

March 15, 2023

Cars24 Financial Services Private Limited: Ratings reaffirmed for PTCs issued under two 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 Feb-2023 Payout (Rs. crore)	Rating Action
Royal 09 2021	PTC Series A1	10.08	4.97	3.03	[ICRA]A-(SO); Reaffirmed
	PTC Series A2	0.45	0.45	0.45	[ICRA]BBB(SO); reaffirmed
	PTC Series A3	0.57	0.57	0.57	[ICRA]BB+(SO); reaffirmed
Rampling 01 2022	PTC Series A1	16.71	NA	7.71	[ICRA]A-(SO); Reaffirmed
	PTC Series A2	0.95	NA	0.95	[ICRA]BBB(SO); reaffirmed
	PTC Series A3	1.33	NA	1.33	[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 (CFSPL). The ratings reaffirmation factors in the sustained healthy collections witnessed in both pools. There has been a build-up of the credit enhancement (CE) cover over the future PTC payouts due to the healthy amortisation in both transactions. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools. Nonetheless, the performance of the pools would remain exposed to any macroeconomic shocks or business disruptions.

A summary of the performance of the pools after the February 2023 payouts has been provided below.

Pool performance summary

Parameter	Royal 09 2021	Rampling 01 2022
Months post securitisation	16	13
Pool amortisation	62.24%	47.41%
PTC Series A1 amortisation (as % of initial PTC Series A1 principal)	69.93%	53.88%
PTC Series A2 amortisation (as % of initial PTC Series A2 principal)	0.00%	0.00%
PTC Series A3 amortisation (as % of initial PTC Series A3 principal)	0.00%	0.00%
Cumulative collection efficiency ¹	98.40%	98.08%
Cumulative prepayment rate	18.71%	16.26%
Average monthly prepayment rate	1.29%	1.36%
Loss-cum-30+ dpd ² (% of initial pool)	0.71%	1.88%
Loss-cum-90+ dpd ³ (% of initial pool)	0.43%	1.09%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A1	52.31%	62.69%
Cash collateral (CC) (% of balance pool)	13.24%	9.51%
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	13.29%	12.08%

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

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

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

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

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

Reset of credit enhancement

At the request of CFSPL for resetting the CE for the Royal 09 2021 transaction, ICRA has analysed the transaction at a cash collateral (CC) of 5.3% of the balance pool principal after the February 2023 payouts (against the currently available CC of 13.2%). 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 EIS cover available for the balance PTC payouts
- Low delinquency build-up in the harder buckets in both pools

Credit challenges

- High geographical concentration of the contracts in the pools at the state level
- Pools' performance will remain exposed to macroeconomic shocks/business disruptions, if any

Description of key rating drivers highlighted above

As per the transaction structure for both transactions, PTC Series A2 and PTC Series A3 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 February 2023 payout month. The loss-cum-90+ days past due (dpd) was low at sub-1.5% after the February 2023 payout month. Any shortfall in collections in the past was absorbed by the subordination/EIS in the structure with nil CC utilisation as of the February 2023 payout month. As these pools are moderate to highly 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 the 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 macroeconomic shocks or business disruptions, leading to lower-than-expected collections.

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 (% of initial pool principal)	Prepayment
1	Royal 09 2021	1.50-2.50%	4.80-12.00% p.a.
2	Ramplimg 01 2022	2.50-3.50%	4.80-12.00% p.a.

Liquidity position

For PTC Series A1 of Royal 09 2021 and Ramplimg 01 2022: 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 Royal 09 2021 and Ramplimg 01 2022: Strong

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 comfortable to meet the promised payouts to the PTC Series A2 investors.

For PTC Series A3 of Royal 09 2021 and Ramplimg 01 2022: Strong

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 February 2023 (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	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. At present, CFSPL 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, CFSPL provides loans to retail customers mainly for purchasing used cars. CFSPL 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	9M FY2023*
	IGAAP	IGAAP	IndAS
Total income	24.3	78.0	113.8
Profit after tax	(14.5)	(16.6)	1.4
Assets under management	170.4	597.9	799.3
Gross non-performing assets (NPA)#	0.5%	0.7%	1.1%
Net NPA	0.0%	0.0%	0.7%

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					
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Mar 15, 2023	Oct 27, 2022	Nov 23, 2021	Oct 07, 2021 [^]	-	-
1	Royal 09 2021	PTC Series A1	10.08	3.03	[ICRA]A-(SO)	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	0.45	0.45	[ICRA]BBB(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-
		PTC Series A3	0.57	0.57	[ICRA]BB+(SO)	[ICRA]BB+(SO)	[ICRA]BB+(SO)	Provisional [ICRA]BB+(SO)	-	-

[^]Initial ratings assigned

S. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years					
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Mar 15, 2023	Mar 14, 2022	Feb 04, 2022 [^]	-	-	
2	Ramplimg 01 2022	PTC Series A1	16.71	7.71	[ICRA]A-(SO)	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		PTC Series A2	0.95	0.95	[ICRA]BBB(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-
		PTC Series A3	1.33	1.33	[ICRA]BB (SO)	[ICRA]BB(SO)	[ICRA]BB(SO)	Provisional [ICRA]BB(SO)	-	-

[^]Initial ratings assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Royal 09 2021	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	PTC Series A3	Moderately Complex
Ramplimg 01 2022	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Royal 09 2021	PTC Series A1	September 2021	10.85%	March 2026	3.03	[ICRA]A-(SO)
	PTC Series A2		14.00%		0.45	[ICRA]BBB(SO)
	PTC Series A3		14.50%		0.57	[ICRA]BB+(SO)
Rambling 01 2022	PTC Series A1	January 2022	10.50%	June 2026	7.71	[ICRA]A-(SO)
	PTC Series A2		14.00%		0.95	[ICRA]BBB(SO)
	PTC Series A3		14.00%		1.33	[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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