

March 04, 2022

Indostar Home Finance Private Limited: Provisional [ICRA]AAA(SO) assigned to SN Series A backed by home loan and loan against property loan receivables issued by Star HFC Trust Feb 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Star HFC Trust Feb 2022	SN Series A	108.37	Provisional [ICRA]AAA(SO); Assigned

*Instrument details are provided in Annexure-1

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 securitisation notes (SNs) issued under a securitisation transaction originated by Indostar Home Finance Private Limited (IHFPL; rated [ICRA]A1+). The SNs are backed by future receivables of Rs. 108.37 crore (principal amount; receivables of Rs. 256.21 crore) of home loans (HL) and loan against property (LAP).

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 8.00% of the pool principal to be provided by IHFPL (originator), (ii) the entire excess interest spread (EIS) 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 and CC
- Nil overdue contracts as on the pool cut-off date
- Moderate weighted average seasoning of ~20 months
- High share of contracts in pool with a CIBIL score of more than 700 (~93%)

Credit challenges

- High geographical concentration with share of top state at ~35%
- SN yield for the pools is linked to an external benchmark while interest rate on the underlying loans is linked to originator's lending rate, leading to a basis risk in the structure
- Pool's performance will remain exposed to any disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the Securitisation Notes (SN) investors. As per the transaction structure, the scheduled cash flow promised to the SN investors on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The excess available after meeting the

promised and expected payouts to the SNs will be passed on to the originator every month. The pool amortisation schedule and thus the promised payouts to the SN investors are subject to modification on account of prepayments.

The first line of support for SN Series A in the transaction is in the form of the EIS in the structure. A CC of 8.00% of the initial pool principal (Rs. 8.67 crore), to be provided by IHFPL, would act as further CE in the transaction. In case of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall. The residual EIS (after meeting scheduled SN payout and top up of CC, if any, in any month) would leak out to the originator. The final maturity date for the SNs is July 13, 2051.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is moderate at 20.0 months as on the pool cut-off date (January 31, 2022). Further, most of the loan contracts (93.3%) in the pool have a CIBIL score of more than 700. The pool has high geographical concentration with the top state contributing 35.5% to the initial pool principal amount. The SN yield for the pools is linked to an external benchmark, while the interest rate on the underlying loans is linked to the originator's lending rate, leading to a basis risk in the structure. Also, the pool's performance would remain exposed to disruptions caused by the pandemic.

Past rated pools: ICRA has one live securitisation transaction for IHFPL. The pool has completed two payouts and the performance has been good with the cumulative collection efficiency at 99%.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) 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 the 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 4.5-5.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0-20.0% per annum.

Liquidity position: Superior

The cash collections and the credit collateral available in the transaction are expected to be highly comfortable to meet the SN Series A investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the SN payouts for more than 36 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded based 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 or weakening of the credit profile of the originator/ servicer.

Analytical approach

The rating action is based on the analysis of the performance of IHFPL's HL and LAP portfolio till December 2021, 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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

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 Ratings available at www.icra.in.

About the company

Incorporated in January 2016, Indostar Home Finance Private Limited (IHFPL) is a housing finance company (HFC). It is a wholly-owned subsidiary of IndoStar Capital Finance Limited (ICFL). IHFPL offers housing loans with a focus on the affordable housing segment, with ticket sizes ranging from Rs. 3 lakh to Rs. 30 lakh. The loan book is currently equally split between the salaried and self-employed segments with 82% of the loan book concentrated in four states, i.e. Tamil Nadu, Maharashtra, Andhra Pradesh and Telangana. While ~57% of the loan book has a tenor of over 15 years, ~26% of the exposures have a loan-to-value (LTV) of less than 70%. For its portfolio, 65% of the sourcing is through the direct sales team and 35% through the DSA channel.

In FY2021, IHFPL reported a net profit of Rs. 27.95 crore on an asset base of Rs. 890.34 crore against a net profit of Rs. 14.20 crore on an asset base of Rs. 793.51 crore in FY2020.

Key financial indicators

IHFPL	FY2019 (audited)	FY2020 (audited)	9M FY2021 (provisional)
Profit after tax	(19)	14	34
Loan book (AUM)	530	753	753
Gross NPA	0.1%	0.7%	1.5%
Net NPA	0.3%	2.7%	5.1%

IndoStar Capital Finance Limited (ICFL)

Indostar Capital Finance Limited (ICFL) was originally incorporated as R V Vyapaar Private Ltd. in July 2009. The company's name was changed to IndoStar Capital Finance Private Limited in November 2010 and to IndoStar Capital Finance Limited in April 2014. The company is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit accepting non-banking financial company. It is sponsored by a group of financial institutions including Everstone Capital, Goldman Sachs Group, Baer Capital Partners and ACPI Investment Managers.

As on December 31, 2021, Brookfield held a 56% stake in ICFL, followed by Indostar Capital Mauritius at 33% (including ECP II & ECP III). The Brookfield Group invested Rs. 1,225 crore in ICFL (through BCP V Multiple Holdings Pte Ltd) in May 2020 to become the company's largest shareholder and co-promoter. ICFL was originally established by a group of financial institutions including Everstone Capital, Goldman Sachs, Baer Capital Partners, CDIB Capital and ACPI Investment Managers through Indostar Capital Mauritius with an initial capital of about Rs. 900 crore. Subsequently, the company got listed on stock exchanges in May 2018 and received a fresh equity infusion of Rs. 700 crore.

ICFL initially provided wholesale loans to the real estate and non-real estate segments. It commenced commercial vehicle (CV) financing in addition to small and medium enterprise (SME) financing. The company also provides housing finance through its fully-owned subsidiary – IHFPL. On a consolidated basis, ICFL reported a net loss of Rs. 214 crore in FY2021 on assets under management (AUM) of about Rs. 8,938 crore compared to a net loss of Rs. 324 crore on AUM of Rs. 9,690 crore in FY2020. In 9M FY2022, the company reported a profit after tax (PAT) of Rs. 17 crore against a PAT of Rs. 103 crore in 9M FY2021.

Key financial indicators

ICFL	FY2020 (audited)	FY2021 (audited)	9M FY2022 (provisional)
Total revenues	738	581	436
Profit after tax	(324)	(214)	17
Loan book (AUM)	9,690	8,398	9,236
Gross stage 3 (%)	4.8%	4.4%	4.3%
Net stage 3 (%)	3.8%	2.1%	2.3%

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 04 2022	-	-	-
1	Star HFC Trust Feb 2022	SN Series A	108.37	108.37	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
SN Series A	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Star HFC Trust Feb 2022	SN Series A	February 2022	7.31%#	July 2051	108.37	Provisional [ICRA]AAA(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

1-year marginal cost of funds based lending rate (MCLR) + 0.03%

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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

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