June 28, 2021 Revised

India Shelter Finance Corporation Limited: Rating confirmed as final for market-linked debentures

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Principal Protected Market Linked Debentures (PP-MLD)	50.0	50.00	PP-MLD [ICRA]AAA(CE) (Stable); provisional rating confirmed as final
Non-convertible Debenture	50.0	50.00	[ICRA]A(Stable); outstanding
Fund Based - Term Loan	1,000.0	1,000.0	[ICRA]A(Stable); outstanding
Total	**1,100.0**	**1,100.0**	

Rating Without Explicit Credit Enhancement	[ICRA]A

**Instrument details are provided in Annexure-1*

Note: *The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement*

Rationale

For the Provisional PP-MLD [ICRA]AAA(CE) (Stable) rating

ICRA has confirmed the rating assigned to the Rs. 50.0-crore PP- MLDs as tabulated above. The finalisation of the rating follows the fulfilment of all the conditions under the structure as mentioned to ICRA including the execution of the transaction documents as confirmed by the Trustee, with the executed documentation being in line with the required terms of the structure.

The above rating is based on the strength of the presence of a cover pool (28% over-collateralisation as a percentage of the MLDs outstanding and accrued interest) to support the servicing of the MLDs in the event of non-payment by India Shelter Finance Corporation Limited (ISFC). ISFC has executed an assignment agreement and a power of attorney wherein it has agreed to assign the cover pool assets to CredAvenue Casa Trust 2021 (Trust) on the occurrence of a predefined trigger event (details given in the salient covenants of the rated facility section) during the tenure of the rated facility. On the occurrence of the trigger event, there would not be any requirement of any further deed or action for the assignment by ISFC. Post assignment, the Trust shall become the legal owner of the assigned receivables (i.e. the cover pool assets shall be bankruptcy remote from the other creditors of ISFC). In turn, the Trust has provided an unconditional and irrevocable guarantee to the debenture trustee of the rated MLDs and would transfer all collections from the cover pool to the designated account[1] under its guarantee obligation.

The final maturity date of the transaction is 30 months and 5 days from the deemed date of allotment. The facility has a call option after 30 months from the deemed date. Failure on the part of ISFC to exercise the call option would be a trigger event. However, as per the terms of the transaction, upon the occurrence of a trigger event, the final maturity date will be extended to 96 months from the deemed date of allotment. All payments on the MLDs (both principal and interest) are promised only on the final maturity date. The rating assigned by ICRA addresses the timely payment of the dues to the investors by the final

[1] *An account monitored and operated by the Debenture Trustee*

maturity date (i.e. a default to the investor shall be defined as the non-receipt of payment by the final maturity date post occurrence of the trigger event, as per the terms of the transaction).

Adequacy of credit enhancement

The guarantee provided by the Trust is unconditional and irrevocable. Further, a Trustee-monitored payment mechanism is in place to ensure payments on the rated debt as given below:

- The primary obligation of meeting the MLD payments is on ISFC; hence, ISFC shall fund the designated account to the extent of the principal and interest payable on the due date.

On the occurrence of a trigger event, the cover pool assets shall be immediately assigned to CredAvenue Casa Trust 2021. The Trust shall appoint ISFC as the servicer for the cover pool assets transferred. The collections from the cover pool will be used for payments to the debenture holders as per the payment mechanism given below:

- On T[2]-1, the servicer shall fund the Collection and Payment (C&P) Account to the extent of collections from the underlying cover pool.
- On T, the Trustee shall transfer the entire amount from the C&P Account to the designated account for debt servicing.

The above attributes have led to an enhancement in the rating of the said instrument to Provisional PP-MLD [ICRA]AAA(CE) (Stable) against the rating without explicit credit enhancement of [ICRA]A.

» Key predefined trigger events, the occurrence of which would lead to the invocation of the Trust guarantee, are given below:
  - Failure of the Issuer to exercise or honour the call option on the Call Option Date; Call option notice to be provided 30 days prior
  - Rating downgrade of ISFC to BBB+ or below
  - Rating downgrade of the MLDs to AA(CE) or below
  - Capital adequacy of Issuer falls below 16% on a half-yearly basis
  - Gross non-performing assets (NPAs) of the Issuer go above 6% on a half-yearly basis
  - Issuer has defaulted on its financial indebtedness and not corrected within 3 days or an event of default is declared
  - Misrepresentation by the Issuer
  - Issuer is unable to maintain the required cover on the cover pool assets
  - Breach of any financial covenant by ISFC
  - Material adverse effect on ISFC
  - Unlawfulness by Issuer
  - Change of cessation of business of the Issuer
  - Winding up, liquidation or insolvency proceedings against ISFC
  - Repudiation of the debenture document

On the occurrence of the trigger event, the Trust guarantee would be invoked, and all collections deposited in the C&P Account by ISFC (acting as the servicer) shall be passed by the Trustee to the debenture holders.

[2] *Monthly payout date*

Salient covenants of the rated facility

» *A minimum security cover of 1.28x is to be maintained on the MLDs outstanding (including accrued interest) and the asset cover should consist of loan against property originated by ISFC. Further, the cover pool assets need to be maintained/replenished by ISFC as per the eligibility criteria mentioned in the transaction documents.*

» *For computing the minimum security cover, only receivables that fall due within 95 months from the deemed date of allotment will be considered. Further, contracts that are delinquent by more than 30 days would be excluded. Delinquent contracts up to 30 days past due (dpd) should not constitute more than 5% of the pool principal amount.*

Key rating drivers and their description

For the Provisional PP-MLD [ICRA]AAA(CE) (Stable) rating

Credit strengths

- **Presence of cover pool to support servicing of MLD facility in the event of non-payment by entity** – The primary obligation of meeting the MLD payments is on ISFC. However, if ISFC does not meet the expected payment on the MLDs, the collections from the cover pool will be available to the debenture trustee. The principal as well as the interest amount on the MLDs are promised to the investors on the final maturity date.

- **Stringent eligibility criteria for cover pool** – Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the pool at any point of time.

Credit challenges

- **Performance of the cover pool remains exposed to the disruptions caused by the second wave of the Covid-19 pandemic** – ISFC's collections could be impacted in the near term by the the pandemic. The company's ability to manage any fresh disruptions and ensure healthy asset quality on a sustained basis would remain critical from a rating perspective.

- **Although MLD yield is fixed, spread between pool yield and MLD yield (acting as a credit support) could shrink on account of characteristics of cover pool** – The benefit available on account of the difference between the pool yield and the MLD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, most of the contracts in the portfolio had an IRR of more than 14% as of March 2021 and the minimum weighted average IRR for the cover pool is kept at 14%. Thus, the spread between the pool yield and the MLD yield is likely to be moderate.

Liquidity position

For the Provisional PP-MLD [ICRA]AAA(CE) (Stable) rating for the Rs. 50-crore PP-MLDs: Superior

The principal and interest on the MLDs are promised to the lender on the final maturity date subject to the non-occurrence of a trigger event. This imparts significant liquidity support to the instrument. The cash flows from the cover pool are expected to be highly comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the MLDs.

For the [ICRA]A (Stable) rating: Adequate

The company's liquidity is adequate with no negative cumulative mismatches up to 1 year as per the reported liquidity statement as on March 31, 2021. Further, the company maintained on-book liquidity of Rs. 377 crore as on March 31, 2021. This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses till December 31, 2021. Overall, ICRA expects ISFC to be able to meet its near-term commitments, given its healthy financial flexibility, good lender base and the reasonable share of assets eligible for securitisation.

Rating sensitivities

For the Provisional PP-MLD [ICRA]AAA(CE) (Stable) rating

Positive factors – Not applicable

Negative factors – The rating could be downgraded on non-adherence to the key transaction terms envisaged at the time of the rating and a deterioration in ISFC's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Methodology for Covered Bond Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

ISFC is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. ISFC is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-to-middle-income segment. As on March 31, 2021, ISFC had 115 branches spread across 15 states and a managed portfolio of ~Rs. 2,200 crore with GNPAs of 1.78%. It offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and loan against property.

Key financial indicators (standalone)

	FY2020	FY2021
Total income	229.91	322.80
Profit after tax	46.91	87.39
Asset under management	1520	2,199
Gross NPA (%)	1.29%	1.78%
Net NPA (%)	0.86%	1.23%

Source: *Company, 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

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					June 28, 2021	June 15, 2021	-	-	-
1	PP-MLD	Long Term	50.0	50.0	**PP-MLD [ICRA]AAA(CE) (Stable)**	**Provisional PP-MLD [ICRA]AAA(CE) (Stable)**	-	-	-

For details on other ICRA-rated instruments of the company, refer to the rationales here

Complexity level of the rated instrument

Instrument	Complexity Indicator
PP-MLD	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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE922K07062	PP-MLD	June 2021	8.68%*	December 2023^	50.00	PP-MLD [ICRA]AAA(CE) (Stable)

** XIRR; Promised yield of 10.00% and expected yield of 15.18% applicable from date of issuance in case of trigger event*

^ Upon the occurrence of a trigger event, the final maturity date will be extended to June 2029

For details on other ICRA-rated instruments of the company, refer to the rationales here

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

Corrigendum:
Document dated June 28, 2021 has been corrected with revision as detailed below:

In the summary of rating action table on page 1 of the rationale, previous rating amount of Non- convertible Debenture is changed from Rs.150 crore to Rs.50 crore.

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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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