

January 29, 2024

Cars24 Financial Services Private Limited: Rating actions for securities issued under four 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 Dec 2023 Payout (Rs. crore)	Rating Action
Nimbus 2022 VF McLaren	Series A1 PTC	16.57	8.33	4.65	[ICRA]A+(SO); Upgraded from [ICRA]A-(SO)
	Series A2 PTC	0.74	0.74	0.74	[ICRA]A(SO); Upgraded from [ICRA]BBB(SO)
	Series A3 PTC	0.92	0.92	0.92	[ICRA]BBB+(SO); Upgraded from [ICRA]BB+(SO)
Heather 03 2022	Series A1 PTC	14.25	7.25	4.00	[ICRA]A+(SO); Upgraded from [ICRA]A-(SO)
	Series A2 PTC	0.64	0.64	0.64	[ICRA]A(SO); Upgraded from [ICRA]BBB(SO)
	Series A3 PTC	0.80	0.80	0.80	[ICRA]BBB+(SO); Upgraded from [ICRA]BB+(SO)
CAROLE 06 2022	Series A1 SN	59.67	30.86	25.47	[ICRA]A(SO); Reaffirmed
	Series A2 SN	3.21	3.21	3.21	[ICRA]BBB(SO); Reaffirmed
Cadence 09 22	Series A1 PTC	21.55	21.55	10.93	[ICRA]A+(SO); Reaffirmed
	Series A2 PTC	1.21	1.21	1.21	[ICRA]A-(SO); Upgraded from [ICRA]BBB+(SO)

*Instrument details are provided in Annexure I

Rationale

The securities tabulated above are backed by used car loan receivables originated by Cars24 Financial Services Private Limited (CFSPL). The ratings upgrade and reaffirmation factor in the sustained healthy collections witnessed in all the above-mentioned pools. The credit enhancement (CE) cover over the future pass-through certificate (PTC) payouts has built up due to the healthy amortisation in all the 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 December 2023 payouts has been provided below.

Pool performance summary

Parameter	Nimbus 2022 VF McLaren	Heather 03 2022	CAROLE 06 2022	Cadence 09 22
Months post securitisation	21	21	18	15
Pool amortisation	64.44%	63.68%	53.19%	43.96%
Series A1 amortisation (as % of initial Series A1 principal)	71.94%	71.92%	57.31%	43.96%
Series A2 amortisation (as % of initial Series A2 principal)	0.00%	0.00%	0.00%	0.00%
Series A3 amortisation (as % of initial Series A3 principal)	0.00%	0.00%	NA	NA
Cumulative collection efficiency ¹	97.01%	96.83%	98.47%	94.85%
Cumulative prepayment rate	24.19%	21.73%	18.47%	11.60%
Average monthly prepayment rate	1.31%	1.16%	1.13%	0.82%
Loss-cum-30+ dpd ² (% of initial pool)	2.24%	1.90%	2.22%	3.33%

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

Parameter	Nimbus 2022 VF McLaren	Heather 03 2022	CAROLE 06 2022	Cadence 09 22
Loss-cum-90+ dpd ³ (% of initial pool)	0.86%	1.13%	1.04%	1.54%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%	0.00%
Breakeven collection efficiency ⁴ for Series A1	53.11%	50.49%	65.98%	66.07%
CC (% of balance pool)	14.06%	13.77%	14.98%	8.88%
Principal subordination (% of balance pool) for Series A1 ⁵	28.99%	31.19%	15.21%	19.88%
Excess interest spread (EIS; % of balance pool) for Series A1 ⁶	12.05%	13.53%	11.03%	13.15%

Reset of credit enhancement

At CFSPL's request for resetting the CE for the CAROLE 06 2022 transaction, ICRA has analysed the transaction at a cash collateral (CC) of 6.7% of the balance pool principal after the December 2023 payouts (against the currently available CC of 15.0%). Based on the pool's performance, the ratings for the securities 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

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

Credit challenges

- Pools' performance will remain exposed to any 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 94% as of the December 2023 payout month. The loss-cum-90+ days past due (dpd) was low at sub-2.0% after the December 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 December 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.

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 principal – PTC principal) / Pool principal outstanding

⁶ (Pool cash flows – Cash flows to PTC) / Pool principal outstanding

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	Nimbus 2022 VF McLaren	1.50-2.50%	4.80-18.00% p.a.
2	Heather 03 2022	1.50-2.50%	4.80-18.00% p.a.
3	CAROLE 06 2022	2.00-3.00%	4.80-18.00% p.a.
4	Cadence 09 22	2.75-3.75%	4.80-18.00% p.a.

Liquidity position

Series A1 and A2 PTCs of Nimbus 2022 VF McLaren and Heather 03 2022, and Series A1 SN of CAROLE 06 2022: Superior

The liquidity for the instruments is superior after factoring in the CE available to meet the promised payouts to the investor. The total CE would be more than 6 times the estimated loss in the pools.

Series A3 PTCs of Nimbus 2022 VF McLaren and Heather 03 2022, Series A2 SN of CAROLE 06 2022, Series A1 and Series A2 PTCs of Cadence 09 22: Strong

The liquidity for the instruments is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE would be in the range of 3.0-6.0 times the estimated loss in the pools.

Rating sensitivities

Positive factors – The ratings could be upgraded on the strong collection performance of the underlying pool on a sustained basis, leading to the build-up of the CE cover for the remaining payouts, along with an improvement in CF SPL’s credit profile.

Negative factors – Pressure on the ratings could emerge on the sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pools till December 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 originator

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 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	H1 FY2024*
	IGAAP	IndAS	IndAS
Total income	78.0	163.56	131.06
Profit after tax	(16.6)	0.09	2.66
Assets under management	597.9	888.77	1,101.57
Gross non-performing assets (NPA)	0.7%	0.9%	1.5%
Net NPA	0.0%	0.5%	0.9%

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
					Jan 29, 2024	Jun 23, 2023	Jun 22, 2022	Mar 31, 2022 [^]	-
1	Nimbus 2022 VF McLaren	Series A1 PTC	16.57	4.65	[ICRA]A+(SO)	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-
		Series A2 PTC	0.74	0.74	[ICRA]A(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-
		Series A3 PTC	0.92	0.92	[ICRA]BBB+(SO)	[ICRA]BB+(SO)	[ICRA]BB+(SO)	Provisional [ICRA]BB+(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
					Jan 29, 2024	Jun 23, 2023	Jun 16, 2022	Apr 05, 2022 [^]	-	-
2	Heather 03 2022	Series A1 PTC	14.25	4.00	[ICRA]A+(SO)	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-
		Series A2 PTC	0.64	0.64	[ICRA]A(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-
		Series A3 PTC	0.80	0.80	[ICRA]BBB+(SO)	[ICRA]BB+(SO)	[ICRA]BB+(SO)	Provisional [ICRA]BB+(SO)	-	-

[^]Initial ratings assigned

Sr. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				Date & Rating in FY2022	Date & Rating in FY2021
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023			
					Jan 29, 2024	Oct 30, 2023	Nov 07, 2022	Jun 30, 2022 [^]		
3	CAROLE 06 2022	Series A1 SN	59.67	25.47	[ICRA]A(SO)	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-	-
		Series A2 SN	3.21	3.21	[ICRA]BBB(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			Date & Rating in FY2022	Date & Rating in FY2021
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		
					Jan 29, 2024	Jan 11, 2023	Sep 30, 2022 [^]		
4	Cadence 09 22	Series A1 PTC	21.55	10.93	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-
		Series A2 PTC	1.21	1.21	[ICRA]A-(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

[^]Initial ratings assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Nimbus 2022 VF McLaren	Series A1 PTC	Moderately Complex
	Series A2 PTC	Moderately Complex
	Series A3 PTC	Moderately Complex
Heather 03 2022	Series A1 PTC	Moderately Complex
	Series A2 PTC	Moderately Complex
	Series A3 PTC	Moderately Complex
CAROLE 06 2022	Series A1 SN	Moderately Complex
	Series A2 SN	Moderately Complex
Cadence 09 22	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
Nimbus 2022 VF McLaren	Series A1 PTC	March 2022	10.15%	August 2026	4.65	[ICRA]A+(SO)
	Series A2 PTC		13.50%		0.74	[ICRA]A(SO)
	Series A3 PTC		13.50%		0.92	[ICRA]BBB+(SO)
Heather 03 2022	Series A1 PTC	March 2022	10.65%	August 2026	4.00	[ICRA]A+(SO)
	Series A2 PTC		14.00%		0.64	[ICRA]A(SO)
	Series A3 PTC		14.00%		0.80	[ICRA]BBB+(SO)
CAROLE 06 2022	Series A1 SN	June 2022	10.50%	December 2026	25.47	[ICRA]A(SO)
	Series A2 SN		Residual		3.21	[ICRA]BBB(SO)
Cadence 09 22	Series A1 PTC	September 2022	10.90%	February 2027	10.93	[ICRA]A+(SO)
	Series A2 PTC		Residual		1.21	[ICRA]A-(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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