

October 30, 2023

Cars24 Financial Services Private Limited: Rating action 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 2023 Payout (Rs. crore) | Rating Action |
|-----------------------------------|-------------------------|----------------------------------|--|--|---|
| CredAvenue Kyrie 06 2021 | PTC Series A1 | 12.74 | 4.31 | 0.00 | [ICRA]A-(SO); Withdrawn |
| | PTC Series A2 | 1.20 | 1.20 | 1.03 | [ICRA]A+(SO); Upgraded from [ICRA]BBB(SO) |
| CredAvenue Everett 07 2021 | PTC Series A1 | 13.62 | 5.16 | 0.67 | [ICRA]A+(SO); Upgraded from [ICRA]A-(SO) |
| | PTC Series A2 | 0.61 | 0.61 | 0.61 | [ICRA]A(SO); Upgraded from [ICRA]BBB(SO) |
| CAROLE 06 2022 | Series A1 SN | 59.67 | NA | 30.86 | [ICRA]A(SO); Reaffirmed |
| | Series A2 SN | 3.21 | NA | 3.21 | [ICRA]BBB(SO); Reaffirmed |

*Trusts are referred to as Kyrie, Everett and CAROLE, respectively

[@]Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs)/securitisation notes (SNs), collectively referred to as securities, tabulated above are backed by used car loan receivables originated by Cars24 Financial Services Private Limited (CFSPL). The ratings reaffirmations/upgrades factor in the sustained healthy collections witnessed in all the above-mentioned pools. There has been a build-up of the credit enhancement (CE) cover over the future securities payouts due to moderate to high amortisation in all the transactions. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools. Nonetheless, the performance of the pools would remain exposed to any macroeconomic shocks or business disruptions.

ICRA has also withdrawn the rating for PTC Series A1 under CredAvenue Kyrie 06 2021 as all the payouts have been made and no further payments are due to the investors. The previous detailed rating rationale of the surveillance exercise for this transaction is available at the following link: [Click here](#)

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

Pool performance summary

| Parameters | Kyrie | Everett | CAROLE |
|--|---------|---------|--------|
| Months post securitisation | 26 | 26 | 15 |
| Pool amortisation | 85.68% | 84.28% | 44.79% |
| Series A1 amortisation (as % of initial Series A1 principal) | 100.00% | 95.06% | 48.29% |
| Series A2 amortisation (as % of initial Series A2 principal) | 13.90% | 0.00% | 0.00% |
| Cumulative collection efficiency ¹ | 97.18% | 97.98% | 98.72% |
| Cumulative prepayment rate | 27.17% | 24.75% | 15.40% |
| Average monthly prepayment rate | 1.21% | 1.09% | 1.11% |
| Loss-cum-30+ dpd ² (% of initial pool) | 0.51% | 0.46% | 1.78% |
| Loss-cum-90+ dpd ³ (% of initial pool) | 0.35% | 0.31% | 0.66% |
| Cumulative cash collateral (CC) utilisation | 0.00% | 0.00% | 0.00% |

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 30 days as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days as a % of Initial Pool Principal

| Parameters | Kyrie | Everett | CAROLE |
|--|--------|---------|--------|
| Breakeven CE ⁴ for Series A1 | NA | 7.12% | 69.77% |
| CC (% of balance pool) ⁵ | 34.91% | 20.35% | 12.70% |
| Principal subordination (% of balance pool) for Series A1 ⁶ | NA | 72.03% | 12.89% |
| Excess interest spread (EIS; % of balance pool) for Series A1 ⁷ | NA | 15.56% | 11.55% |

Key rating drivers

Credit strengths

- Moderate to high amortisation of securities resulting in build-up of CC, principal subordination and EIS available for the balance payouts
- Low delinquency build-up in the hard buckets for all three pools

Credit challenges

- Pools' performance will remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

The pools' performance has remained healthy with a cumulative collection efficiency of more than 97% as of the September 2023 payout month. The loss-cum-90+ days past due (dpd) was low at sub-1.0% after the September 2023 payout month. Any shortfall in collections in the past was absorbed by the subordination/EIS in the structure while there was nil CC utilisation as of the September 2023 payout month. As these pools are moderately to highly amortised, there has been a medium to significant build-up in the CE cover for the balance tenure of the investor payouts.

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 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 | CredAvenue Kyrie 06 2021 | 0.50-1.50% | 4.80-18.00% p.a. |
| 2 | CredAvenue Everett 07 2021 | 0.50-1.50% | 4.80-18.00% p.a. |
| 3 | CAROLE 06 2022 | 2.25-3.25% | 4.80-18.00% p.a. |

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

⁵ During the previous surveillance exercise, on the originator's request, ICRA had analysed the Kyrie and Everett transactions at a lower CC ([link](#)) as they were eligible for CC reset as per Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021. However, the CC reset was carried out only for the Everett transaction

⁶ (Pool Principal – PTC Principal) / Pool Principal outstanding

⁷ (Pool Cash flows – Cash flows to PTC) / Pool Principal outstanding

Liquidity position

For PTC Series A2 of Kyrie and both PTC Series of Everett: 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. 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 investors.

For Series A1 SN of CAROLE: Strong

The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the Series A1 SN investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the securities payouts for a period of eight months.

For Series A2 SN of CAROLE: Adequate

After Series A1 SN 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 SN investors.

Rating sensitivities

Positive factors – Given the short balance tenure of the PTCs, the ratings of Everett and Kyrie are unlikely to be upgraded. For Carole, 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 – Given the short balance tenure of the PTCs, the ratings of Everett and Kyrie are unlikely to be downgraded. For Carole, 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 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 Policy on Withdrawal of Credit Ratings |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Not Applicable |

About the originator

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

| CFSPL | FY2022 | FY2023 | Q1 FY2024* |
|-----------------------------------|--------|--------|------------|
| | IGAAP | IndAS | IndAS |
| Total income | 78.0 | 163.6 | 62.7 |
| Profit after tax | (16.6) | 0.1 | 1.3 |
| Assets under management | 597.9 | 888.8 | 988.0 |
| Gross non-performing assets (NPA) | 0.7% | 1.2% | 1.5% |
| Net NPA | 0.0% | 0.8% | 1.0% |

Source: Company data, ICRA Research; Amount in Rs. crore; * Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|--------------------------|---------------|----------------------------------|--------------------------------|---|-------------------------|-------------------------|---------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | | Date & Rating in FY2021 |
| | | | | | Oct 30, 2023 | Oct 27, 2022 | Oct 20, 2021 | Jul 14, 2021 [^] | - |
| 1 | CredAvenue Kyrie 06 2021 | PTC Series A1 | 12.74 | 0.00 | [ICRA]A-(SO); Withdrawn | [ICRA]A-(SO) | [ICRA]A-(SO) | Provisional [ICRA]A-(SO) | - |
| | | PTC Series A2 | 1.20 | 1.03 | [ICRA]A+(SO) | [ICRA]BBB(SO) | [ICRA]BBB(SO) | Provisional [ICRA]BBB(SO) | - |

[^]Initial ratings assigned

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|----------------------------|---------------|----------------------------------|--------------------------------|---|-------------------------|-------------------------|---------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | | Date & Rating in FY2021 |
| | | | | | Oct 30, 2023 | Oct 27, 2022 | Oct 20, 2021 | Aug 09, 2021 [^] | - |
| 2 | CredAvenue Everett 07 2021 | PTC Series A1 | 13.62 | 0.67 | [ICRA]A+(SO) | [ICRA]A-(SO) | [ICRA]A-(SO) | Provisional [ICRA]A-(SO) | - |
| | | PTC Series A2 | 0.61 | 0.61 | [ICRA]A(SO) | [ICRA]BBB(SO) | [ICRA]BBB(SO) | Provisional [ICRA]BBB(SO) | - |

[^]Initial ratings assigned

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|----------------|--------------|----------------------------------|--------------------------------|---|-------------------------|---------------------------|-------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Oct 30, 2023 | Nov 07, 2022 | Jun 30, 2022 [^] | - | - |
| 3 | CAROLE 06 2022 | Series A1 SN | 59.67 | 30.86 | [ICRA]A(SO) | [ICRA]A(SO) | Provisional [ICRA]A(SO) | - | - |
| | | Series A2 SN | 3.21 | 3.21 | [ICRA]BBB(SO) | [ICRA]BBB(SO) | Provisional [ICRA]BBB(SO) | - | - |

[^]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 |
| CAROLE 06 2022 | Series A1 SN | Moderately Complex |
| | Series A2 SN | 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 |
|-----------------------------------|---------------|-----------------------------|-------------|----------------|--------------------------|-------------------------|
| CredAvenue Kyrie 06 2021 | PTC Series A1 | June 2021 | 11.40% | November 2025 | 0.00 | [ICRA]A-(SO); Withdrawn |
| | PTC Series A2 | | 14.00% | | 1.03 | [ICRA]A+(SO) |
| CredAvenue Everett 07 2021 | PTC Series A1 | July 2021 | 11.40% | January 2026 | 0.67 | [ICRA]A+(SO) |
| | PTC Series A2 | | 14.00% | | 0.61 | [ICRA]A(SO) |
| CAROLE 06 2022 | Series A1 SN | June 2022 | 10.50% | December 2026 | 30.86 | [ICRA]A(SO) |
| | Series A2 SN | | Residual | | 3.21 | [ICRA]BBB(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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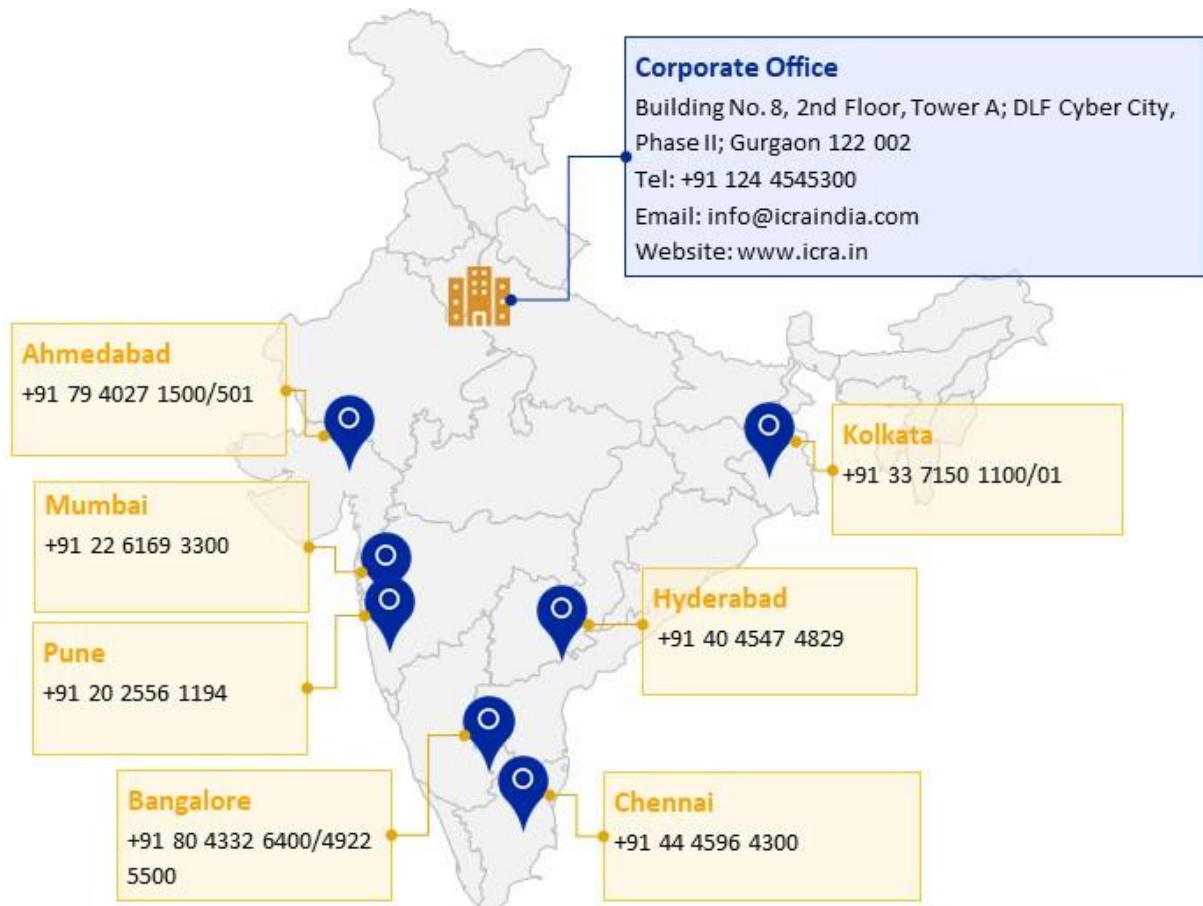
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