

June 28, 2023

Indostar Home Finance Private Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 PTCs backed by home loan and loan against property loan receivables issued by Star HFC PTC Trust June 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Star HFC PTC Trust Jun 2023	Series A1 PTCs	77.14	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 (IHFPPL). The PTCs are backed by future receivables of Rs. 187.60 crore (principal amount; receivables of Rs. 87.66 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 3.00% of the pool principal to be provided by the Originator, (ii) equity tranche of 2.00% and over collateral (OC) of 10.00% of the pool principal and (iii) excess interest spread (EIS) of 89.77% of the initial pool principal in the structure; and 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 credit enhancement in the form of OC, EIS and CC
- Nil overdue contracts as on the pool cut-off date
- High share of contracts (~90%) in the initial pool having CIBIL score of more than 700

Credit challenges

- High geographical concentration with share of top state (Tamil Nadu) comprising ~69% of initial pool principal
- PTC yield for the pool 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 macroeconomic shocks/business disruptions, if any.

Description of key rating drivers highlighted above

According to the transaction structure, the Trust would issue single series of PTCs backed by the securitised loan receivables. The upfront purchase consideration to be paid by Series A1 PTCs to the trustee will be 88% of the pool principal (Rs. 77.14 crore). The monthly cash flow schedule comprises the promised interest payment to Series A1 PTCs at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTCs is promised on the final maturity date (December 17, 2037). The surplus EIS available after meeting the promised and expected payouts to the PTCs will be used

towards the accelerated redemption of Series A1 PTCs. The pool amortisation schedule and thus, the promised payouts to the PTC investors are subject to modification on account of prepayments.

There is presence of EIS of ~90% 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. Series A1 PTCs are further supported by subordination in the form of equity tranche of 2% and OC of 10% of the pool principal. A CC of 3% of the initial pool principal (Rs. 2.6 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.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is ~9 months as on the pool cut-off date. Further, most of the loan contracts (~90%) in the pool have a CIBIL score of more than 700. The pool has high geographical concentration with the top state – Tamil Nadu contributing ~69% 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, if any.

Past rated pools: ICRA has previously rated four securitisation transactions with underlying receivables originated by IHFPL. The performance of these pools has been healthy with cumulative collection efficiency above 99% as of May 2023 payout month. The delinquency in 90+ has been below 0.5% and nil CC utilisation till May 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 3.25-4.25%, with certain variability around it. The average prepayment rate in the pool is assumed to be 16.0% p.a.

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 highly comfortable to meet the promised payouts to the Series A1 PTCs' 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.

Analytical approach

The rating action is based on the analysis of the performance of IHFPL's HL and LAP portfolios till March 2023, 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 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 (IndoStar). IHFPL offers housing loans with a focus on the affordable housing segment, with average ticket size of Rs. 8.9 lakh. As of March 31, 2023, the gross loan book stood at Rs. 1,623 crore compared to Rs. 1,406 crore in March 2022 and Rs. 996 crore in March 2021.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	FY2023
Total revenue	134	145	209
Profit after tax	28	34	38
Gross Loan Book	996	1,406	1,623
Gross Stage 3 (%)	1.8%	1.8%	1.3%
Net Stage 3 (%)	1.4%	1.2%	0.9%

Source: Company data, ICRA Research; investor presentation; 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
				June 28, 2023	-	-	-
1 Star HFC PTC Trust Jun 2023	Series A1 PTCs	77.14	77.14	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	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 Jun 2023	Series A1 PTCs	June 2023	9.35%#	December 2037	77.14	Provisional [ICRA]AAA(SO)

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

#linked to investor's EBLR minus 1.59%

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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