

June 07, 2023

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

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cappella 03 23	Series A1 PTC	16.53	[ICRA]A+(SO); provisional rating confirmed as final
	Series A2 PTC	1.30	[ICRA]BBB(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In April 2023, 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 Cappella 03 23. The PTCs are backed by pool of Rs. 24.75-crore receivables from a (pool principal amount of Rs. 18.58 crore) comprising of used car 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 May 2023 payouts is shown in the table below:

Parameter	Cappella 03 23
Months post securitisation	2
Pool amortisation	6.39%
Series A1 PTC amortisation	7.18%
Series A2 PTC amortisation	0.00%
Cumulative Prepayment rate	2.63%
Cumulative collection efficiency	99.40%
Loss-cum 0+ days past due (dpd)	0.85%
Loss cum 30+ dpd	0.07%
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
- Around 92% contracts in the pool have a CIBIL score greater than 700

#### Credit challenges

- High geographical concentration with top 3 states (Maharashtra, Delhi and Karnataka) accounting for a ~65% share in the initial pool principal.
- 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 August 22, 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 4.00% 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. 0.93 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, Delhi and Karnataka) contributing ~65% 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 13 PTC transactions of CFSPL. The performance of all the pools, which have completed at least two payouts till May 2023, 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 4.50-5.50%, 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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	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

	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun 07, 2023	Apr 04, 2023			
1	Cappella 03 23	Series A1 PTC	16.53	16.53	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-
		Series A2 PTC	1.30	1.30	[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
<b>Cappella 03 23</b>	Series A1 PTC	March 2023	11.15%	August 2027	16.53	[ICRA]A+(SO)
	Series A2 PTC		Residual		1.30	[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

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

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

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Himanshi Doshi**

+91 22 6114 3410

[himanshi.doshi@icraindia.com](mailto:himanshi.doshi@icraindia.com)

**Rushabh Gohel**

+91 22 6114 3420

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

**Palak Bhatt**

+91 22 6114 3456

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

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3304

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

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

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

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.