

February 28, 2023

Indostar Home Finance Private Limited: Rating reaffirmed for PTCs issued under home loan and loan against property securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount O/s after Dec-22 Payout (Rs. crore)	Rating Action
Star HFC Trust Dec21	PTC Series A	115.33	NA	85.01	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of home loan receivables originated by Indostar Home Finance Private Limited (IHFPPL; rated [ICRA]A1@). The rating has been reaffirmed on account of the pool amortisation, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The rating draws comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the January 2023 payout month.

Pool performance summary

A summary of the performance of the pool till January 2023 payout month has been tabulated below.

Parameter	Star HFC Trust Dec21
Months post securitisation	13
Pool Amortisation	26.31%
PTC Amortisation	26.29%
Cumulative collection efficiency ¹	99.87%
Loss-cum-90+ (% of initial pool principal) ²	0.07%
Loss-cum-180+ (% of initial pool principal) ³	0.00%
Breakeven collection efficiency ⁴	71.77%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	10.86%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	56.38%
Cumulative prepayment rate ⁵	23.06%

Key rating drivers

Credit strengths

- Pool amortisation resulting in build-up of CE available for the balance PTC payouts
- Low delinquency level exhibited by the pool

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

² POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

³ POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool

⁴ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows

⁵ POS at the time of prepayment of contracts prepaid till date / Initial pool principal

Credit challenges

- PTC Yield is linked to an external benchmark while interest rate on the underlying loans is linked to originator's lending rate -which leads to a basis risk in the structure
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

The scheduled cash flow promised to the PTC investors on each payout date includes 100% of the monthly billed principal on the pool and the interest at the contracted yield. The PTC yield for the pool is linked to an external benchmark while the interest rate on the underlying loans is linked to originator's lending rate, leading to a basis risk in the structure. The performance of the pool has been healthy with a cumulative collection efficiency of 99.9% (till January 2022 payout). Any shortfall in the collections has been absorbed by the EIS in the structure and there has been no CC utilisation in the transaction till the January 2023 payouts. The loss cum 90+ dpd has been low at 0.07% and average prepayment rate has been 1.8%. The pool has amortised by 26.3%. Thus, there has been some buildup of CE with respect to the balance pool principal.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Performance of past rated pools: ICRA has rated three transactions of IHFPL, backed by home loan and loan against property receivables. The performance of the live pools has been robust with a cumulative collection efficiency of more than 99%, loss-cum-90+ of sub-0.5% and nil CC utilisation as of the January 2023 payout month.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools, and the performance and 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 the aforementioned adjustments, the expected loss and prepayments during the balance tenure of the pool are expected to be in the range of 2.75-3.75% (as % of initial pool principal) and 6.0-20.0%, respectively.

Liquidity position: Superior

The liquidity of the PTCs is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of cash collateral available at ~11% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the PTC payouts for a period of more than 21 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors

Sustained weak collection performance of the underlying pool leading to higher than expected delinquency levels and CE utilization levels

Analytical approach

The rating action is based on the performance of the pool till December 2022 (collection month), the present delinquency profile of the pool, the CE available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

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

	FY2021	FY2022	H1 FY2023*
Total income	134	145	113
Profit after tax	28	34	29
Assets under management	996	1,406	1,494
Gross stage 3 assets (on-book)	1.8%	1.8%	1.4%
Net stage 3 assets (on-book)	1.4%	1.2%	1.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore *Unaudited

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			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					February 28, 2023	February 25, 2022		
1 Star HFC Trust Dec21	PTC Series A	115.33	85.01	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Star HFC Trust Dec21	PTC 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Trust Name	Instrument Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Star HFC Trust Dec21	PTC Series A	December 2021	Floating; Linked to 1-year MCLR of investor	May 2046	85.01	[ICRA]AAA(SO)

**Based on scheduled maturity of the pool's contracts; may change on account of prepayment and yield change. The weighted average life of the pool, after considering prepayments, is expected to be much lower at around 8-10 years*

Annexure II: List of entities considered for consolidated analysis

Not applicable

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