

January 05, 2023

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Star HFC Trust Nov 2022	Series A PTCs	74.02	Provisional [ICRA]AAA(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of 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 Indostar Home Finance Private Limited (IHFPL; rated [ICRA]A1+@). The PTCs are backed by future receivables of Rs. 74.02 crore (principal amount; receivables of Rs. 179.30 crore) of home loans (HLs) 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) of 101.9% 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 pool cut-off date
- High share (~91%) of contracts in pool with CIBIL score of more than 700

Credit challenges

- High geographical concentration with share of top states (Andhra Pradesh (AP) and Telangana) at ~48%
- PTC yield for the pool is linked to an external benchmark while interest rate on the underlying loans is linked to the originator's lending rate, leading to a basis risk in the structure
- Performance of the pool would remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

According to the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A is promised on the final maturity date (May 14, 2047). The surplus EIS available after meeting the promised and expected payouts to the PTCs will

be used towards the accelerated redemption of PTC Series A. The pool amortisation schedule and thus the promised payouts to the PTC investors are subject to modification on account of prepayments.

The first line of support for PTC Series A in the transaction is in the form of the EIS of 101.9% of the initial pool principal in the structure. The EIS is higher due to the turbo amortisation feature, which implies that the residual EIS will be used to prepay the principal amount due to the PTCs. A CC of 8.00% of the initial pool principal (Rs. 5.92 crore), to be provided by IHFPL, would act as further CE in the transaction. In case of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall. The final maturity date for the PTCs is May 14, 2047.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 9.09 months as on the pool cut-off date (November 30, 2022). Further, most of the loan contracts (91.2%) in the pool have a CIBIL score of more than 700. The pool has high geographical concentration with the top states – Telangana and AP – contributing 48.3% to the initial pool principal amount. The PTC 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 macroeconomic shocks/business disruptions.

Past rated pools: ICRA has two live securitisation transaction for IHFPL. The pools have performed well with a cumulative collection efficiency of more than 99% as of the October 2022 payout date and no instance of CC utilisation till date.

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 4.0-5.0%, with certain variability around it. The average prepayment rate in the pool is assumed to be 16.0% p.a. basis the trend seen in the industry and the initial trend in the portfolio. ICRA has also factored in IHFPL's track record in the mortgage business.

Liquidity position: Superior

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A PTC investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded 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 the 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 portfolios till September 2022, 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. 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, 2020, IHFPL's on-book loan portfolio stood at Rs. 753 crore compared to Rs. 530 crore in March 2019 (Rs. 753 crore in March 2020) and Rs. 51 crore in March 2018. 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%. The direct sales team sources 65% of the portfolio while 35% is sourced through the direct sales agent (DSA) channel. In H1 FY2023, IHFPL reported a net profit of Rs. 29.42 crore on an asset base of about Rs. 1,315.08 crore.

Key financial indicators

Consolidated	FY2021	FY2022	H1 FY2023*
Total income	134	145	113
Profit after tax	28	34	29
Assets under management	996	1,406	1,494
Gross non-performing assets (NPA)	1.8%	1.8%	1.4%
Net NPA	1.4%	1.2%	1.1%

Source: Company data, ICRA Research; Amount in Rs. crore; *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1 Star HFC Trust Nov 2022	Series A PTCs	74.02	74.02	January 5, 2023 Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A PTCs	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
Star HFC Trust Nov 2022	Series A PTCs	December 2022	8.95%#	May 2047	74.02	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 II: List of entities considered for consolidated analysis

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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.

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