November 11, 2021

# India Shelter Finance Corporation Limited: Ratings confirmed as final for PTCs backed by a pool of mortgage loan receivables securitisation transaction

## Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Rafael 08 2021 | Series A1 PTC | 29.17 | [ICRA]AAA(SO); provisional rating confirmed as final |
| | Series A2 PTC | 2.89 | [ICRA]A+(SO); provisional rating confirmed as final |

**Instrument details are provided in Annexure-1*

## Rationale

In August 2021, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to the pass-through certificate (PTC) Series A1 and a Provisional [ICRA]A+(SO) rating to Series A2 PTC issued by Rafael 08 2021. The PTCs are backed by receivables from a Rs. 32.06 (principal amount) pool of mortgage loan receivables originated by India Shelter Finance Corporation Limited (ISFC). 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 ratings have now been confirmed as final.

A summary of the performance of the pool after the October 2021 payouts month has been provided below.

| Parameter | Rafael 08 2021 |
|---|---|
| Months post securitisation | 2 |
| Pool amortisation | 3.85% |
| PTC amortisation - PTC A1 | 4.23% |
| PTC amortisation - PTC A2 | 0.00% |
| PTC amortisation - PTC A1+A2 | 3.85% |
| Cumulative collection efficiency (including advance collections) | 98.51% |
| Loss-cum-0+ dpd | 0.14% |
| Loss-cum-30+ dpd | 0.14% |
| Loss-cum-90+ dpd | 0.00% |
| Loss-cum-180+ dpd | 0.00% |
| Cumulative prepayment rate | 2.89% |
| Cumulative cash collateral (CC) utilisation | 0.00% |

## Key rating drivers

### Credit strengths

- Availability of credit enhancement in the form of subordination for PTC Series A1, excess interest spread (EIS) and cash collateral (CC)
- Low weighted average LTV of around 37%
- High weighted average seasoning of 34 months
- High share of contracts in pool having CIBIL score more than 750 (~96%)

### Credit challenges

- High geographical concentration with share of top 3 states at around 83%

- Pool has contracts with fixed rate, while PTC yield is floating. Hence, transaction is exposed to interest rate basis risk, any adverse movement in benchmark yield will reduce the EIS available in the transaction
- Pool performance will remain exposed to any disruptions that may arise due to the Covid-19 pandemic

## Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The monthly promised cash flows for PTC Series A1 comprises a payment of 91% of the billed pool principal and the interest payment at the predetermined interest rate on the PTC Series A1 principal outstanding. Further, 9% of the billed pool principal would be paid on an expected basis to the PTC Series A1. Series A2 PTC pay-outs are completely subordinated to Series A1 PTCs. The pool amortisation schedule is subject to modification, on account of prepayments.

The first line of support for Series A1 PTC in the transaction is in the form of a subordination of 9.00% of the pool principal in the form of Series A2 PTC. After the Series A1 PTC is fully paid, no subordination would be available for Series A2 PTC. Additionally, the EIS available in the structure provides the credit enhancement support to the transaction. The EIS (50% of the pool principal initially, based on the indicated PTC yield, for Series A1 PTC and 37% for Series A2 PTC) will flow back to the originator after the promised and scheduled pay-outs to the PTCs have been made every month.

A CC of 7.40% of the initial pool principal (Rs. 32.06 crore) provided by ISFC acts as a further credit enhancement in the transaction. The CC is in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting, the promised PTC pay-outs during any month, the trustee will utilise the CC to meet the shortfall. The CC not only provides credit support against losses in the pool, it also imparts liquidity to the transaction.

There were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top three states constituting 83% of the pool principal. The pool consists of monthly paying loan contracts, with moderate seasoning (33.8 months on average) and pre-securitisation amortisation (12.3% on average). Almost all the loans in the pool have a fixed interest rate. None of the contracts in the pool have availed a moratorium since March 2020. However, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

**Past rated pool performance:** ICRA has rated three pools originated by ISFC in the past, backed by mortgage loans. All these transactions are live and their performance (those which have completed at least three months, post securitisation) has been good till date with the cumulative collection efficiency exceeding ~92% in all three transactions (where collection efficiency was negatively impacted during the moratorium period). Two of the pools have seen considerable amortisation till Ocotber 2021 (pay-out month), resulting in a significant build-up in the credit enhancement for the balance PTC pay-outs. No CC has been utilised till date.

### Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for the mean shortfall and coefficient of variation (CoV) are arrived at on the basis of the values observed in the analysis of the originator's loan portfolio. The assumptions may also 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 of contracts. After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 3.00-4.00%, with certain variability around it.

## Liquidity position

#### Superior for Series A1 PTC

The cash collections and the credit collateral available in the transaction are expected to be highly comfortable to meet the PTC Series A1 investor pay-outs. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the PTC pay-outs for a period of 33 months.

**Strong for Series A2 PTC**

PTC Series A2 is subordinated to PTC Series A1 and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the PTC Series A2 investor pay-outs.

## Rating sensitivities

**Positive factors**

Series A1 PTC: Not Applicable

Series A2 PTC: Rating could be upgraded if sustained strong collection performance is witnessed, leading to low delinquency levels and further build-up of credit enhancement cover.

**Negative factors**

Series A1 PTC and Series A2 PTC: 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 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

ISFC is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. It is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-and-middle-income segment. As on September 30, 2021, the company had a managed portfolio of Rs. 2,516 crore spread across 15 states/UTs. 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.

ISFC reported a profit of Rs. 38 crore in H1 FY2022 on an AUM of Rs. 2,516 crore as on September 30, 2021 vis-à-vis a profit of Rs. 87 crore in FY2021 on an AUM of Rs. 2,199 as on March 31, 2021. The gross and net NPAs stood at 2.7% and 1.8%, respectively, as on September 30, 2021.

## Key financial indicators

| ISFC | FY2019 | FY2020 | FY2021 | H1 FY 2022 |
|---|---|---|---|---|
| | Audited | Audited | Audited | Provisional |
| Total income (Rs. crore) | 166 | 230 | 321 | 185 |
| Profit after tax (Rs. crore) | 30 | 47 | 87 | 38 |
| Net worth (Rs. crore) | 800 | 848 | 937 | 982 |
| Gross AUM (Rs. crore) | 1,178 | 1,520 | 2,199 | 2,516 |
| Gross NPA (%) | 1.35% | 1.29% | 1.65% | 2.68% |
| Net NPA (%) | 0.94% | 1.07% | 1.13% | 1.78% |

***Source:*** *Company and ICRA Research*

## 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 | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2022 | | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | November 11, 2021 | August 25, 2021 | - | - | - |
| 1 | Rafael 08 2021 | Series A1 PTC | 29.17 | 29.17 | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - | - | - |
| | | Series A2 PTC | 2.89 | 2.89 | [ICRA]A+(SO) | Provisional [ICRA]A+(SO) | | | |

## Complexity level of the rated instrument

| Trust Name | Instrument | Complexity Indicator |
|---|---|---|
| Rafael 08 2021 | Series A1 PTC | Moderately Complex |
| | Series A2 PTC | 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](http://www.icra.in)

## Annexure-1: Instrument details

| Issue Name | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating |
|---|---|---|---|---|---|---|
| Rafael 08 2021 | Series A1 PTC | August 2021 | 7.65%^ | Dec 2039 | 29.17 | [ICRA]AAA(SO) |
| | Series A2 PTC | August 2021 | 11.00%^ | Dec 2039 | 2.89 | [ICRA]A+(SO) |

***Source:*** *Company, ^ Coupon rate is floating and linked to investor's MCLR*

## 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

## ICRA Limited

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