February 22, 2021 Revised

IIFL Finance Limited: Rating confirmed as final to PTCs backed by gold loan receivables issued by Liquid Gold Series 4

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Liquid Gold Series 4	PTCs Series A	300.00	[ICRA]AA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In February 2021, ICRA had assigned Provisional [ICRA]AA(SO) rating to pass-through certificate (PTCs) Series A issued by Liquid Gold Series 4. The PTCs are backed by a pool of Rs. 384.29 crore gold loan receivables (underlying pool principal of Rs. 330.00 crore) (initial pool) originated by IIFL Finance Limited. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final.

As per the transaction structure the originator would assign follow-on pools to the trust during the replenishment period basis defined eligibility criteria. The amortisation of the PTCs would begin post crystallization of the pool either at end of replenishment period or on occurrence of trigger event. However, ICRA takes comfort from the defined eligibility criteria which is likely to ensure that the follow-on pools would have a better credit profile.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of subordination from cover pool, EIS and CC
- The current pool has no overdue contracts as on pool cut-off date. Further any follow-on pool would be having no overdue on date of assignment to trust.

Credit challenges

- The performance of the transaction would be exposed to performance of the follow-on pools which have a less stringent selection criteria
- Lower tail period for recovery for pool available at end of replenishing period
- Performance of the follow-on pools remain exposed to any prolonged economic slowdown due to the Covid-19 pandemic

Description of key rating drivers highlighted above

IIFL would assign the future receivables arising from the selected pool of loans to a special purpose vehicle (trust). The trust would issue single series of PTC Series A amounting to 90.91% of the total pool principal backed by the assigned loan against gold receivables.

The first line of support for Series A PTCs in the transaction is in the form of a subordination of 9.09% of the pool principal (includes over-collateralisation). The entire principal amount is promised to PTC Series A in a single bullet instalment on the scheduled maturity date.

A cash collateral of 6.00% of the initial pool principal provided by IIFL acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC monthly interest payouts and the PTC principal on the scheduled maturity date, the trustee will utilise the cash collateral to meet the shortfall. Additionally, the subordination and EIS available in the structure will provide credit enhancement support. However, since the pool would be revised prior to the amortizing period the EIS is likely to undergo change depending on the yield of the underlying contracts in pool, though the presence of a minimum average pool yield as part of the pool selection criteria would mitigate this risk to some extent.

The legal maturity of the transaction is 36 months from the deemed date of allotment. IIFL will hold the security interest in trust for the benefit of the investors. The tenure of transaction shall be divided into two periods:

- Replenishment Period
- Amortisation Period

Replenishment Period:
During the replenishment period, the principal collections from the pool will be utilised to purchase additional receivables (or further receivables or fresh set of additional receivables) at monthly intervals. These receivables would be assigned to trust. The replenishment period will be for a period of 26 months from the transaction commencement date. During the replenishment period, PTC Series A investors will receive only the promised interest payouts on a monthly basis and from the available balance amount the trust will purchase fresh pools as per the selection criteria to maintain 1.1 times cover over PTCs outstanding.

Amortisation Period:
Post the replenishment period the residual pool collections, after meeting the promised interest payout to PTC investors, shall be used to make expected principal payouts to the PTC investors. However, the principal is 'promised' to the investors only on the legal final maturity date of the transaction. The transaction also entails certain trigger events for pool amortisation. A breach of any of these trigger events would result in the replenishment period coming to an end and start of the amortisation period. If a Trigger Event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables held by the Trust, plus an additional period of two months.

Additional or Further receivables
Pools of receivables that meet defined eligibility criteria will be purchased every month during the replenishment period. Within the replenishment period and unless a trigger event has occurred, the principal collections including part prepayment / foreclosures will be used to purchase the additional or further receivables from the Originator to maintain the required asset cover of 1.1 times.

Key eligibility criteria for the additional receivables
The further receivables identified shall be subject to the defined eligibility criteria which is summarized as below:

- Minimum Holding Period (MHP) of the pool contracts should be as per the criteria set under the RBI Securitization Guidelines;
- As on the Cut-off Date in relation to a pool of Identified Receivables, there are no overdues in the Loans forming part of such Identified Receivables.
- Contracts should not have been restructured or rescheduled;
- None of contracts will have maturity date beyond the PTC Series A final maturity date;

- Minimum IRR of any contract would be 12%, whereas the weighted average ROI of the pool will be 14%;
- The obligor concentration the pool should not be more than 2%.
- Weighted average residual tenure of the Loans for Additional Identified Receivables, being purchased would be such that it would be less than two months to the scheduled maturity date;

Key Trigger Events

Below are some of the key trigger events occurrence of which would lead to start of amortisation period of PTCs -

- Inability of the Seller to provide an additional pool meeting the eligibility criteria at any point in time
- Originator informing the Trustee in writing on any day after the expiry of twelve months from the first effective date, that it does not wish to sell any further loan assets to the Trust
- Investors holding Majority Interest informing the Trustee in writing that the Trust should not acquire any further loan assets from the originator
- 0+dpd crosses 8% and 60+dpd crosses 5% and/or 90+dpd crosses 1% in the identified receivables
- Utilization of the Cash Collateral in excess of 40%

Performance of past rated pools: ICRA has rated 32 PTC gold loan transactions of IIFL till date with the last PTC transaction rated in February 2021. All the pools, expect the pools rated post Oct-20, have fully matured. In all the matured pools the delinquencies had been low while prepayments have been high.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the shortfall in collections are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the characteristics of the current pool being evaluated. However, in the current transaction since the pool would be revised during the replenishment period the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at potential loss for the follow-on pools. Additionally, the assumptions may be adjusted to account for the current macroeconomic situation as well as any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the current pool as well follow-on pools is estimated to be 3.0-4.0% with certain variability around it.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts. The amortisation of PTCs will start after occurrence of trigger event or end of replenishing period 26 months and collected principal will be passed on to the investor on expected basis. Additionally, a cash collateral amounting to 6.00% of the pool principal amount is available in the transaction. The cash collateral is adequate to meet promised interest payouts due to the PTC investors for ~10 months, even in an unlikely scenario of no collections in the pool.

Rating sensitivities

Positive factors – Since the principal amortization would begin on crystallization of final pool, the rating is unlikely to be upgraded till the final pool is crystalized. The rating could be upgraded basis healthy collections observed in final crystalized pool leading to buildup of credit enhancement cover over the rated PTCs.

Negative factors - The rating could also be downgraded on occurrence of trigger event, non-adherence to the key transaction terms and deterioration in performance of follow-on pools.

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 company

IIFL Finance was a listed non-operating holding company with India Infoline Finance, a systemically important, non-deposit accepting non-banking financial company (NBFC-ND-SI), as its subsidiary. As a part of a merger scheme with the receipt of an NBFC licence by IIFL Finance Limited, India Infoline Finance was merged with IIFL Finance Limited with effect from March 30, 2020. IIFL along with its subsidiaries, IIFL Home Finance (registered as a housing finance company) and Samasta Microfinance Limited (registered as an NBFC-MFI) offers home loans, loan against property, MSME loans, gold loans, microfinance and real estate loans.

IIFL Finance Limited's consolidated net worth stood at Rs. 5,000 crore as on September 30, 2020. It reported a PAT of Rs. 503 crore in FY2020 on total assets of Rs. 34,341 crore compared to Rs. 796 crore and Rs. 33,239 crore, respectively, in FY2019. The company reported a PAT of Rs. 245 crore in H1 FY2021 on total assets of Rs. 35,314 crore as on September 30, 2020.

Key financial indicators (consolidated for IIFL Finance Limited)

	FY2019 (Audited)	FY2020 (Audited)	6M FY2021 (Unaudited)
Total revenues	5,085	4,821	2,810
Profit after tax	796	503	245
Net worth	4,359	4,766	5,000
Loan book (AUM)	34,904	37,951	40,843
Total assets	33,239	34,341	35,314
Gross NPA	2.0%	2.3%	1.8%
Net NPA	0.6%	1.0%	0.8%
Gearing (times)	6.2	5.8	5.8

Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 22, 2021	**Feb 17, 2021**	-	-	-
1	Liquid Gold Series 4	PTC Series A	300.00	300.00	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
Liquid Gold Series 4	PTC Series A	February 2021	7.72%	February 2024	300.00	[ICRA]AA(SO)

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

Source: *Company*

Corrigendum:
Document dated February 22, 2021 has been corrected with revision as detailed below:

- Change in heading of PR from “small business loan receivables” to “gold loan receivables” in the PR on page 1

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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

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