

September 18, 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* | Initial rated amount (Rs. crore) | Current rated amount (Rs. crore) | Rating Action |
|-----------------------------|----------------|----------------------------------|----------------------------------|--|
| Star HFC PTC Trust Jun 2023 | Series A1 PTCs | 77.14 | 77.14 | [ICRA]AAA(SO); provisional rating confirmed as final |

*Instrument details are provided in Annexure I

Rationale

In June 2023, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to Series A1 PTCs issued by Star HFC PTC Trust Jun 2023. The pass-through certificates (PTCs) are backed by a pool of Rs. 87.66 crore (pool principal; receivables of Rs. 187.60 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 July 2023 collection month (August 2023 payouts) is shown in the table below.

| Parameter | Star HFC PTC Trust Jun 2023 |
|--|-----------------------------|
| Months post securitisation | 1 |
| Pool amortisation | 2.6% |
| Series A1 PTCs amortisation | 6.2% |
| Cumulative collection efficiency | 99.6% |
| Cumulative prepayment rate | 1.2% |
| Loss-cum-0+ dpd | 1.0% |
| Loss-cum-30+ dpd | 0.1% |
| Loss-cum-90+ dpd | 0.0% |
| Cumulative cash collateral utilisation | 0.0% |

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 (~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 over collateral (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 were 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 rated five 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 August 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 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 whollyowned subsidiary of IndoStar Capital Finance Limited (IndoStar). IHFPL offers housing loans with a focus on the affordable housing segment and has an 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

| | FY2021 | FY2022 | FY2023 |
|-----------------------------------|--------|--------|--------|
| Total income | 134 | 145 | 209 |
| Profit after tax | 28 | 34 | 38 |
| Assets under management | 996 | 1,406 | 1,623 |
| Gross non-performing assets (NPA) | 1.8% | 1.8% | 1.3% |
| Net NPA | 1.4% | 1.2% | 0.9% |

Source: Company data, ICRA Research; 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 | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | |
|-------------------------------|----------------|--------------------------|--------------------------------|-------------------------|---------------------------|---|-------------------------|-------------------------|
| | | | | Date & Rating in FY2024 | | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | September 18, 2023 | June 28, 2023 | - | - | - |
| 1 Star HFC PTC Trust Jun 2023 | Series A1 PTCs | 77.14 | 77.14 | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - | - | - |

Complexity level of the rated instrument

| Trust Name | Instrument | Complexity Indicator |
|-----------------------------|----------------|----------------------|
| Star HFC PTC Trust Jun 2023 | 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 | [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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