December 29, 2022

IIFL Finance Limited: Ratings reaffirmed for PTCs issued under two gold loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after Nov-22 Payout (Rs. crore)	Rating Action
Liquid Gold Series 3 Dec 2020	PTC Series A	500.00	500.00	500.00	[ICRA]AA(SO); reaffirmed
Liquid Gold Series 4	PTC Series A	300.00	300.00	300.00	[ICRA]AA(SO); reaffirmed

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) are backed by pools of gold loan receivables originated by IIFL Finance Limited {IIFL; rated [ICRA]AA (Stable)/[ICRA]A1+}. As per the transaction structure, the Originator would assign follow-on pools to the respective Trusts during the replenishment period, basis the defined eligibility criteria. The amortisation of the PTCs would begin post crystallisation of the pools either at the end of the replenishment period or on the occurrence of a trigger event.

As of the November 2022 payout month, both transactions are currently in the replenishment period and the current pools meet the defined eligibility criteria. The rating action takes into account the current pools as well as the availability of credit enhancement (CE) in the form of (i) a cash collateral (CC) of 6.00% of the pool principal provided by the Originator, (ii) subordination of 9.09% of the pool principal for PTC Series A, and (iii) the excess interest spread (EIS) in the structure available for both transactions. ICRA has also taken comfort from the defined eligibility criteria, which ensures that the follow-on pools continue to have a good credit profile.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of subordination from cover pool, EIS and CC
- No overdue contracts on date of assignment of follow-on pools to trust

Credit challenges

- Lower tail period for recovery for pool available at end of replenishing period
- Performance of the pool available post replenishing period would remain exposed to macro-economic shocks/ business disruptions, if any

Description of key rating drivers highlighted above

As per the transaction structure for both transactions, the interest is promised on the PTCs on a monthly basis while the entire principal amount is promised to the PTCs in a single bullet instalment on the scheduled maturity date.

The tenure of the transactions shall be divided into two periods:

- Replenishment period
- Amortisation period

Replenishment period

During the replenishment period, the principal collections from the pools will be utilised to purchase additional receivables (or further receivables or a fresh set of additional receivables) at monthly intervals. These receivables would be assigned to the Trust. The replenishment period will be for 26 months from the transaction commencement date. During the replenishment period, the PTC Series A investors will receive only the promised interest payouts on a monthly basis and the Trust will purchase fresh pools from the available balance amount, as per the selection criteria, to maintain a cover of 1.1 times over the PTCs outstanding.

Amortisation period

Post the replenishment period, the residual pool collections, after meeting the promised interest payouts to the PTC investors, shall be used to make the expected principal payouts to the PTC investors. However, the principal is 'promised' to the investors only on the legal final maturity date of the transactions. The transactions also entail certain trigger events for pool amortisation. A breach of any of these trigger events would result in the replenishment period coming to an end and the start of the amortisation period. If a trigger event occurs any time during the replenishment period, the tenure of the PTCs shall be reduced and will be co-terminus with the remaining tenure of the pool of receivables held by the Trust, plus an additional period of two months.

Key eligibility criteria for additional receivables

The further receivables identified shall be subject to the defined eligibility criteria, which is summarised as below:

- Minimum holding period (MHP) of the pool of contracts should be as per the criteria set under the RBI Securitisation Guidelines
- As on the cut-off date in relation to a pool of Identified Receivables, there are no overdues in the loans forming part of such Identified Receivables
- Contracts should not have been restructured or rescheduled
- None of the contracts will have a maturity date beyond the PTC Series A final maturity date
- Minimum internal rate of return (IRR) of any contract would be 12%, whereas the weighted average return on investment (RoI) of the pool will be 14%
- Obligor concentration of the pool should not be more than 2%
- Weighted average residual tenure of the Loans for Additional Identified Receivables being purchased would be such that it would be less than two months to the scheduled maturity date

Key trigger events

Mentioned below are some of the key trigger events, which would lead to the start of the amortisation period of the PTCs –

- Inability of the Seller to provide an additional pool meeting the eligibility criteria at any point in time
- Originator informing the Trustee in writing on any day after the expiry of 12 months from the first effective date that it does not wish to sell any further loan assets to the Trust
- Investors holding Majority Interest informing the Trustee in writing that the Trust should not acquire any further loan assets from the Originator
- 0+ days past due (dpd) crosses 8% and 60+ dpd crosses 5% and/or 90+ dpd crosses 1% in the identified receivables
- Utilisation of the CC in excess of 40%

As on date, CE is available in in the form of (i) a CC of 6.00% of the pool principal provided by the Originator, (ii) subordination of 9.09% of the pool principal for PTC Series A, and (iii) the EIS in the structure. However, since the pools will be revised prior to the amortising period, the EIS is likely to change depending on the yield of the underlying contracts in the pool, though the presence of a minimum average pool yield as a part of the pool selection criteria would mitigate this risk to some extent. None

of the trigger events have occurred and the pools satisfy the eligibility criteria. The performance of the follow-on pools would remain exposed to any further disruptions due to the Covid-19 pandemic.

Overall, the CE available is sufficient to reaffirm the rating for these transactions. ICRA will continue to monitor these transactions and any further rating action will be based on the adherence of the follow-on pools to the defined eligibility criteria during the replenishment period, the occurrence of any key trigger events, the performance of the pools during the amortisation period and the availability of CE relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated 36 PTC gold loan transactions of IIFL till date with the last PTC transaction rated in June 2021. All the other pools have fully matured. The delinquencies in all the matured pools were low while the prepayments were high.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (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. However, since the current pools would be revised during the replenishment period, the characteristics of the pools would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at potential loss for the follow-on pools. 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the current pool as well as the follow-on pools is estimated at 3.0-4.0% with certain variability around it.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. The amortisation of the PTCs will start after the occurrence of a trigger event or the end of the replenishment period of 26 months and the collected principal will be passed on to the investor on expected basis. Additionally, a CC amounting to 6.00% of the pool principal amount is available in the transactions. The CC is adequate to meet the promised interest payouts due to the PTC investors for ~10 months even in the unlikely scenario of no collections in the pools.

Rating sensitivities

Positive factors – The rating could be upgraded basis healthy collections observed in final crystalised pools leading to buildup of credit enhancement cover over the rated PTCs.

Negative factors – The ratings could be downgraded in event of weak collection efficiency observed in the crystalised pools post the replenishment period resulting in utilization of credit enhancement.

Analytical approach

The rating action is based on the analysis of the performance of IIFL's gold loan portfolio till September 2022, key characteristics and composition of the current available pools and the defined eligibility criteria for the follow-on pools, performance expected over the balance tenure of the follow-on pools, and the CE cover available in the transactions.

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 is a listed non-operating holding company had India Infoline Finance Limited {a systematically important, nondeposit accepting non-banking financial company (NBFC-ND-SI)} as its subsidiary. As a part of a merger scheme, India Infoline Finance was merged with IIFL Finance with effect from March 30, 2020 following the receipt of an NBFC licence by IIFL Finance. IIFL along with its subsidiaries, IIFL Home Finance (registered as a housing finance company) and Samasta Microfinance Limited (registered as an NBFC-MFI) offers home loans, loan against property, MSME loans, gold loans, microfinance and real estate loans.

IIFL Finance Limited's consolidated net worth stood at Rs. 6,880 crore as on June 30, 2022. It reported a PAT of Rs. 1,188 crore in FY2022 on total assets of Rs. 45,910 crore compared to Rs. 761 crore and Rs. 40,667 crore, respectively, in FY2021. The company reported a PAT of Rs. 330 crore in Q1 FY2023 on total assets of Rs. 44,130 crore as on June 30, 2022.

Key financial indicators (audited)

IIFL Finance Limited (consolidated)	FY2020	FY2021	FY2022
Total revenues	4,844	5,840	6,470
Profit after tax	503	761	1,188
Loan book (AUM)	37,951	44,688	51,210
Gross stage 3	2.0%	2.0%	3.2%^
Net stage 3	0.8%	0.9%	1.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
^Including impact of RBI circular of Nov-21; excluding the same, gross stage 3 stood at 2.3%

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	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					December 29, 2022	December 28, 2021	December 22, 2020	December 17, 2020	-
1	**Liquid Gold Series 3 Dec 2020**	PTC Series A	500.00	500.00	**[ICRA]AA(SO)**	**[ICRA]AA(SO)**	**[ICRA]AA(SO)**	**Provisional [ICRA]AA(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	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					December 29, 2022	December 28, 2021	February 22, 2021	February 17, 2021	-
2	Liquid Gold Series 4	PTC Series A	300.00	300.00	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

Complexity level of the rated instruments

Trust Name	Instrument	Complexity Indicator
Liquid Gold Series 3 Dec 2020	PTC Series A	Moderately Complex
Liquid Gold Series 4	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 I: 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
INE0FWE15015	**Liquid Gold Series 3 Dec 2020**	PTC Series A	December 2020	7.72%	December 2023	500.00	[ICRA]AA(SO)
INE0GSX15011	**Liquid Gold Series 4**	PTC Series A	February 2021	7.72%	February 2024	300.00	[ICRA]AA(SO)

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

Source: Company

Annexure II: 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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