

February 10, 2023

India Shelter Finance Corporation Limited: Rating confirmed as final for PTCs issued under a home loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
GHAR 09 2022	PTC Series A1	79.06	[ICRA]AA(SO); provisional rating confirmed as final
	PTC Series A2	4.16	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to PTC Series A1 and Provisional [ICRA]A+(SO) rating to PTC Series A2 issued by GHAR 09 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 83.22 crore (pool principal; receivables of Rs. 179.26 crore) of home loan (HL) receivables originated by India Shelter Finance Corporation Limited {ISFCL; rated [ICRA]A+ (Stable)}. 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's performance after the December 2022 collection month (January 2023 payouts) is shown in the table below.

Parameter	GHAR 09 2022
Months post securitisation	4
Pool amortisation	6.39%
PTC Series A1 amortisation	6.72%
PTC Series A2 amortisation	0.00%
Cumulative prepayment rate	5.90%
Cumulative collection efficiency	98.91%
Loss-cum-0+ dpd	1.43%
Loss-cum-30+ dpd	0.46%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS), subordination for PTC Series A1 and cash collateral (CC)
- High weighted average seasoning of ~32 months as on the cut off date
- High share of contracts in pool with a Highmark score of more than 750 (~82%) in the initial pool principal

Credit challenges

- High geographical concentration with share of top 3 states at ~74% in the pool principal
- PTC yield for the pool is linked to an external benchmark while interest rate on the underlying loans is fixed rate, leading to interest rate risk in the structure
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables were assigned at par to the PTC investors. The monthly promised cash flows for PTC Series A1 would comprise a payment of 95% of the billed pool principal and the interest payment at the predetermined interest rate on the PTC Series A1 principal outstanding. Further, 5% of the billed pool principal is to be paid on an expected basis to the PTC Series A1. PTC Series A2 payouts are completely subordinated to PTC Series A1. The pool amortisation schedule is subject to modification on account of prepayments.

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 5.00% of the pool principal in the form of PTC Series A2. After PTC Series A1 is fully paid, no subordination would be available for PTC Series A2. Additionally, the EIS available in the structure would provide CE support to the transaction. The EIS (~56% of the pool principal initially, based on the indicated PTC yield, for PTC Series A1 and ~47% for PTC Series A2) will flow back to the originator after the promised and scheduled payouts to the PTCs have been made every month.

A CC of 5.00% of the initial pool principal (Rs. 4.16 crore) provided by ISFCL would act as a further CE 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 payouts 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 3 states constituting ~74% of the pool principal. The pool consists of monthly paying loan contracts, with a high weighted average seasoning of ~32 months and a weighted average pre-securitisation amortisation of ~11%. All the loans in the pool have a fixed interest rate. However, the performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any.

Past rated pools: ICRA has rated six pools originated by ISFCL in the past, backed by mortgage loans. Out of six pools, two pools have matured, and their ratings have been withdrawn. The performance of the four live pools has been healthy with the cumulative collection efficiency exceeding ~95% and nil CC has been utilised as on January 2023 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the past performance of the originator's portfolio and the rated pools as well as the 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 during the tenure of the pool is estimated at 3.0-4.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0-18.0% per annum.

Liquidity position

Strong for PTC Series A1

The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 investor payouts. 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 payouts for a period of 26 months.

Strong for PTC Series A2

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 on the sustained strong collection performance, leading to low delinquency levels and further build-up of the CE cover.

Negative factors – The ratings could be downgraded based 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 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 originator

ISFCL 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 December 31, 2022, the company had a managed portfolio of Rs. 3,954 crore spread across 15 states/Union Territories (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 (LAP). ISFCL incorporated a 100%-subsidiary in March 2022, India Shelter Capital Finance Limited (ISFCL), to lend as an NBFC to the LAP segment, subject to regulatory approvals.

ISFCL reported a profit of Rs. 103 crore in 9M FY2023 (provision; total comprehensive income (TCI) of Rs. 100 crore) on an AUM of Rs. 3,954 crore as on December 31, 2022 vis-à-vis a profit of Rs. 128 crore in FY2022 (TCI of Rs. 128 crore) on an AUM of Rs. 3,073 crore as on March 31, 2022. The gross and net NPAs stood at 2.29% and 1.79%, respectively, as on December 31, 2022.

Key financial indicators

	FY2021	FY2022	9M FY2023*
Net interest income (excl. fee income)	168	229	210
Profit after tax	87	128	103
AUM (incl. assigned portfolio; IGAAP valuation)	2,198	3,073	3,954
Gross non-performing assets (NPA)	1.8%	2.1%	2.3%
Net NPA	1.3%	1.6%	1.8%

Source: Company data, ICRA Research; * Provisional numbers; 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

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
				February 10, 2023	September 30, 2022			
GHAR 09 2022	PTC Series A1	79.06	79.06	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-
	PTC Series A2	4.16	4.16	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
GHAR 09 2022	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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
GHAR 09 2022	PTC Series A1	September 2022	8.00%^	October 2041	79.06	[ICRA]AA(SO)
	PTC Series A2		11.20%		4.16	[ICRA]A+(SO)

Source: Company; ^ Coupon rate is floating and linked to investor's 3M MCLR

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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