

January 11, 2023

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cadence 09 22	Series A1 PTC	21.55	[ICRA]A+(SO); provisional rating confirmed as final
	Series A2 PTC	1.21	[ICRA]BBB+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2022, ICRA had assigned Provisional [ICRA]A+(SO) rating to Series A1 Pass-Through Certificates (PTCs) and Provisional [ICRA]BBB+(SO) rating to Series A2 PTCs issued by Cadence 09 22. The PTCs are backed by receivables from a Rs. 32.29-crore (pool principal amount of Rs. 24.22 crore) pool of used cars loans originated by Cars24 Financial Services Private Limited (CFSPL/Originator). 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 December 2022 payouts is shown in the table below:

Parameter	Cadence 09 22
Months post securitisation	3
Pool amortisation	8.10%
Series A1 PTC amortisation	9.11%
Series A2 PTC amortisation	0.00%
Cumulative Prepayment rate	2.28%
Cumulative collection efficiency	97.52%
Loss-cum 0+ days past due (dpd)	3.05%
Loss cum 30+ dpd	0.46%
Loss cum 90+ dpd	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 are current as on pool cut-off date
- More than 88% contracts in the pool have a CIBIL score greater than 700 as on the cut-off date

Credit challenges

- High geographical concentration with contracts from top 3 states (Maharashtra, Karnataka and Uttar Pradesh) accounting for a ~59% share in the initial pool
- Limited vintage of business; peaking of delinquencies yet to happen across vintages as majority of the portfolio has not completed a cycle
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

As per the transaction structure, Series A2 PTC is subordinate to Series A1 PTC. 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. Post the maturity of Series A1 PTC, the payout to Series A2 PTC (principal payouts to Series A2 PTC investors) will be on expected basis, which will be due and payable only on the final maturity date. The final maturity date for both tranches is February 26, 2027.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination/over-collateralisation of 11.00% of the initial pool principal (includes the principal payable to Series A2 PTC). After Series A1 PTC has been fully paid, over-collateralisation of 6.00% of the initial pool principal would be available for Series A2 PTC.

Further credit support is available in the form of an EIS. A CC of 5.00% of the initial pool principal (Rs. 1.21 crore), provided by CFSPL, acts 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 were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool was moderate at ~9 months as on the pool cut-off date. The pool had high geographical concentration with contracts from the top 3 states (Maharashtra, Karnataka and Uttar Pradesh) contributing ~59% to the initial pool principal amount. The performance of the pool would remain exposed to any macroeconomic shocks or business disruptions.

Past rated pools: ICRA has ratings outstanding on eleven PTC transactions of CFSPL. The performance of all the pools, which have completed at least two payouts till December 2022, has been satisfactory with a cumulative collection efficiency of more than 97% 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

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 CE 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 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 Series A2 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 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 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, CF SPL 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. At present, CF SPL 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, CF SPL provides loans to retail customers primarily for purchasing used cars. CF SPL 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

CF SPL	FY2021	FY2022	H1 FY2023*
	IGAAP	IGAAP	IndAS
Total income	24.3	78.0	70.7
Profit after tax	(14.5)	(16.6)	3.7
Assets under management	170.4	597.9	703.4
Gross non-performing assets (NPA)#	0.5%	0.7%	0.9%
Net NPA	0.0%	0.0%	0.6%

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
					Jan 11, 2023	Sep 30, 2022			
1	Cadence 09 22	Series A1 PTC	21.55	21.55	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-
		Series A2 PTC	1.21	1.21	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 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
Cadence 09 22	Series A1 PTC	September 2022	10.90%	February 2027	21.55	[ICRA]A+(SO)
	Series A2 PTC		Residual		1.21	[ICRA]BBB+(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

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About ICRA Limited:

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