July 20, 2023

India Shelter Finance Corporation Limited: Ratings reaffirmed for PTCs issued under mortgage loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount O/s after Previous Surveillance (Rs. crore)	Current Outstanding Amount after June 2023 Payout (Rs. crore)	Rating Action
Rafael 08 2021	PTC Series A1	29.17	22.73	18.08	[ICRA]AAA(SO); Reaffirmed
	PTC Series A2	2.89	2.89	2.89	[ICRA]A+(SO); Reaffirmed

**Instrument details are provided in Annexure I*

Rationale

The pass-through certificates (PTCs) are backed by a pool of mortgage loan receivables originated by India Shelter Finance Corporation Limited {ISFC; rated [ICRA]A+ (Stable)}. The ratings have been reaffirmed on account of the healthy collection efficiency and moderate amortisation in the transaction, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The ratings draw comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the June 2023 payout month.

Pool performance summary

A summary of the performance of the pool till the May-23 collection (June 2023 payout) month has been tabulated below.

Parameter	Rafael 08 2021
Months post securitisation	22
Pool amortisation	34.6%
Overall PTC amortisation	34.6%
PTC Series A1 amortisation	38.0%
PTC Series A2 amortisation	0.00%
Cumulative collection efficiency[1]	99.6%
Loss-cum-90+ (% of initial pool principal)[2]	0.00%
Loss-cum-180+ (% of initial pool principal)[3]	0.00%
Breakeven collection efficiency[4]	
PTC Series A1	61.4%
PTC Series A1 and PTC Series A2	78.5%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	11.3%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) PTC Series A1	40.8%
PTC Series A2	25.4%
Cumulative prepayment rate[5]	21.5%

[1] *Cumulative collections till date / Cumulative billings till date + Opening overdues*

[2] *POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool*

[3] *POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool*

[4] *It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows*

[5] *POS at the time of prepayment of contracts prepaid till date / Initial pool principal*

Key rating drivers

Credit strengths

- Moderate amortisation of PTCs, resulting in build-up of cash collateral, principal subordination and excess interest spread (EIS) cover
- Low delinquency levels and healthy collection efficiency exhibited by the pool

Credit challenges

- Majority of the pool has contracts with a fixed rate, while the PTC yield is floating and is linked to the investor's benchmark yield. Hence, the transaction is exposed to interest rate risk and any adverse movement in the benchmark yield is likely to reduce the EIS available in the transaction
- Performance of the pool would remain exposed to any macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of more than 99% and nil loss-cum-90+ days past due (dpd) as of the June 2023 payout month. There has been no cash collateral (CC) utilisation in the transaction till date. Healthy collections and moderate pool amortisation have led to the build-up of the CE in the pool. The breakeven collection efficiency at the current level is lower compared to the actual collection level. The PTC yield for the pool is linked to the investor's external benchmark, while the majority of the pool has contracts with a fixed rate (~99% of the balance pool), leading to interest rate risk in the structure. The EIS has declined in the past few months and is expected to decline further on account of the rate hike in the PTC yield, which is scheduled in August 2023. Also, the pool's performance would remain exposed to any macroeconomic shocks/business disruptions if any.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings at the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated six pools originated by ISFC in the past, backed by mortgage loans. Three of these pools have matured and their ratings have been withdrawn. The performance of the live pools has been healthy with the cumulative collection efficiency exceeding ~95% and CC utilisation remaining nil as on the June 2023 payouts.

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 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, and 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 loss during the balance tenure of the pool is likely to be in the range of 2.00-3.00% (as a % of initial pool principal).

Liquidity position

Superior for PTC Series A1

The liquidity position is expected to be superior as the collections from the pool and the available credit collateral 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 highly comfortable to meet the promised payouts to the PTC investors.

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

For PTC Series A1 – Not applicable

For PTC Series A2 – The rating could be upgraded if sustained strong collection performance is witnessed in the underlying pool, leading to low delinquency levels and build-up of the 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 performance of the pool till June 2023 (payout month), the present delinquency profile of the pool, the CE available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

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, 2023, the company has a presence in 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 (LAP). ISFC had incorporated a wholly-owned subsidiary in March 2022 – India Shelter Capital Finance Limited – for the purpose of lending as a non-banking financial company (NBFC) catering to the LAP segment, subject to regulatory approvals.

ISFC reported a profit of Rs. 155 crore in FY2023 on assets under management (AUM) of Rs. 4,359 crore as on March 31, 2023 vis-à-vis a profit of Rs. 128 crore in FY2022 on AUM of Rs. 3,073 crore as on March 31, 2022. The gross and net non-performing advances (NPAs) stood at 1.1% and 0.9%, respectively, as on March 31, 2023.

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Net interest income	178	245	324
Profit after tax	87	128	155
AUM (incl. assigned portfolio; IGAAP valuation)	2,199	3,073	4,359
Gross non-performing assets (NPA)	1.8%	2.1%	1.1%
Net NPA	1.3%	1.6%	0.9%

Source: Company data, 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

Trust Name	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
				July 20, 2023	July 28, 2022	Nov 11, 2021^	Aug 25, 2021*	-
Rafael 08 2021	PTC Series A1	29.17	18.08	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-
	PTC Series A2	2.89	2.89	**[ICRA]A+(SO)**	**[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
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: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Rafael 08 2021	PTC Series A1	August 2021	8.30%^	Dec 2039	18.08	[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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About ICRA Limited:

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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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