June 18, 2021

IIFL Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs issued under gold loan securitisation transaction – Liquid Gold Series 6

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Liquid Gold Series 6	PTC Series A	535.00	Provisional [ICRA]AAA(SO); assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) [pronounced provisional ICRA triple A (structured obligation)] rating to the PTC Series A issued under a securitisation transaction originated by IIFL Finance Limited (IIFL). The pass-through certificates (PTCs) are backed by a pool of Rs.716.07 crore gold loan receivables (underlying pool principal of Rs. 563.75 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, IIFL's track record in the loan against gold business, the available credit enhancement in the form of (i) a cash collateral (CC) of 7.00% of the pool principal to be provided by the originator, (ii) a subordination of 5.10% of the pool principal for PTC Series A, and (iii) the subordination of the excess interest spread (EIS) in the structure, as well as 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 subordination, EIS and CC
- No overdue contracts in the pool as on pool cut-off date

Credit challenges

- High share of longer tenure contracts in the pool
- Moderate loan-to-value (LTV) profile with high share of higher LTV contracts
- Pool performance will remain exposed to any fresh disruptions that may arise from 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 a single series of PTC Series A amounting to 94.90% 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 5.10% of the pool principal (includes over-collateralisation). All collections from the pool that exceed the promised monthly interest payout to the PTCs would be utilised to accelerate the amortisation of the PTCs. The scheduled PTC principal payout at the end of the monthly payouts will be revised accordingly. The entire principal amount is promised to PTC Series A in a single bullet instalment on the scheduled maturity date.

A CC of 7.00% 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 monthly interest payouts and the principal on the scheduled maturity date, the trustee will utilise the CC to meet the shortfall. Additionally, the subordination and EIS available in the structure will provide credit enhancement support.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have moderate seasoning with a weighted average seasoning of 3.3 months. It has a moderate LTV profile with an average LTV of around 68% at the time of loan disbursement. Around 88% of the pool has original tenure greater than 12 months. The pool has moderate geographical concentration with the top three states contributing around 47% to the pool principal. The performance of the pool will remain exposed to any fresh disruptions that may arise from the second wave of the Covid-19 pandemic.

Performance of past rated pools: ICRA has rated 34 PTC gold loan transactions of IIFL till date with the last PTC transaction rated in March 2021. All the pools, except the pools rated in H2FY2021, have fully matured. In all the matured pools, the delinquencies had been low while the prepayments were high. For all the live pools the loss cum 90+ dpd is zero with no instance of CC utilisation in any month.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (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. 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 is estimated at 2.5-3.5% with certain variability around it.

Liquidity position: Superior

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 to the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts. Additionally, a cash collateral is also available in the transaction. The available cash collateral is adequate to meet promised interest payouts due to the PTC investors for a period of nearly eleven months, even in an unlikely scenario of no collections in the pool.

Rating sensitivities

Positive factors – Not applicable as the instrument is rated at the highest level on the long-term scale.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts, leading to high delinquency levels and a decrease in the cover available for the future PTC payouts from the credit enhancement.

Analytical approach

The rating action is based on the analysis of the past performance of IIFL's loan against gold portfolio till March 2021 and the previously ICRA-rated pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement 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

About the company

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

Key financial indicators (consolidated for IIFL Finance Limited)

	FY2019 (Audited)	FY2020 (Audited)	FY2021 (Audited)
Total income	2,568	2,459	3,364
Profit after tax	795	504	761
Loan book (AUM)	34,904	37,951	44,668
Gross NPA	1.96%	2.31%	1.98%
Net NPA	0.63%	0.97%	0.89%

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Trust Name</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Instrument</th><th rowspan="2">Initial Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>June 18, 2021</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Liquid Gold Series 6</td><td>PTC Series A</td><td>535.00</td><td>535.00</td><td>Provisional [ICRA]AAA(SO)</td><td>-</td><td>-</td><td>-</td></tr>
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Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC 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-1: 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
Yet to be placed	Liquid Gold Series 6	PTC Series A	June 2021	7.67%	July 2023	535.00	Provisional [ICRA]AAA(SO)

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

Source: *Company*

Annexure-2: 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.

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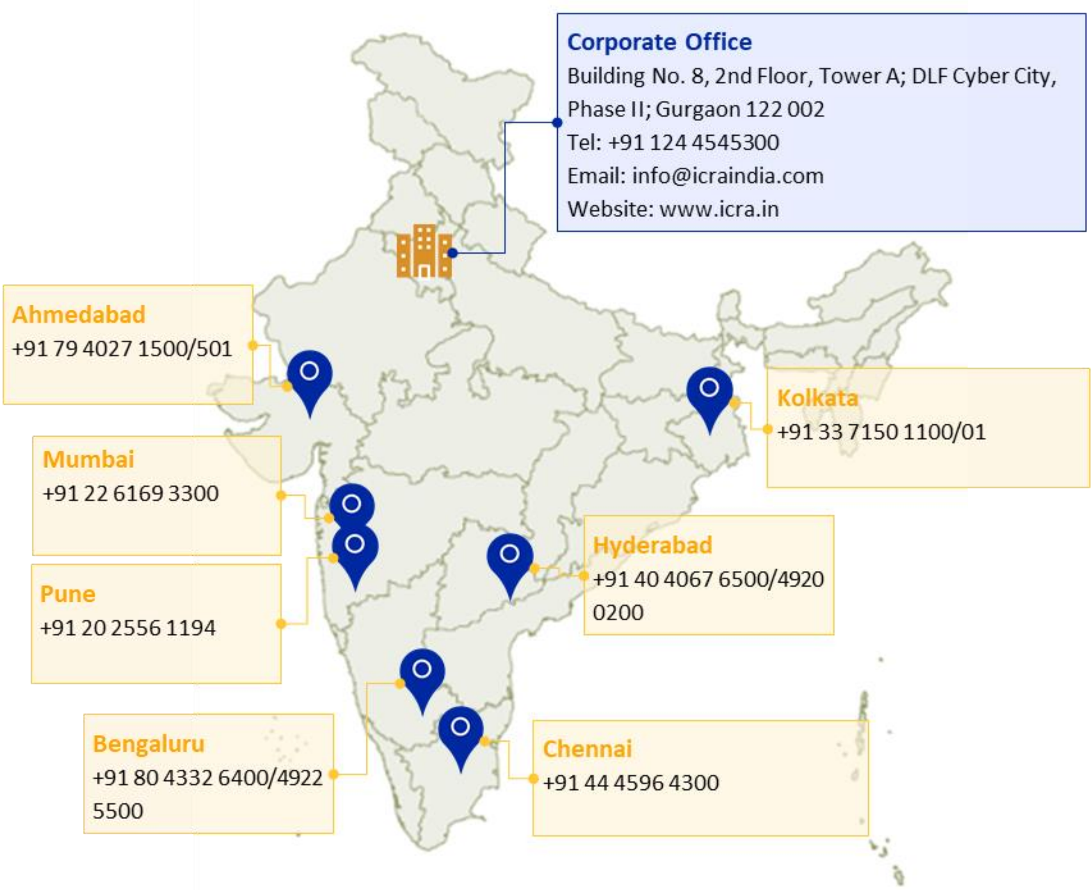

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