649.6      |
| Gross non-performing assets (NPA)# | 0.5%   | 0.7%   | 0.3%       |
| 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

| S. No. | Trust Name               | Instrument    | Current Rating (FY2023)  |                                | Chronology of Rating History for the Past 3 Years |                         |                           |                           |                         |                         |
|--------|--------------------------|---------------|--------------------------|--------------------------------|---|-------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
|        |                          |               | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023                           | Date & Rating in FY2022 |                           |                           | Date & Rating in FY2021 | Date & Rating in FY2020 |
|        |                          |               |                          |                                |   | Oct 27, 2022            | Oct 20, 2021              | Jul 14, 2021 <sup>^</sup> |                         |                         |
| 1      | CredAvenue Kyrie 06 2021 | PTC Series A1 | 12.74                    | 4.31                           | [ICRA]A-(SO)                                      | [ICRA]A-(SO)            | Provisional [ICRA]A-(SO)  | -                         | -                       |                         |
|        |                          | PTC Series A2 | 1.20                     | 1.20                           | [ICRA]BBB(SO)                                     | [ICRA]BBB(SO)           | Provisional [ICRA]BBB(SO) | -                         | -                       |                         |

<sup>^</sup>Initial ratings assigned

| S. No. | Trust Name                 | Instrument    | Current Rating (FY2023)  |                                | Chronology of Rating History for the Past 3 Years |                         |                           |                           |                         |                         |
|--------|----------------------------|---------------|--------------------------|--------------------------------|---|-------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
|        |                            |               | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023                           | Date & Rating in FY2022 |                           |                           | Date & Rating in FY2021 | Date & Rating in FY2020 |
|        |                            |               |                          |                                |   | Oct 27, 2022            | Oct 20, 2021              | Aug 09, 2021 <sup>^</sup> |                         |                         |
| 2      | CredAvenue Everett 07 2021 | PTC Series A1 | 13.62                    | 5.16                           | [ICRA]A-(SO)                                      | [ICRA]A-(SO)            | Provisional [ICRA]A-(SO)  | -                         | -                       |                         |
|        |                            | PTC Series A2 | 0.61                     | 0.61                           | [ICRA]BBB(SO)                                     | [ICRA]BBB(SO)           | Provisional [ICRA]BBB(SO) | -                         | -                       |                         |

<sup>^</sup>Initial ratings assigned

| S. No. | 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 |
|        |               |                         |                          |                                | Oct 27, 2022                                      | Nov 23, 2021  | Oct 07, 2021 <sup>^</sup> | - | -                       |                         |
| 3      | Royal 09 2021 | PTC Series A1           | 10.08                    | 4.97                           | [ICRA]A-(SO)                                      | [ICRA]A-(SO)  | Provisional [ICRA]A-(SO)  | - | -                       |                         |
|        |               | PTC Series A2           | 0.45                     | 0.45                           | [ICRA]BBB(SO)                                     | [ICRA]BBB(SO) | Provisional [ICRA]BBB(SO) | - | -                       |                         |
|        |               | PTC Series A3           | 0.57                     | 0.57                           | [ICRA]BB+(SO)                                     | [ICRA]BB+(SO) | Provisional [ICRA]BB+(SO) | - | -                       |                         |

<sup>^</sup>Initial ratings assigned

### Complexity level of the rated instrument

| Trust Name                 | Instrument    | Complexity Indicator |
|----------------------------|---------------|----------------------|
| CredAvenue Kyrie 06 2021   | PTC Series A1 | Moderately Complex   |
|                            | PTC Series A2 | Moderately Complex   |
| CredAvenue Everett 07 2021 | PTC Series A1 | Moderately Complex   |
|                            | PTC Series A2 | Moderately Complex   |
| Royal 09 2021              | PTC Series A1 | Moderately Complex   |
|                            | PTC Series A2 | Moderately Complex   |
|                            | PTC Series A3 | 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 I: Instrument details

| Trust Name                        | Instrument    | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|-----------------------------------|---------------|-----------------------------|-------------|----------------|--------------------------|----------------|
| <b>CredAvenue Kyrie 06 2021</b>   | PTC Series A1 | June 2021                   | 11.40%      | November 2025  | 4.31                     | [ICRA]A-(SO)   |
|                                   | PTC Series A2 |                             | 14.00%      |                | 1.20                     | [ICRA]BBB(SO)  |
| <b>CredAvenue Everett 07 2021</b> | PTC Series A1 | July 2021                   | 11.40%      | January 2026   | 5.16                     | [ICRA]A-(SO)   |
|                                   | PTC Series A2 |                             | 14.00%      |                | 0.61                     | [ICRA]BBB(SO)  |
| <b>Royal 09 2021</b>              | PTC Series A1 | September 2021              | 10.85%      | March 2026     | 4.97                     | [ICRA]A-(SO)   |
|                                   | PTC Series A2 |                             | 14.00%      |                | 0.45                     | [ICRA]BBB(SO)  |
|                                   | PTC Series A3 |                             | 14.50%      |                | 0.57                     | [ICRA]BB+(SO)  |

\* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

## Annexure II: List of entities considered for consolidated analysis

Not applicable

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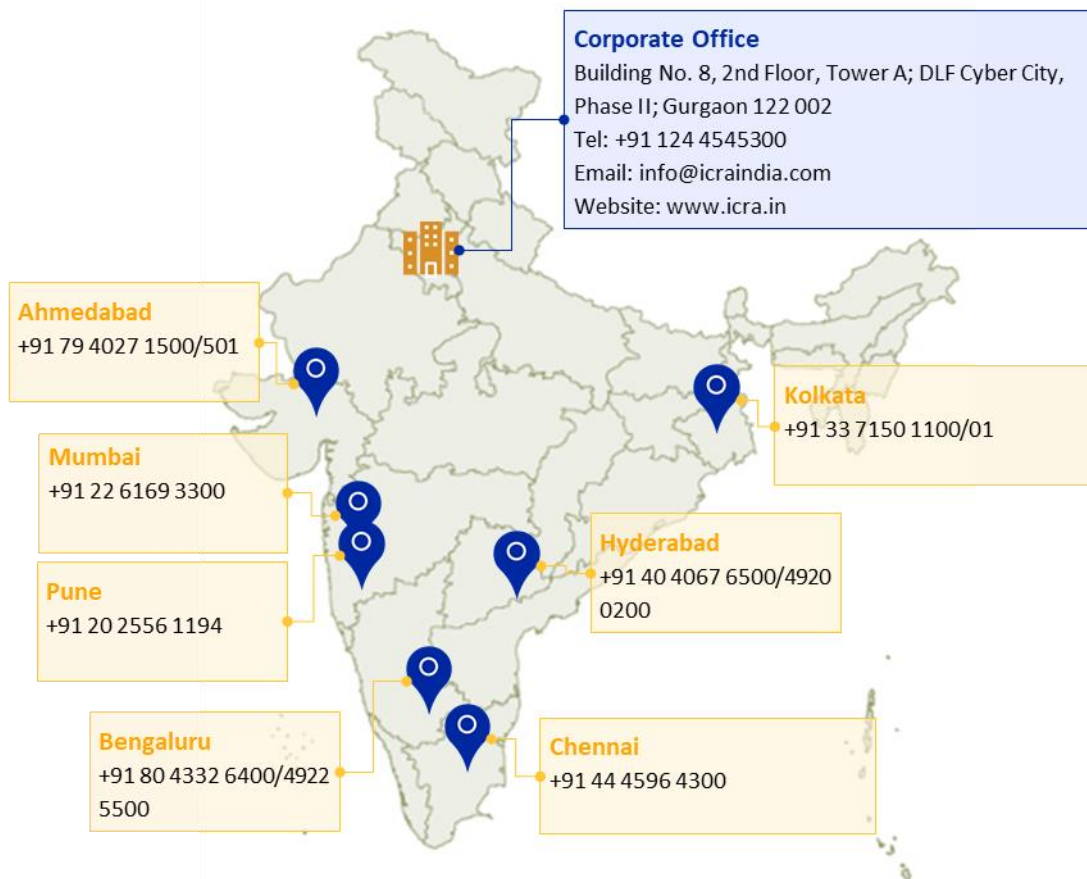
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