CARE Ratings
Professional Risk Opinion

Celebrating 25th Year Analytical Excellence

CARE/HO/RR/2017-18/1729

Mr. Pankaj Thapar
Chief Financial Officer
IndoStar Capital Finance Ltd.
One Indiabulls Center, 17th Floor, Tower 2A,
Jupiter Mills Compound, Senapati Bapat Marg,
Mumbai- 400013.

August 23,2017

Dear Sir,

Credit rating of commercial paper

Please refer to our letters dated August 17, 2017 on the above subject.

2. The rationale for the ratings is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.

3. A write-up (brief rationale) on the above ratings is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - II.**

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

[Shailee Sanghvi]
Analyst
Shailee.sanghvi@careratings.com

[Ravi Kumar]
Senior Manager
ravi.kumar@careratings.com

Encl: As above

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Annexure - I
Rating Rationale
IndoStar Capital Finance Limited

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long Term Debt*	3750	**CARE AA-; Stable (Double A Minus; Outlook:Stable)**	**Reaffirmed**
Commercial Paper	1750	**CARE A1+ (Single A One Plus)**	**Reaffirmed**
Total Facilities	**5500 (Rupees Five Thousand Five Hundred crores only)**		

*Details of the facilities given in Annexure-I

Rating Rationale

The rating factors in IndoStar Capital Finance Ltd.'s (ICF's) strong institutional sponsors as well as their capital, operational and management support. The rating further takes into account the company's experienced management, good risk management processes and its efforts to diversify by entering into newer segments. The rating also factors in strong capitalization levels as well as comfortable gearing, healthy financial performance and comfortable asset quality parameters & liquidity position. The rating further takes into account moderate track record of operations, client concentration risk and limited exposure to real estate segment which is relatively riskier asset class. Continued sponsor support, profitability, business diversification, client concentration and asset quality are its key rating sensitivities. Further, its ability to scale its operations in the newer segment and stabilize is key rating sensitivity.

Background

IndoStar Capital Finance Ltd. (ICF) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. It was originally incorporated as R. V. Vyapar Pvt. Ltd. on July 21, 2009 and the company was renamed as 'IndoStar Capital Finance Pvt. Ltd.' on November 15, 2010. The company however started disbursements from Q1FY12 (refers to the period April 01 to June 30). The company was converted into a public limited company on May 28, 2014 and consequently its name was changed to 'IndoStar Capital Finance Limited'. ICF had been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments with the objective of developing an independent wholesale lending institution in India. During FY15, Ashmore Group PLC exited ICF with its stake being acquired by Everstone and

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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ACP Investments. The promoters hold their stake in ICF through IndoStar Capital, Mauritius which holds 90.74% stake in the company as on 31.03.2017. ICF is engaged mainly into wholesale lending with products ranging from corporate finance, developer financing, working capital financing, acquisition financing & loan against shares. From March, 2015 onwards, the company has started SME- loans against property (LAP), wherein Small and Medium Enterprises would be given business loans against security of the property. The Company has also incorporated a Housing Finance Company by the name of IndoStar Home Finance Private Limited with intent to venture into retail affordable housing finance business in Tier II and Tier III cities. Company has received housing Finance licence in August 2016 from National Housing Board. Company has hired team for Housing business and expect to start business in Q3 FY18. The company plans to start CV financing going forward, it is in the process of put in place the team and infrastructure for the same. ICF's loan portfolio and tangible networth stood at Rs.5,145 crore and Rs.1,882 crore respectively as on March 31, 2017. Previously the company was under the management of Mr Vimal Bhandhari , however he is still on the board . In his place, Mr Sridhar has joined as a CEO , who was associated with Shriram Group since 1985 and served as Managing Director & CEO of STFC from 2000-2012.

Analytical approach: Standalone

Credit Risk Assessment

Strong Institutional Sponsors

ICF has been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments. During FY15, Ashmore Group PLC exited ICF with its stake being acquired by Everstone and ACP Investments. As on 31.03.2017, the promoters hold their stake in ICF through IndoStar Capital, Mauritius which holds 90.74% stake [P.Y.:97.30%] in the company. IndoStar Capital, Mauritius is held by Everstone (49.40%), ACP Investments (16.40%), Goldman Sachs (18.80%), Baer Capital (10.80%) and CDIB Investment (4.70%). ICF's credit profile derives comfort from management and financial support of sponsor investors at regular intervals. Besides, the rich experience of the sponsor investors in Indian and global financial markets are expected continue to help ICF in strengthening its business opportunities.

Experienced management

ICF has management with rich experience in the financial sector. Some of the key management personnel include Mr. R. Sridhar, Executive vice chairman & CEO of ICF (Former MD and CEO of Shriram Transport Finance Company Ltd.), Mr. Pankaj Thapar, CFO (Former Managing Director in the Private Equity business of Everstone Capital Advisors, has more than 25 years of experience in the financial and corporate sector), Mr. Shailesh Shirali, MD & Head- Corporate Lending & Markets (Former CEO- Corporate lending at Future Capital Holdings Ltd.), Mr. Prashant Joshi, MD & Head – SME & Retail (Former Head – private and business clients at Deutsche Bank and GM – SME Banking at Standard Chartered Bank) and Mr. Deepak Bakliwal, Director – Real Estate and Structured Lending

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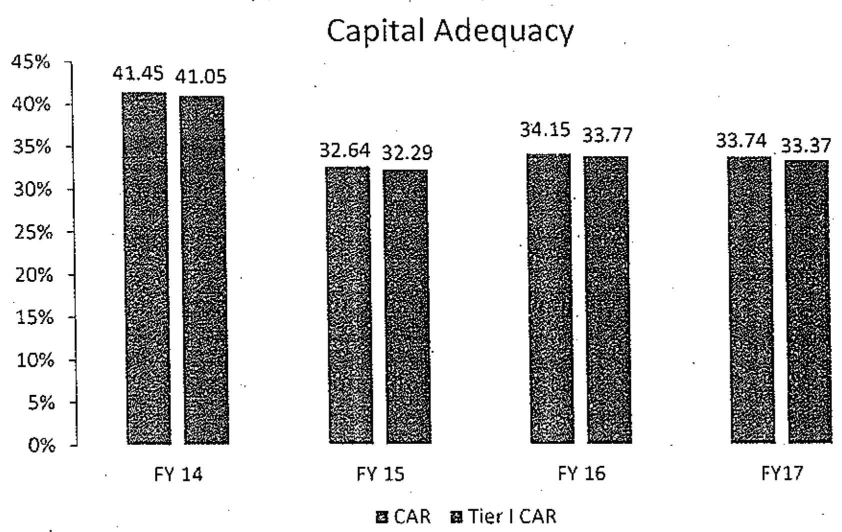
(Former Senior VP – Corporate Lending at Capital First). The Board of Directors and management team at all levels have been drawn from leading players in the financial services space. Previously , the company was under the management of Mr Vimal Bhandhari however he is still on the board . In his place, Mr R. Sridhar has joined as an Executive Vice-Chairman and CEO, who was associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company.

Strong solvency parameters and comfortable liquidity position

The company continues to maintain robust capitalization levels supported by regular equity infusions. During FY17, a set of investors infused equity capital of Rs.150 crore in the company. As on 31st March, 2017, ICF's CAR stood at 33.74% [P.Y.: 34.15%] while Tier I CAR stood at 33.37% [P.Y.: 33.77%]. High proportion of Tier I capital provides considerable headroom for raising Tier II capital to support future business growth. Further, the company had comfortable gearing levels of 1.82x as on March 31, 2017 [P.Y.: 1.97x]. As on March 31, 2017, the liquidity profile of ICF was comfortable post inclusion of undrawn bank lines. While the average loan book tenure as on 31.03.2017 is 5.67 years, the company has tapped similar tenure bank/ market borrowings. The cash and cash equivalents and undrawn bank lines as on 31st March, 2017 stood at Rs.54.42 Crores and Rs.390 crore, respectively.



Well defined risk management processes and secured lending

ICF draws experience from its global investors for creating its risk management framework. It has well-defined credit criteria for sanction of loan including assessing track record & borrowing capacity of borrower, credit history of borrower, quality of collaterals.

Over the last few quarters with a view to diversify the portfolio risk, the company has started SME financing from March 2015 onwards. As on March 31, 2017, ICF's loan portfolio stood at Rs.5,145 crore of which real estate developer funding comprised 38.23% [P.Y.: 40.20%], corporate financing 50.88% [P.Y.: 48.90%] with the remaining 10.86% being SME financing (SME loans against property). By FY18 end, the management expects SME financing portfolio to constitute 20% of the total portfolio outstanding. The company has plans to enter into the CV financing business and will be rolling this product in the next few months.

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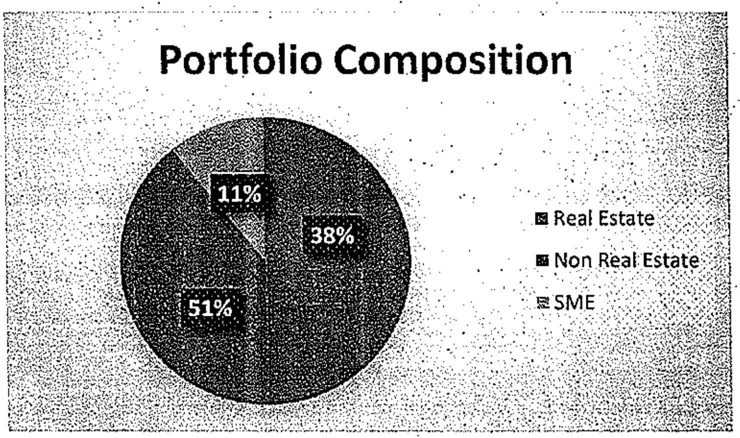
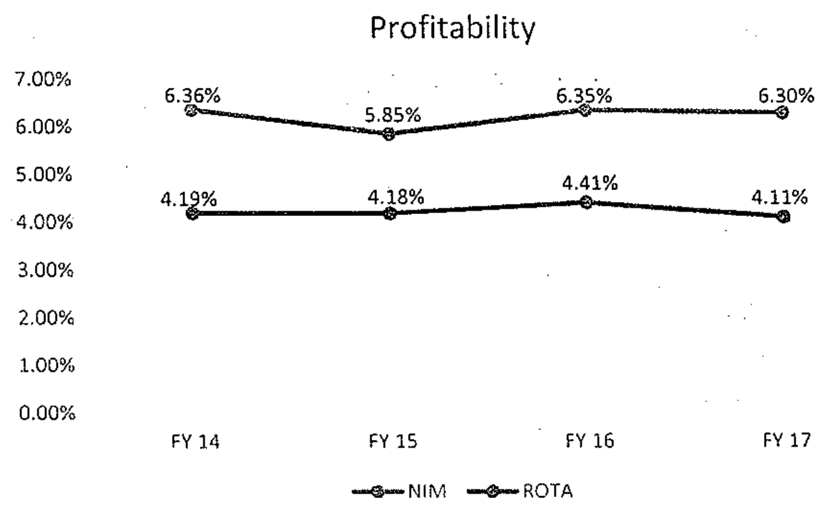


Healthy profitability parameters

During FY17, the company reported 12.0% y-o-y growth in total income vis a vis 21.50% growth in the previous year owing to subdued economic factors. Despite slowdown in portfolio growth, the company witnessed improved interest spreads due to reduction in cost of borrowings that declined by roughly 66 bps. Cost to income ratio of the company increased to 17.57% during FY17 as against 16.03% during FY16 due to company's foray in SME financing and the resultant rise in branch and manpower expenses. The company has 6 operational branches as on March 31, 2017 majorly catering to SME financing business. Higher operating expenses and low portfolio growth has impacted profitability parameters of the company in FY17. The company's operating costs are expected to rise in near to medium term given that the company plans to foray into newer geographies for tapping SME financing business. The company's Net interest Margins (NIMs) stood stable at 6.30% in FY17 (P.Y.: 6.35%). The company reported PAT of Rs.209 crore in FY17 as against PAT of Rs.191 crore in FY16 registering a growth of 9 % y-o-y. Return on Total Assets (RoTA) for the company stood at 4.11% in FY17 as against 4.41% in FY16. Although, RoTA for the company has reduced during FY17, it still continues to remain robust. As on 30th June, 2017, NIM and ROTA stood at 7.25% and 4.07% respectively.



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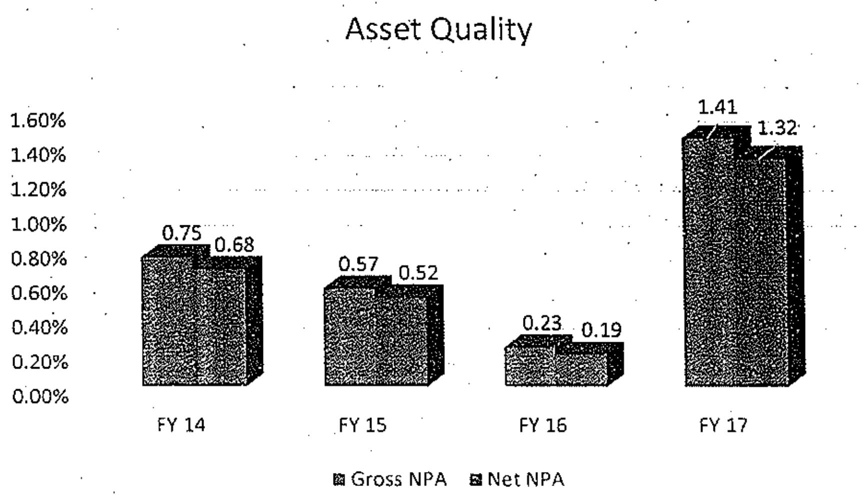
Comfortable Asset quality

During FY17, total GNPA and NNPA stood at Rs72.73 crores and Rs.61.95 crore, respectively. As on March 31, 2017, GNPA and NNPA stood at 1.41% [P.Y.: 0.23%] and 1.21% [P.Y.: 0.19%] while net NPA to networth stood at 3.29% [P.Y.: 0.52%]. As on 30th June, 2017, GNPA and NNPA ratio stood at 1.69% and 1.48% respectively. Although the Net NPA has increased, it continues to remain comfortable.



Moderate track record and portfolio seasoning

ICF has a moderate operating track record as it started its wholesale lending operations in April 2011 and SME financing in March 2015. Though a significant portion of its wholesale portfolio has witnessed churn (given the average tenure of the portfolio at around 5.66 years), its SME financing portfolio is fairly nascent. The company also plans to enter into CV Financing, primarily venturing into used commercial vehicles in the Southern parts of India as the new Executive Vice Chairman and CEO Mr. R. Sridhar has extensive experience in CV financing and was associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company Going forward, the company's ability to maintain asset quality in newer products while expanding business operations is a key monitorable.

High customer concentration risk

Given the bulky nature of its lending operations (around 89.13% of ICFs portfolio is wholesale in nature as on March 31, 2017), ICF is exposed to concentration risk. On the wholesale lending front, top 10 exposures as on March 31, 2017 constituted 37.6% of total portfolio (P.Y.: 32.4%) and 102.9% of tangible networth (P.Y.: 90.4%). The company has ventured into SME financing from March, 2015 onwards and plans to start CV Financing which is expected to reduce concentration levels going forward.

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Exposure to real estate segment

ICF continues to have high exposure to relatively riskier real estate developer funding segment. The company's real estate portfolio continued to be on higher side and constituted 38% of total portfolio outstanding as on March 31, 2017 (P.Y.: 40%).

Prospects

Due to subdued economic environment, last few years have been challenging period for the NBFCs with moderation in growth and rising delinquencies resulting in higher provisioning thereby impacting profitability. However, comfortable capitalization levels and liquidity management continue to provide comfort to the credit profile of NBFCs in spite of impact on profitability. Also with the improvement in economic environment, asset quality pressures should ease which will partially offset the impact of migration towards 90 day NPA recognition norm.

Financial Performance -

(Rs. Cr)

As on / Year ended March 31, 2017	FY15	FY16	FY 17
	A	A	A
Interest Income	467	564	643
Other Operational Income	60	77	72
Other Income	1	1	1
Total Income	528	641	715
Operating Expenses	40	56	69
Total Provision / Write offs	3	3	12
Depreciation and Impairment of Fixed Assets	1	1	2
Interest Expenditure	258	290	312
PBT	226	292	320
Tax	77	101	111
PAT	149	191	209
Net Fixed Assets	1	3	9
Total Loan Portfolio	3375	4265	5148
Investments	55	10	196
Tangible Net worth	1276	1530	1882
Total borrowings	2574	3018	3424
Total Assets	3983	4682	5485
Key Ratios (%)			
Total Gearing (times)	2.02	1.97	1.82
Interest Coverage (times)	1.88	2.01	2.03
Interest Income/ Avg. Interest earning assets	13.58	13.42	12.96
Interest / Avg. Borrowed Funds	11.54	10.34	9.68
Interest Spread	2.05	3.08	3.28
Net Interest Margin	5.85	6.35	6.30
Cost to Income Ratio	15.18	16.03	17.57
CAR	32.64	34.15	33.74
Tier I CAR	32.29	33.77	33.37
ROTA	4.18	4.41	4.11
RONW	12.40	13.61	12.25
Gross NPA Ratio (%)	0.57	0.23	1.41
Net NPA Ratio (%)	0.52	0.19	1.21
Net NPA to Net Worth (%)	1.37	0.52	3.29

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**Ratios have been computed based on average of annual opening and closing balances*
^outstanding borrowing plus securitized portfolio/ tangible networth
~Adjusted Total assets = Total Assets + Off-Balance sheet managed portfolio

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Annexure-II

Indostar Capital Finance Limited

Ratings

Facilities	Amount (Rs. crore)	Rating2	Rating Action
Long Term Debt Programme	3,750	**CARE AA-; Stable (Double A Minus; Outlook : Stable)**	**Reaffirmed**
Commercial Paper	1,750	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	5,500 (Rupees Five Thousand Five Hundred only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in IndoStar Capital Finance Ltd.'s (ICF's) strong institutional sponsors as well as their capital, operational and management support. The rating further takes into account the company's experienced management, good risk management processes and its efforts to diversify by entering into newer segments. The rating also factors in strong capitalization levels as well as comfortable gearing, healthy financial performance and comfortable asset quality parameters & liquidity position. The rating further takes into account moderate track record of operations, client concentration risk and limited exposure to real estate segment which is relatively riskier asset class. Continued sponsor support, profitability, business diversification, client concentration and asset quality are its key rating sensitivities. Further its ability to scale its operations in the newer segment and stabilize is key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Strong Institutional sponsors

ICF had been established by global financial institutions and the promoters hold their stake in ICF through IndoStar Capital, Mauritius which holds 90.74% stake as on March 31, 2017 in the company. IndoStar Capital, Mauritius is held by Everstone (49.4%), ACP Investments (16.4%), Goldman Sachs (18.8%), Baer Capital (10.8%) and CDIB Investment (4.7%). ICF's credit profile derives comfort from management and financial support of sponsor investors at regular intervals.

Experienced Management

ICF has management with rich experience in the financial sector. The Board of Directors and management team at all levels have been drawn from leading players in the financial services space. Previously the company was under the management of Mr Vimal Bhandhari , he is continued on Board

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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as a Non-Executive Director. In his place, Mr R. Sridhar has joined as an Executive Vice-Chairman and CEO who was associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company.

Strong solvency parameters and comfortable liquidity position

The company continues to maintain robust capitalization levels supported by regular equity infusions by sponsors. During FY17, few new investors infused equity capital of Rs.150 crore in the company. As on 31st March, 2017, ICF's CAR stood at 33.74% [P.Y.: 34.15%] while Tier I CAR stood at 33.37% [P.Y.: 33.77%]. This continues to be comfortable as on June 30,2017 wherein the CAR stood at 34.70%. As on March 31, 2017, the liquidity profile of ICF stood comfortable post inclusion of undrawn bank lines. Further, as per company's prudent liquidity policy, ICF maintains cash/ cash equivalents and unutilized lines of credit to the tune of 15% of networth. The cash and cash equivalents and undrawn bank lines as on 31st March, 2017 stood at Rs.54 crore and Rs.390 crore, respectively.

Well defined risk management processes & secured lending

ICF draws experience from its global investors for creating its risk management framework. It has well-defined credit criteria for sanction of loan including assessing track record & borrowing capacity of borrower, credit history of borrower, quality of collaterals.

Robust profitability parameters

During FY17, the company reported 12.0% y-o-y growth in total income vis a vis 21.50% growth in the previous year which was primarily on account of deceleration in portfolio growth owing to subdued economic factors. The company's Net interest Margins (NIMs) stood stable at 6.30% in FY17 (P.Y.: 6.35%). Cost to income ratio of the company increased to 17.57% during FY17 as against 16.03% during FY16 due to company's foray in SME financing and the resultant rise in branch and manpower expenses. The company has 6 operational branches as on March 31, 2017 majorly catering to SME financing business. Higher operating expenses and low portfolio growth has impacted profitability parameters of the company in FY17. The company reported PAT of Rs.209 crore in FY17 as against PAT of Rs.191 crore in FY16 registering a growth of 9 % y-o-y. Return on Total Assets (RoTA) for the company stood at 4.11% in FY17 as against 4.41% in FY16. Although, ROTA for the company has reduced during FY17, it still continues to remain robust. As on 30th June, 2017, NIM and ROTA stood at 7.25% and 4.07% respectively.

Comfortable Asset quality

During FY17, total GNPA and NNPA stood at Rs72.73 crores and Rs.61.95 crore, respectively. As on March 31, 2017, GNPA and NNPA stood at 1.41% [P.Y.: 0.23%] and 1.21% [P.Y.: 0.19%] while net NPA to networth stood at 3.29% [P.Y.: 0.52%]. As on 30th June, 2017, GNPA and NNPA ratio stood at 1.69% and 1.48% respectively. Although the Net NPA has increased, it continues to remain comfortable.

Key Rating Weaknesses

Moderate track record and portfolio seasoning

ICF has a moderate operating track record as it started its wholesale lending operations in April 2011 and SME financing in March 2015. Though a significant portion of its wholesale portfolio has witnessed churn (given the average tenure of the portfolio at around 5.66 years), its SME financing portfolio is

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fairly nascent. The company also has plans to enter into CV Financing, primarily venturing into used commercial vehicles in the Southern parts of India as the new Executive Vice Chairman and CEO Mr. R. Shridhar has extensive experience in CV financing and was associated with Shriram Group since 1985 and served as Managing Director & CEO of Shriram Transport Finance Company Going forward, the company's ability to maintain asset quality in newer products while expanding business operations is a key monitorable.

High customer concentration risk

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Exposure to real estate segment

ICF continues to have high exposure to relatively riskier real estate developer funding segment. The company's real estate portfolio continued to be on higher side and constituted 38% of total portfolio outstanding as on March 31, 2017 (P.Y.: 40%).

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for short-term instruments
Non-Banking Finance Companies
Financial ratios - Financial Sector

About the Company

IndoStar Capital Finance Ltd. (ICF) is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking NBFC. It was originally incorporated as R. V. Vyapar Pvt. Ltd. on July 21, 2009 and the company was renamed as 'IndoStar Capital Finance Pvt. Ltd.' on November 15, 2010. The company however started disbursements from Q1FY12 (refers to the period April 01 to June 30). The company was converted into a public limited company on May 28, 2014 and consequently its name was changed to 'IndoStar Capital Finance Limited. ICF had been established by global financial institutions including Goldman Sachs, Ashmore group PLC, Everstone Capital, Baer Capital Partners and ACP Investments with the objective of developing an independent wholesale lending institution in India. During FY15, Ashmore Group PLC exited ICF with its stake being acquired by Everstone and ACP Investments. The promoters hold their stake in ICF through IndoStar Capital, Mauritius which holds 90.74% stake in the company as on 31.03.2017. ICF is engaged mainly into wholesale lending with products ranging from corporate finance, developer financing, working capital financing,

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acquisition financing & loan against shares. The company has recently also started SME- loans against property (LAP), wherein Small and Medium Enterprises would be given business loans against security of the property. The company plans to start CV financing going forward, it is in the process of put in place the team and infrastructure for the same. ICF's loan portfolio and tangible networth stood at Rs.5,145 crore and Rs.1,882 crore respectively as on March 31, 2017. Previously the company was under the management of Mr Vimal Bhandhari, he is continued on Board. In his place, Mr Shridhar has joined as a CEO who was associated with Shriram Group since 1985 and served as Managing Director & CEO of STFC from 2000-2012.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7-364 days	1750.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	1500.00	CARE A1+	1)CARE A1+ (12-Jun-17)	1)CARE A1+ (30-Dec-16) 2)CARE A1+ (19-Aug-16) 3)CARE A1+ (07-Jul-16)	1)CARE A1+ (14-Oct-15) 2)CARE A1+ (13-Jul-15)	1)CARE A1+ (09-Jan-15) 2)CARE A1+ (30-Jul-14)

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