

March 06, 2024

## Cars24 Financial Services Private Limited: Provisional [ICRA]A+(SO) assigned to PTCs backed by used car loan receivables issued by HUMMER 02 2024

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HUMMER 02 2024	Series A1 PTC	45.00	Provisional [ICRA]A+(SO); Assigned

\*Instrument details are provided in Annexure I

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Cars24 Financial Services Private Limited (CFSPL). The PTCs are backed by a pool of Rs. 70.34-crore used car loan receivables (underlying pool principal of Rs. 50.56 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 4.00% of the pool principal to be provided by CFSPL, (ii) subordination of 11.00% of the pool principal for Series A1 PTC, and (iii) the excess interest spread (EIS) of 22.23% in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of EIS, over-collateralisation/subordination CC
- All contracts in the pool were current as on the pool cut-off date
- More than 92% of the contracts in the pool have a CIBIL score greater than 700

#### Credit challenges

- High geographical concentration with top 3 states (Karnataka, Delhi and Maharashtra) accounting for a ~64% share in the pool
- Increase in delinquencies in recent months; peaking of delinquencies yet to happen as the majority of the portfolio has not completed a cycle, given the limited vintage of the business
- Pool's performance will remain exposed to macroeconomic shocks/business disruptions

### Description of key rating drivers highlighted above

As per the transaction structure, 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. The final maturity date for the tranche of PTCs is May 20, 2029.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 11.00% of the pool principal (includes the principal payable to the equity tranche PTC).

Further credit support is available in the form of an EIS. A CC of 4.00% of the initial pool principal (Rs. 2.02 crore), to be provided by CFSPL, would act 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 same.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is high at ~12 months as on the pool cut-off date. The pool has high geographical concentration with the top 3 states contributing ~64% to the initial pool principal amount. The performance of the pool would remain exposed to macroeconomic shocks/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 one payout till December 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 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 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 5.0-12.0% per annum.

### Liquidity position: Superior

The liquidity for the PTC instruments in the transaction is superior after factoring in the CE available to meet the promised payouts to the investors. The total CE would be 6.25 times the estimated loss in the pool.

### Rating sensitivities

**Positive factors** – The rating 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 rating 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

### Analytical approach

The rating action is based on the analysis of the performance of CFSPL’s digital retail lending (DRL) portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable

<b>Consolidation/Standalone</b>	Not Applicable
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### Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant’s Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

### Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

### Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Rating available at [www.icra.in](http://www.icra.in).

### 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. Currently, 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 primarily for purchasing used cars. CFSPL started as a captive financing unit of its parent (CSPL), however, currently 75% of its origination is through the leads generated by CSPL’s online marketplace and balance 25% is through the other channels (dealer partners). The company provides financing for the purchase of used cars to its customers.

### Key financial indicators

CFSP	FY2022	FY2023	9M FY2024*
	IGAAP	IGAAP	IndAS
<b>Total income</b>	78.0	163.56	200.17
<b>Profit after tax</b>	(16.6)	1.64	10.11
<b>Assets under management</b>	598	1,317	2,048
<b>Gross non-performing assets (NPA)#</b>	0.5%	0.8%	1.1%
<b>Net NPA</b>	0.0%	0.5%	0.7%

Source: Company data, ICRA Research; Amount in Rs. crore; \*Provisional financials; # Based on 90+ 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	
					Mar 06, 2024				
1	HUMMER 02 2024	Series A1 PTC	45.00	45.00	Provisional [ICRA]A+(SO)	-	-	-	

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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>HUMMER 02 2024</b>	Series A1 PTC	February 2024	10.10%	May 2029	45.00	Provisional [ICRA]A+(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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For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



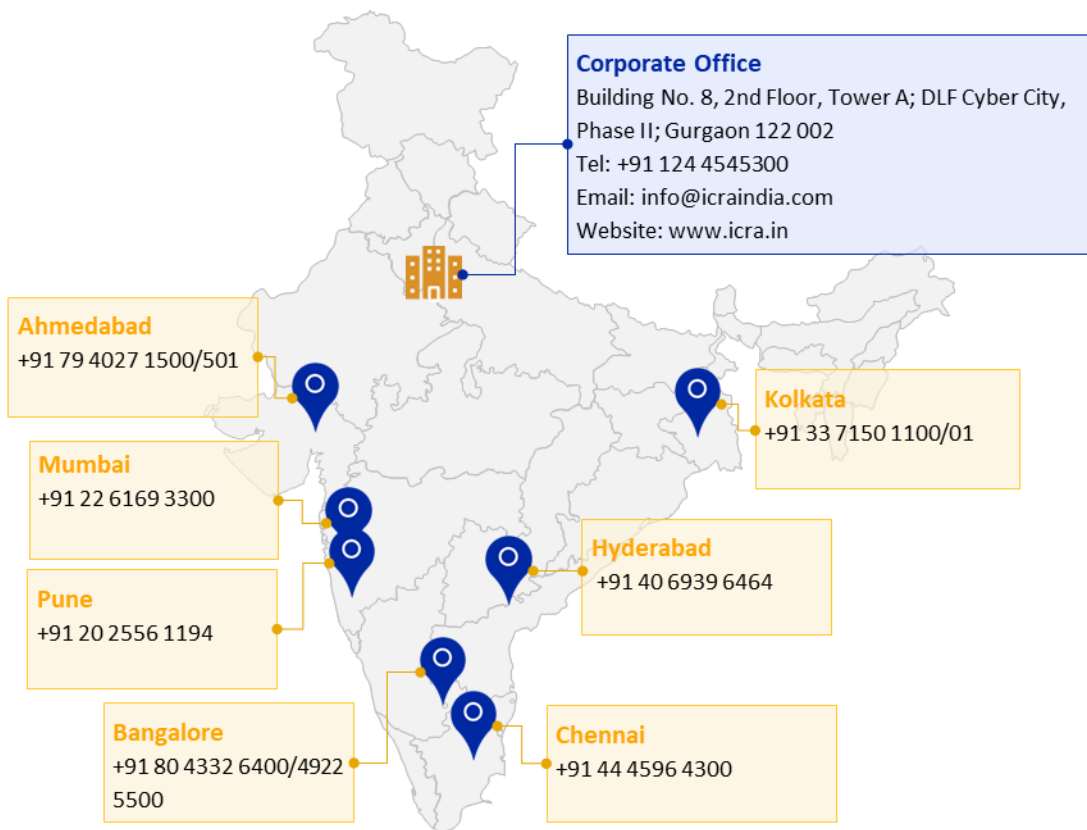
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