

October 01, 2024

## Indostar Home Finance Private Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 PTCs backed by a pool of home loan receivables

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
STAR HFC TRUST SEPT 2024	Series A1 PTCs	102.74	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

The pass-through certificates (PTCs) are backed by a pool of home loan receivables originated by Indostar Home Finance Private Limited (IHFPL/Originator) with an aggregate principal outstanding of Rs. 108.15 crore (pool receivables of Rs. 258.72 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will be used towards the accelerated redemption of Series A1 PTCs.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.00% of the initial pool principal, amounting to Rs. 3.24 crore, to be provided by the Originator, (ii) principal subordination of 5.00% of the initial pool principal for Series A1 PTCs, and (iii) the excess interest spread (EIS) of 105.26% of the initial pool principal for Series A1 PTCs.

### Key rating drivers and their description

#### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 1,119 contracts, with no contract exceeding 1% of the pool principal (top 10 contracts formed only ~3% of the pool principal), thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

**Contracts backed by self-occupied residential properties** – All the contracts in the pool are self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during stressed financial periods.

**No overdue contracts in the pool** – The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, ~99% of the contracts in the pool have never been delinquent during their loan cycle, which is a credit positive.

**Healthy bureau score of borrowers** – Around 60% of the borrowers (in terms of the principal amount outstanding on the cut-off date) in the pool have a CIBIL score of at least 700, which reflects their relatively better credit profile.

### **Credit challenges**

**Exposed to interest rate risk** – The pool is exposed to interest rate risk as the yield on almost the entire pool is floating whereas the yield on the PTCs is fixed. This exposes the transaction to interest rate risk.

**Risks associated with lending business** – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

### **Key rating assumptions**

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% of the pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6.0% to 20.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

### **Liquidity position: Superior**

The liquidity for Series A1 PTCs is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 10 times the estimated loss in the pool.

### **Rating sensitivities**

**Positive factors** – Not applicable

**Negative factors** – The sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, could result in a rating downgrade. Weakening in the credit profile of the servicer (IHFPL) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the analysis of the performance of IHFPL's home loan portfolio till June 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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](http://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 and loan against property (LAP) to retail customers in tier 2 to tier 4 cities in India with a focus on the affordable housing segment. The average ticket size was Rs. 9 lakh as of June 2024. The company has supported over 39,000 low-income homeowners and small businesses. As of June 30, 2024, the gross loan book stood at Rs. 2,395 crore compared to Rs. 1,623 crore in March 2023. The loan book is currently split equally between the salaried and self-employed segments while 84% is concentrated in four states, i.e. Tamil Nadu, Maharashtra, Andhra Pradesh and Telangana.

## Key financial indicators (standalone)

IHFPL	FY2023 (audited)	FY2024 (audited)	Q1 FY2025 (unaudited)
Total revenue	209	290	85
PAT	38	44	14
Gross loan book	1,623	2,269	2,395
Gross stage 3	1.3%	1.1%	1.3%
CRAR	80.5%	57.4%	56.2%

Source: 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

S. No.	Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Oct 01, 2024	-	-	-
1	STAR HFC TRUST SEPT 2024	Series A1 PTCs	102.74	Provisional [ICRA]AAA(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 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**

ISIN	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	STAR HFC TRUST SEPT 2024	Series A1 PTCs	September 30, 2024	8.35%	April 21, 2052	102.74	Provisional [ICRA]AAA(SO)

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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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.

For more information, visit [www.icra.in](http://www.icra.in)

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