December 21, 2023

IIFL Finance Limited: Ratings upgraded to [ICRA]AAA(SO) 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 November 2023 Payout (Rs. crore)	Rating Action
Liquid Gold Series 3 Dec 2020	PTC Series A	500.00	500.00	67.60	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)
Liquid Gold Series 4	PTC Series A	300.00	300.00	65.59	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)

**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 for both pools, the replenishment period was 26 months, post securitisation, while the amortisation period would start after the replenishment period ends. For both transactions, the amortisation period started in the December 2022 payout month. Following the start of the replenishment period, the collections have been passed on to the PTC investor as per the amortisation period waterfall, leading to the amortisation of the PTCs. The rating upgrade takes into account the high amortisation of the PTCs and the healthy collections in the pools, which have led to the significant buildup of the credit enhancement (CE) with respect to the balance PTC payouts.

Pool performance summary

A summary of the pools' performance till the October 2023 collection month (November 2023 payout) has been tabulated below (post replenishment period).

Parameter	Liquid Gold Series 3 Dec 2020	Liquid Gold Series 4
PTC Series A amortisation	86.48%	78.14%
Pool amortisation	76.72%	70.74%
Cumulative collection efficiency	99.46%	97.77%
Cumulative prepayment rate[1]	44.37%	57.68%
Loss-cum-0+ days past due (dpd; % of initial pool principal)[2]	1.83%	2.41%
Loss-cum-30+ (% of initial pool principal)[3]	0.67%	0.80%
Loss-cum-90+ (% of initial pool principal)[4]	0.00%	0.00%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	25.77%	20.50%
Subordination available (as % of balance pool principal)	47.21%	32.08%

[1] *Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal*

[2] *POS on contracts aged 0+ dpd / Initial POS on the pool*

[3] *POS on contracts aged 30+ dpd / Initial POS on the pool*

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

Key rating drivers

Credit strengths

- High amortisation of PTCs resulting in significant build-up of CE cover available for balance PTC payouts
- Healthy collections and low delinquencies seen in both the pools

Credit challenges

- Not applicable

Description of key rating drivers highlighted above

Both transactions had replenishing structures, whereby the replenishment period ended in the November 2022 payout month and the amortisation of the PTCs commenced from the December 2022 payouts. During the amortisation period, both pools have performed well with a cumulative collection efficiency of more than 97.7% as of the November 2023 payout month. However, there have been delinquencies in the softer buckets with the loss-cum-0+ days past due (dpd) and the loss-cum-30+ dpd at sub-2.5% and sub-1%, respectively. There has also been some volatility in the delinquencies in the softer buckets. Nevertheless, the loss-cum-90+dpd was nil in all the months for both transactions. Cash collateral (CC) has not been utilised in any of the months till the November 2023 payout. Since the pools have high amortisation and no CC has been utilised till date, the effective CE has also built up with respect to the balance pool principal. Basis the collection report of November 2023 shared by the servicer, the collections are adequate to cover the balance PTC payouts.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings for the transactions. ICRA will continue to closely 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.

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 pools, except the two pools under surveillance, have fully matured. The delinquencies in all the matured pools were low while the prepayments were high. The live pools have shown healthy collections and low delinquencies in the harder buckets with nil 90+ dpd and nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) 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 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.

Liquidity position: Superior

As per the transaction structure of both transactions, only the interest amount is promised on a monthly basis to PTC Series A while the entire principal amount is promised on the scheduled maturity date of the transaction. The collections from the pools and the available CE are expected to be highly comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings are unlikely to be revised given the short balance tenure for the transactions.

Analytical approach

The rating action is based on the pools' performance till October 2023 (collection month), the present delinquency profile of the pools, 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 originator

Following the receipt of a non-banking financial company (NBFC) licence, IIFL Finance, a listed non-operating holding company, merged with its subsidiary – India Infoline Finance Limited {a systemically important, non-deposit accepting non-banking financial company (NBFC-ND-SI)} – under a merger scheme with effect from March 30, 2020. IIFL, along with its subsidiaries, IIFL Home Finance (registered as a housing finance company) and Samasta Microfinance Limited (registered as an NBFC-microfinance institution), offers home loans, loan against property, micro, small and medium enterprise (MSME) loans, gold loans, microfinance and real estate loans.

IIFL Finance's consolidated net worth stood at Rs. 10,202 crore as on March 31, 2023. It reported a profit after tax (PAT) of Rs. 1,608 crore in FY2023 on total assets under management (AUM) of Rs. 64,638 crore compared to Rs. 1,188 crore and Rs. 51,210 crore, respectively, in FY2022.

Key financial indicators (consolidated for IIFL Finance Limited)

	FY2022	FY2023	H1 FY2024
Total income	7,024	8,447	4,904
Profit after tax (PAT)	1,188	1,608	998
AUM	51,210	64,638	73,066
Gross stage 3	3.2%	1.8%	1.8%
Net stage 3	1.8%	1.1%	1.0%

Source: Company & ICRA Research; 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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					December 21, 2023	December 29, 2022	December 28, 2021	December 22, 2020	December 17, 2020
1	**Liquid Gold Series 3 Dec 2020**	PTC Series A	500.00	67.60	**[ICRA]AAA(SO)**	**[ICRA]AA(SO)**	**[ICRA]AA(SO)**	**[ICRA]AA(SO)**	**Provisional [ICRA]AA(SO)**

Sr. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					December 21, 2023	December 29, 2022	December 28, 2021	February 22, 2021	February 17, 2021
2	**Liquid Gold Series 4**	PTC Series A	300.00	65.59	**[ICRA]AAA(SO)**	**[ICRA]AA(SO)**	**[ICRA]AA(SO)**	**[ICRA]AA(SO)**	**Provisional [ICRA]AA(SO)**

Complexity level of the rated instrument

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	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	67.60	[ICRA]AAA(SO)
INE0GSX15011	**Liquid Gold Series 4**	PTC Series A	February 2021	7.72%	February 2024	65.59	[ICRA]AAA(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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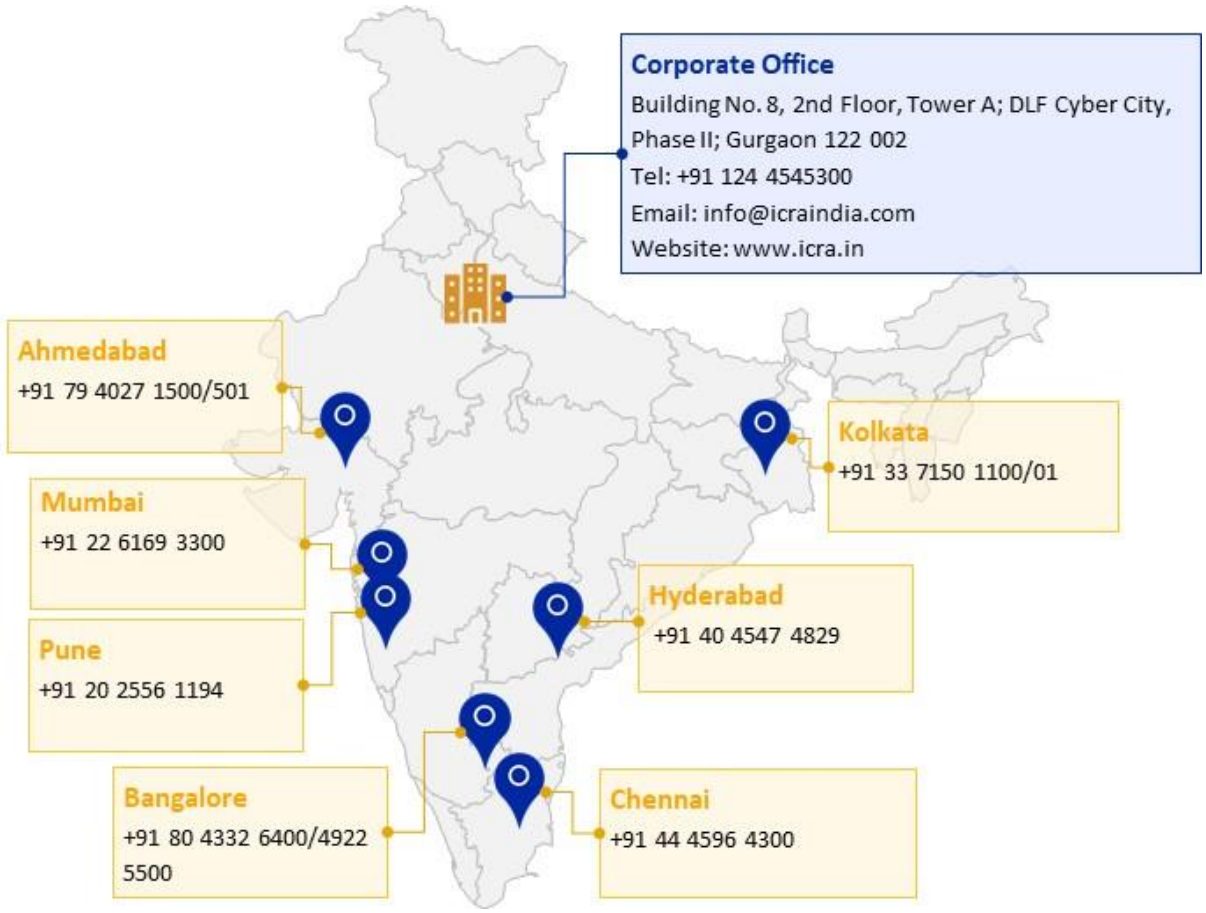

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