September 09, 2021

IIFL Finance Limited: Rating confirmed as final for PTCs backed by gold loan securitisation transaction issued by Shining Metal Trust June 2021

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Shining Metal Trust June 2021	PTC Series A	375.00	[ICRA]AAA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In June 2021, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Shining Metal Trust June 2021. The pass-through certificates (PTCs) are backed by a pool of Rs. 501.50 crore gold loan receivables (underlying pool principal of Rs. 398.12 crore) originated by IIFL Finance Limited (IIFL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the latest weekly August 2021 payout is shown in the table below:

Particulars	Amounts
Weekly payouts	8
Actual pool amortization	2.88%
PTC Series A Amortisation	5.11%
Cumulative Prepayment (as % of initial pool principal)	2.87%
Cumulative collection efficiency (excluding prepayments)	98.91%
Cumulative collection efficiency (including prepayments)	192.10%
Loss cum 0+ dpd (as % of initial pool principal)	0.01%
Loss cum 30+ dpd (as % of initial pool principal)	0.00%
Loss cum 90+ dpd (as % of initial pool principal)	0.00%
Cumulative cash collateral utilization	0.00%

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 due to the Covid-19 pandemic

Description of key rating drivers highlighted above

IIFL has assigned the future receivables arising from the selected pool of loans to a special purpose vehicle (trust). The trust has issued a single series of PTC Series A amounting to 94.19% of the total pool principal backed by the assigned loan against gold receivables.

The first line of support for the Series A PTCs in the transaction is in the form of a subordination of 5.81% of the pool principal (includes over-collateralisation). All collections from the pool that are in excess of the promised weekly 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 weekly 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 6.25% 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 weekly 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 3.4 months. It has a moderate LTV profile with an average LTV of around 70% at the time of loan disbursement. Around 95% of the pool has an original tenure of more than 12 months. The pool has moderate geographical concentration with the top 3 states contributing around 42% to the pool principal. The performance of the pool will remain exposed to any fresh disruptions that may arise due to the second wave of the pandemic.

Performance of past rated pools: ICRA has rated 35 PTC gold loan transactions of IIFL till date with the last PTC transaction rated in June 2021. All the pools, except the pools rated post Oct-20, have fully matured. The delinquencies in all the matured pools were low while the prepayments were high. The live pools have shown high prepayment and low delinquencies in the harder buckets with nil 90+ dpd and nil CC utilisation.

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 2.75-3.75% 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 weekly 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. 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 thirty five weeks, even in an unlikely scenario of no collections in the pool.

Rating sensitivities

Positive factors – Not applicable (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 future PTC payouts from the credit enhancement.

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

Key financial indicators

IIFL Finance Limited (consolidated)	FY2020 (Audited)	FY2021 (Audited)	Q1FY2022 (Provisional)
Total income	2,459	3,364	830
Profit after tax	504	761	2666
Loan book (AUM)	37,951	44,668	43,160
Gross NPA	2.3%	2.0%	2.2%
Net NPA	1.0%	0.9%	1.0%

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 (FY2022)					Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 09, 2021	June 30, 2021	-	-	-
1	Shining Metal Trust June 2021	PTC Series A	375.00	375.00	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-

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: www.icra.in

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
NA	Shining Metal Trust June 2021	PTC Series A	June 2021	7.58%	July 2023	375.00	[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.

For more information, visit www.icra.in

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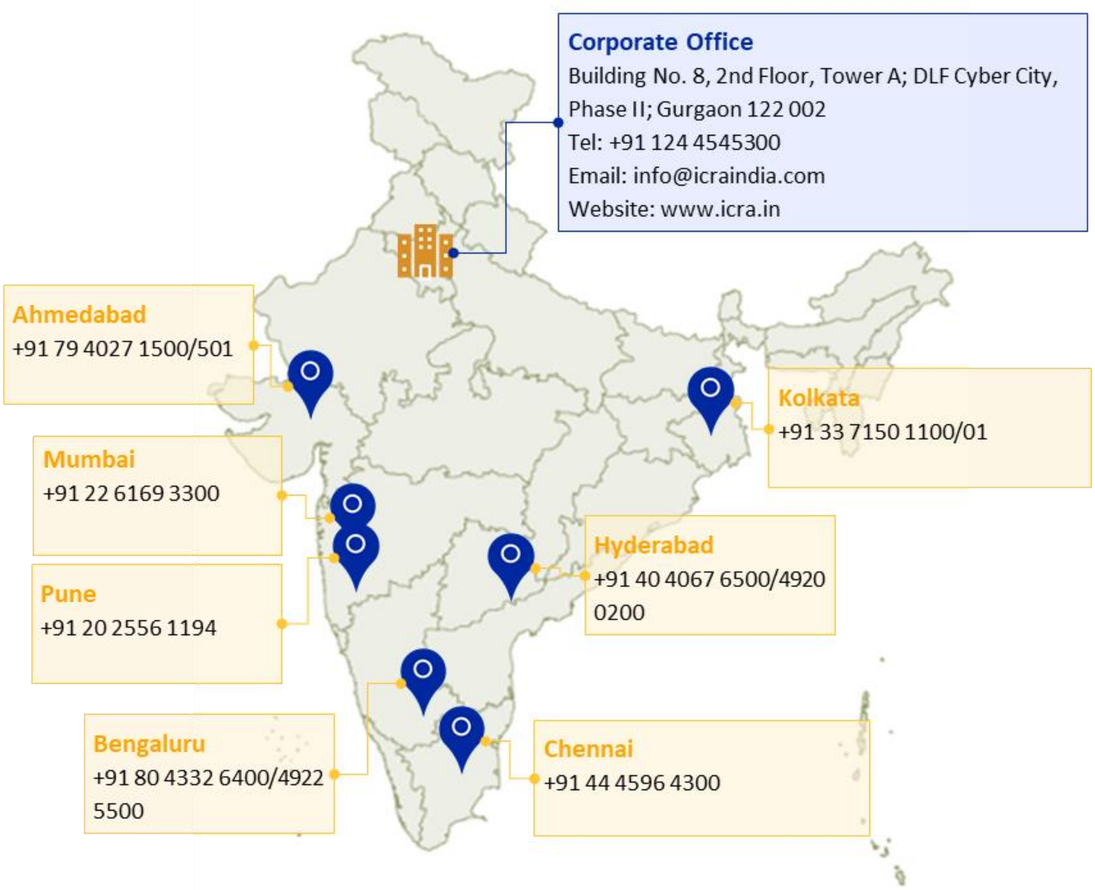

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