

May 10, 2023

Indostar Home Finance Private Limited: Rating confirmed as final for PTCs issued under a home loan and loan against property receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Star HFC PTC Trust Jan 2023	Series A1 PTC	58.15	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2023, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to Series A1 PTC issued by Star HFC PTC Trust Jan 2023. The pass-through certificates (PTCs) are backed by a pool of Rs. 67.62 crore (pool principal; receivables of Rs. 149.59 crore) of home loan (HL) and loan against property (LAP) receivables originated by Indostar Home Finance Private Limited (IHFPPL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the March 2023 collection month (April 2023 payouts) is shown in the table below.

Parameter	Star HFC PTC Trust Jan 2023
Months post securitisation	1
Pool amortisation	2.50%
Series A1 PTC amortisation	5.04%
Cumulative collection efficiency	99.93%
Cumulative prepayment rate	1.79%
Loss-cum-0+ dpd	0.14%
Loss-cum-30+ dpd	0.00%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of over collateral (OC), excess interest spread (EIS) and cash collateral (CC)
- Nil overdue contracts as on the pool cut-off date
- High share of contracts (~77%) in the pool with a CIBIL score of more than 700 as on cut off date

Credit challenges

- High geographical concentration with share of top state (Tamil Nadu) at ~74% in the initial pool principal
- 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 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

According to the transaction structure, the loan pool receivables were assigned at par to the PTC investors. The monthly cash flow schedule comprises the promised interest payment to Series A1 PTC at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTC is promised on the final maturity date (May 17, 2042). The surplus EIS

available after meeting the promised and expected payouts to the PTCs will be used towards the accelerated redemption of Series A1 PTC. The pool amortisation schedule and the promised payouts to the PTC investors are subject to modification on account of prepayments.

EIS of 96.38% of the initial pool principal is available 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. Series A1 PTC is further supported by subordination in the form of an equity tranche of 2.00% and OC of 12.00% of the pool principal. A CC of 3.00% of the initial pool principal (Rs. 2.03 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 same.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is 10.75 months as on the pool cut-off date (January 31, 2023). Further, most of the loan contracts (77.0%) in the pool have a CIBIL score of more than 700. The pool has high geographical concentration with the top state, Tamil Nadu, contributing 74.3% to the initial pool principal amount. The PTC yield for the pool 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, if any.

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

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 3.75-4.75%, 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 A1 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 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 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. In 9MFY2023, IHFPL reported a profit after tax of Rs. ~35 crore on an asset base of ~Rs. 1,526 crore.

Key financial indicators

	FY2021	FY2022	9MFY2023*
Total income	134	145	111
Profit after tax	28	34	35
Assets under management	996	1,406	1,526
Gross non-performing assets (NPA)	1.8%	1.8%	1.7%
Net NPA	1.4%	1.2%	1.2%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				May 10, 2023	Match 29, 2023	-	-
1 Star HFC PTC Trust Jan 2023	Series A1 PTC	58.15	58.15	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Star HFC PTC Trust Jan 2023	Series A1 PTC	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 PTC Trust Jan 2023	Series A1 PTC	March 2023	9.25%#	May 2042	58.15	[ICRA]AAA(SO)

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

linked to DCB i.e., investor's EBLR rate

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Himanshi Doshi

+91 22 61143410

himanshi.doshi@icraindia.com

Vishal Oza

+91 22 6114 3432

vishal.oza@icraindia.com

Sachin Joglekar

+91 22 61143470

sachin.joglekar@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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