

July 28, 2022

India Shelter Finance Corporation Limited: Rating actions on PTCs issued under three mortgage loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Previous Surveillance (Rs. crore)	Current Outstanding Amount after June 2022 Payouts (Rs. crore)	Rating Action
Elbe SBL IFMR Capital 2017	PTC Series A2	29.04	13.22	6.17	[ICRA]AA+(SO); Upgraded from [ICRA]AA-(SO)
	PTC Series A3	1.80	1.80	1.80	[ICRA]AA(SO); Upgraded from [ICRA]A(SO)
Northern Arc 2019 AHF Angna	PTC Series A1	41.59	14.93	2.81	[ICRA]AAA(SO); Upgraded from [ICRA]AA+(SO)
	PTC Series A2	3.83	3.75	3.71	[ICRA]AA+(SO); Upgraded from [ICRA]A+(SO)
Rafael 08 2021	PTC Series A1	29.17	NA	22.73	[ICRA]AAA(SO); Reaffirmed
	PTC Series A2	2.89	NA	2.89	[ICRA]A+(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) originated by India Shelter Finance Corporation Limited (ISFC; rated [ICRA]A+ (Stable)) are backed by mortgage loan receivables. The ratings for the Elbe SBL IFMR Capital 2017 (Elbe) and Northern Arc 2019 AHF Angna (Angna) transactions have been upgraded on account of the high amortisation, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. For the Rafael 08 2021 (Rafael) transaction, the ratings have been reaffirmed on account of the healthy collection efficiency and low delinquency. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools.

A summary of the performance of the pools till the May 2022 collection month (June 2022 payout) has been tabulated below.

Parameter	Elbe	Angna	Rafael
Months post securitisation	60	36	10
Pool amortisation	71.82%	47.96%	20.05%
PTC Series A1 amortisation	100.00%	93.24%	22.07%
PTC Series A2 amortisation	78.75%	3.28%	0.00%
PTC Series A3 amortisation	0.00%	NA	NA
Cumulative collection efficiency ¹	95.67%	95.10%	99.21%
Loss-cum-30+ dpd ² (% of initial pool)	3.95%	5.47%	0.22%
Loss-cum-90+ dpd ³ (% of initial pool)	2.09%	2.53%	0.00%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A1	NA	2.89%	62.45%

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² Inclusive of Unbilled and Overdue Principal portion of delinquent contracts with 30 days past due, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of delinquent contracts with 90 days past due, as a % of Initial Pool Principal

⁴ (Balance Cash Flows payable to investor for PTC Series A1 – CC available)/ Balance Pool Cash Flows

Parameter	Elbe	Angna	Rafael
Breakeven collection efficiency ⁵ for PTC Series A2	20.47%	12.34%	76.64%
Breakeven collection efficiency ⁶ for PTC Series A3	29.11%	NA	NA
Cumulative prepayment rate (% of initial pool)	46.83%	25.31%	15.08%
CC (% of balance pool)	8.87%	5.76%	9.26%
Principal subordination (% of balance pool) for PTC Series A1	NA	90.13%	11.30%
Principal subordination (% of balance pool) for PTC Series A2	63.42%	77.12%	0.04%
Principal subordination (% of balance pool) for PTC Series A3	52.78%	NA	NA
Excess interest spread (EIS; % of balance pool) for PTC Series A1 ⁷	NA	55.73%	47.50%
EIS (% of balance pool) for PTC Series A2 ⁸	44.24%	53.98%	33.03%
EIS (% of balance pool) for PTC Series A3 ⁹	42.23%	NA	NA

Pool performance summary

Key rating drivers

Credit strengths

- High amortisation of PTCs (for Elbe and Angna), resulting in significant build-up of cash collateral (CC), principal subordination and excess interest spread (EIS) cover.
- Low delinquency levels and healthy collection efficiency exhibited by all the pools

Credit challenges

- Pool's performance will remain exposed to any fresh disruptions arising due to Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of all three pools has been healthy with a cumulative collection efficiency of more than 95% (till May 2022 collections). There has been no instance of CC utilisation till date. The loss-cum-90+ days past due (dpd) for the Elbe and Angna pools stood at 2.1% and 2.5%, respectively. The pools have achieved a high amortisation level (~72% for Elbe, ~48% for Angna) after the June 2022 payout. The most recent pool, i.e. Rafael, is yet to complete 12 months post securitisation and it reported amortisation of ~20% till the June 2022 payout month. The breakeven collection efficiencies are also well below the actual collection levels observed in the pool. Thus, the CE has built up significantly with respect to the balance pool principal for the Elbe and Angna pools.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade/reaffirm the ratings for the transactions. ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in

⁵ (Balance Cash Flows payable to investor – CC available) / Balance Pool Cash Flows

⁶ (Balance Cash Flows payable to investor – CC available) / Balance Pool Cash Flows

⁷ (Pool Cash Flows – Cash Flows to PTC A1 – Originator's residual share) / Pool Principal outstanding

⁸ (Pool Cash Flows – Cash Flows to PTC A1 – Cash Flows to PTC A2 – Originator's residual share) / Pool Principal outstanding

⁹ (Balance Cash Flows payable to investor – CC available) / Balance Pool Cash Flows

the pool. The assumptions for the loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and 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 and prepayments during the balance tenure of the pools are provided in the table below.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Elbe SBL IFMR Capital 2017	1.5%-2.5%	12%-15% p.a.
2	Northern Arc 2019 AHF Angna	3.0%-4.0%	12%-15% p.a.
3	Rafael 08 2021	2.0%-3.0%	12%-15% p.a.

Liquidity position

PTC Series A1 of Northern Arc 2019 AHF Angna and PTC Series A1 of Rafael 08 2021: Superior

The liquidity position is expected to be strong as the collections from the pool and the credit collateral available are expected to be highly comfortable to meet the balance PTC payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in the current stress scenario, the available credit collateral is expected to be very comfortable to meet the promised payouts to the PTC investors.

PTC Series A2 and PTC Series A3 of Elbe SBL IFMR Capital 2017: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A2 and PTC series A3 holders (wherein PTC Series A1 has matured) on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A2 and A3 investors.

PTC Series A2 of Northern Arc 2019 AHF Angna: Strong

As per the transaction structure, only the interest amount is promised to the PTC Series A2 holders on a monthly basis while the principal amount is promised (post PTC Series A1 is fully matured) on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A1 and A2 investors.

PTC Series A2 of Rafael 08 2021: Strong

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 payouts.

Rating sensitivities

Positive factors – The ratings could be upgraded if sustained strong collection performance is witnessed in the underlying pools, leading to low delinquency levels and build-up of cover from the CE of the balance pool principal.

Negative factors – Pressure on the ratings could emerge on the sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of ISFC's portfolio till March 2022, the key characteristics and composition of the current pools, the performance of the pool till May 2022 collection month, the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of the pools.

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 March 31, 2022, ISFC had a managed portfolio of Rs. 3,073 crore spread across 15 states/Union Territories. 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. 128 crore in FY2022 on assets under management (AUM) of Rs. 3,073 crore as on March 31, 2022 vis-à-vis a profit of Rs. 87 crore in FY2021 on AUM of Rs. 2,198 crore as on March 31, 2021. The gross and net non-performing assets (NPAs) stood at 2.1% and 1.6%, respectively, as on March 31, 2022.

Key financial indicators (Audited)

	FY2020	FY2021	FY2022
	Ind AS	Ind AS	Ind AS
Net interest income	145	178	245
Profit after tax	47	87	128
Assets under management (including assigned portfolio; IGAAP valuation)	1,520	2,198	3,073
Gross non-performing assets (GNPA)	1.2%	1.8%	2.1%
Net NPA	0.9%	1.3%	1.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul 28, 2022	Jul 27, 2021	Aug 31, 2020	Aug 29, 2019
1	Elbe SBL IFMR Capital 2017	PTC Series A2	29.04	6.17	[ICRA]AA+(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)	[ICRA]AA-(SO)
		PTC Series A3	1.80	1.80	[ICRA]AA(SO)	[ICRA]A(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jul 28, 2022	Jul 27, 2021	Aug 31, 2020	Nov 22, 2019^	Jul 04, 2019*
2	Northern Arc 2019 AHF Angna	PTC Series A1	41.59	2.81	[ICRA]AAA(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)
		PTC Series A2	3.83	3.71	[ICRA]AA+(SO)	[ICRA]A+(SO)	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)

Sr. no.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Jul 28, 2022	Nov 11, 2021^	Aug 25, 2021*		
3	Rafael 08 2021	PTC Series A1	29.17	22.73	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A2	2.89	2.89	[ICRA]A+(SO)	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-

*Provisional rating assigned

^Provisional rating finalised

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Elbe SBL IFMR Capital 2017	PTC Series A2	Moderately Complex
	PTC Series A3	Moderately Complex
Northern Arc 2019 AHF Angna	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
Rafael 08 2021	PTC Series A1	Moderately Complex
	PTC Series A2	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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Elbe SBL IFMR Capital 2017	PTC Series A2	Jun 2017	10.25%	Mar 2031	6.17	[ICRA]AA+(SO)
	PTC Series A3		13.00%		1.80	[ICRA]AA(SO)
Northern Arc 2019 AHF Angna	PTC Series A1	Jun 2019	10.50%	Nov 2028	2.81	[ICRA]AAA(SO)
	PTC Series A2		12.00%		3.71	[ICRA]AA+(SO)
Rafael 08 2021	PTC Series A1	August 2021	7.65%^	Dec 2039	22.73	[ICRA]AAA(SO)
	PTC Series A2		11.00%^		2.89	[ICRA]A+(SO)

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

^ Coupon rate is floating and linked to investor's MCLR

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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