

August 05, 2022

Indostar Home Finance Private Limited: Rating confirmed as final for SNs backed by home loan and loan against property loan receivables

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

In March 2022, ICRA had assigned Provisional [ICRA]AAA(SO) rating to securitization note (SN) Series A issued by Star HFC Trust Feb 2022. The SNs are backed by loan receivables of a Rs. 256.21-crore pool (pool principal, receivables of Rs. 108.37 crore) of home loans (HL) and loan against property (LAP) originated by Indostar Home Finance Private Limited [IHFPL, rated [ICRA]A1+@¹(rating put on watch with negative implications)]. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final. A summary of the pool performance after the June 2022 payout is shown in the table below:

Parameter	Star HFC Trust Feb 2022
Months post securitisation	4
Pool amortisation	7.25%
SN Amortisation	7.25%
Cumulative collection efficiency (including advance collections)	99.36%
Loss-cum-0+ dpd	2.19%
Loss cum 90+ dpd	0.00%
Cumulative Prepayment rate	6.35%
Cumulative cash collateral (CC) utilisation	0.00%

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 as on cut off date
- High share of contracts in pool with a CIBIL score of more than 700 (~93% of the initial pool principal)

Credit challenges

- High geographical concentration with share of top state at ~35%
- SN yield for the pool 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

¹. The latest rating rationale of IHFPL is available at the following link: [Click here](#)

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been 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), is 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 five payouts and the performance has been good with the cumulative collection efficiency at above 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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

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 (Indostar). IHFPL offers housing loans with a focus on the affordable housing segment, with ticket sizes ranging from Rs. 3 lakh to Rs. 30 lakh. As of December 31, 2021, IHFPL's on-book loan portfolio stood at Rs. 1,091 crore compared to Rs. 846 crore in March 2021 and Rs. 748 crore in March 2020. The loan book is currently equally split between the salaried and self-employed segments with 84% of the loan book concentrated in four states, i.e. Tamil Nadu, Maharashtra, Andhra Pradesh and Telangana. In FY2021, the company reported a net profit of Rs. 28 crore on an asset base of about Rs. 906 crore compared to a net profit of Rs. 14 crore on an asset base of Rs. 800 crore in FY2020. In 9M FY2022, the company reported a net profit of Rs. 20 crore on an asset base of about Rs. 1,159 crore.

Key financial indicators

IHFPL	FY2021 (audited)	9M FY2022 (provisional)
Profit after tax (Rs. Crore)	28	20
Net worth (Rs. Crore)	215	485
Gross Loan Book (Rs. Crore)	846	1091
Gross NPA (%)	1.8%	2.6%
Net NPA (%)	1.4%	1.9%

IndoStar Capital Finance Limited (ICFL)

IndoStar Capital Finance Limited (Indostar) is a systemically important non-banking financial company (NBFC). It offers vehicle finance for new and used vehicles, loans to small-to-medium-size enterprises, long-term wholesale funding to corporates (defocused), and home finance through its wholly-owned subsidiary Indostar Home Finance Private Limited (IHFPL). As of December 31, 2021, the assets under Indostar's management (at consolidated level) aggregated Rs. 9,236 crore with 49% share of commercial vehicle (CV) finance book, 20% share of SME finance, 13% share of housing finance book, 16% share of real estate corporate funding segment, and 2% share of non-real estate corporate funding.

While Indostar commenced lending operations in 2011 with a primary focus on wholesale lending, it ventured into SME finance in FY2015, followed by used and new vehicle financing for transporters and loans to SME borrowers in FY2018. The proportion of CV financing increased substantially (to 44% in Dec-19 from 9% in Sep-18) post the acquisition of Rs. 3,514-crore CV portfolio (AUM basis) from IIFL Finance in March 2019. With the acquisition of the CV portfolio from IIFL Finance, the branch network of the company also increased from 161 branches to 322 branches, before being rationalized/consolidated subsequently. As of December 31, 2021, the company's branch network comprised of 343 branches across 21 states.

As on December 31, 2021, Brookfield held 56% stake in Indostar, followed by IndoStar Capital Mauritius at 33% (including ECP II & ECP III). Brookfield Group invested Rs 1,225 crore in Indostar (through BCP V Multiple Holdings Pte Ltd) in May 2020 to become the largest shareholder and co-promoter of the company. Indostar 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. In FY2021, the company on a standalone basis reported a net loss of Rs. 241 crore on an asset base of about Rs. 10,172 crore compared to a net loss of Rs. 340 crore on an asset base of Rs. 10,338 crore in FY2020. In 9MFY2022, the company has reported a net loss of Rs. 2 crore. On a consolidated basis, the Group reported a net loss of Rs. 214 crore in FY2021 on an asset base of about Rs. 10,480 crore compared to a net loss of Rs. 325 crore on an asset base of Rs. 10,408 crore in FY2020. In 9MFY2022, the company, on a consolidated level, reported a net profit of Rs. 17 crore on an on-book asset base of about Rs. 10,014 crore

Key financial indicators (consolidated)

ICFL	FY2021 (audited)	9M FY2022 (provisional)
Profit after tax (Rs. Crore)	(214)	17
Adjusted* Net Worth (Rs. Crore)	3,398	3,378
Loan book (AUM) (Rs. Crore)	8,990	9,236
Gross stage 3 (%)	4.3%	4.3%
Net stage 3 (%)	2.0%	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 (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					August 05, 2022	March 04, 2022	-	-
1	Star HFC Trust Feb 2022	SN Series A	108.37	108.37	[ICRA]AAA(SO)	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	[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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