

August 04, 2023

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

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous surveillance Exercise (Rs. crore)	Amount O/s after Jul-23 Payout (Rs. crore)	Rating Action
Star HFC Trust Feb 2022	SN Series A	108.37	NA	76.64	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The securitisation notes (SNs) are backed by a pool of home loan and loan against property receivables originated by Indostar Home Finance Private Limited (IHFPPL). 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 SN payouts. The rating draws strength from the breakeven collection efficiency, which is comfortable compared to the actual collection level observed in the pool till the July 2023 payout month.

Pool performance summary

A summary of the performance of the pool till the June 2023 collection (July 2023 payout) month has been tabulated below.

Parameter	Star HFC Trust Feb 2022
Months post securitisation	17
Pool amortisation	29.28%
SN amortisation	29.28%
Cumulative collection efficiency ¹	99.56%
Loss-cum-90+ (% of initial pool principal) ²	0.48%
Loss-cum-180+ (% of initial pool principal) ³	0.11%
Breakeven collection efficiency ⁴	73.01%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	11.31%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	54.24%
Cumulative prepayment rate ⁵	25.94%

Key rating drivers

Credit strengths

- Pool amortisation, resulting in build-up of credit enhancement available for balance SN 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

- SN 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

The pool's performance has been healthy with a cumulative collection efficiency of more than 99% and the loss-cum-90+ days past due (dpd) at ~0.5% as of the July 2023 payout month. Any shortfall in collections has been absorbed by the excess interest spread (EIS) in the transaction with no cash collateral (CC) utilisation till the July 2023 payout month. Healthy collections and moderate pool amortisation have led to the build-up of the CE in the pool. The breakeven collection efficiency is lower compared to the actual collection level reported till the July 2023 payout month. The SN 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 basis risk in the structure. The EIS has declined in the past few months as the increase in the SN yield was higher compared to the pool yield. Further, the pool's performance would remain exposed to any macroeconomic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the pool's performance and the availability of CE relative to ICRA's expectations.

Performance of 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 98% and nil CC utilisation as of the July 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 3.5-4.5% (as a percentage of the initial pool principal) and 6.0-20.0%, respectively.

Liquidity position: Superior

The liquidity position is expected to be superior as the collections from the pool and the available credit collateral are expected to be highly comfortable to meet the balance SN payouts. Assuming a monthly collection efficiency of 50% in the underlying pool of contracts in the current stress scenario, the available credit collateral is expected to be highly comfortable to meet the promised payouts to the SN investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors - The ratings could be downgraded based on sustained weak collection performance of the underlying pool leading to higher-than-expected delinquency levels and credit enhancement utilization levels.

Analytical approach

The rating action is based on the performance of the pool till June 2023 (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 and the portfolio's performance till March 2023.

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 (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 (audited)

	FY2021	FY2022	FY2023
Total income	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; 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			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				August 04, 2023	August 5, 2022	March 04, 2022	-
1 Star HFC Trust Feb 2022	SN Series A	108.37	76.64	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Star HFC Trust Feb 2022	SN 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 Feb 2022	SN Series A	February 2022	Floating; Linked to 1-year MCLR of investor + 0.06%	July 2051	76.64	[ICRA]AAA(SO)

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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