July 22, 2024

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 2024 Payout (Rs. crore)	Rating Action
Rafael 08 2021	PTC Series A1	29.17	18.08	14.25	[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 {ISFCL/Originator; rated [ICRA]A+(Positive)}.

The reaffirmation of ratings takes into account the high amortisation in the transaction, which has led to significant build-up of the credit enhancement cover over the future PTC payouts. The ratings draw comfort from the fact that the breakeven collection efficiency is comfortably low compared to the actual collection level observed in the pool till the June 2024 payout month.

Pool performance summary

Parameter	Rafael 08 2021
Payout month	June 2024
Months post securitisation	34
Pool amortisation	46.5%
PTC amortisation	
PTC Series A1	51.2%
PTC Series A2	0.00%
Cumulative collection efficiency[1]	99.7%
Loss-cum-90+ (% of initial pool principal)[2]	0.2%
Loss-cum-180+ (% of initial pool principal)[3]	0.00%
Breakeven collection efficiency[4]	
PTC Series A1	59.5%
PTC Series A1 + PTC Series A2	80.0%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	13.8%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	
PTC Series A1	35.0%
PTC Series A2	18.6%

[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

Parameter	Rafael 08 2021
Cumulative prepayment rate[5]	26.6%

Transaction structure

As per the transaction structure, the promised cash flows consist of interest on the outstanding pool principal and 91% of the billed principal to PTC Series A1. The remaining 9% of the billed principal is to be paid on an expected basis to PTC Series A1. Principal and interest for PTC Series A2 are promised only on the final maturity date and are completely subordinated to PTC Series A1 payouts. All prepayments would be passed on to the PTC Series A1 and subsequently to PTC Series A2 post full redemption of PTC Series A1. The excess interest spread (EIS) remaining post making the promised and expected payouts would be passed on to the Originator on a monthly basis.

Key rating drivers

Credit strengths

Healthy pool performance – Performance of the pool has been healthy with cumulative collection efficiency of ~99% which has resulted in low delinquencies in the pool i.e., 90+ days past due (dpd) at 0.15% and nil 180+ dpd as on June 2024 payout month. The break-even collection efficiency is also low compared to the collection efficiency observed in the pool.

Substantial credit enhancement available in the structure – The ratings factor in the build-up in the credit enhancement with cash collateral increasing to ~14% of the balance pool principal compared to 7.4% at the time of securitisation. Further, there have been no instances of cash collateral utilisation till date owing to strong collection performance and presence of EIS in the transaction.

Contracts backed by residential properties – All the contracts in the pool are backed by residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Rajasthan, Maharashtra and Madhya Pradesh comprising ~82% of the balance pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposed to interest rate risk – Majority of the pool has contracts with fixed rate, while the Series A1 PTC yield is floating, 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.

Risks associated with lending business – The pool performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayment of their loans.

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

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 1.75% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 5% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final ratings for the instruments.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Rafael 08 2021
Originator	India Shelter Finance Corporation Limited
Servicer	India Shelter Finance Corporation Limited
Trustee	IDBI Trusteeship Services Limited
CC holding Bank	ICICI Bank
Collection and payout account Bank	ICICI Bank

Liquidity position: Superior

The liquidity for both the PTC instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement is greater than 6 times the estimated loss in the pool.

Rating sensitivities

Positive factors

For PTC Series A1 – Not applicable

For PTC Series A2 – The rating could be upgraded for Series A2 PTC if sustained strong collection performance is witnessed in the underlying pools, leading to low delinquency levels and build-up of cover from the credit enhancement of the balance pool principal.

Negative factors – The sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (ISFCL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pool till June 2024 payout month (May 2024 collection month), the present delinquency profile of the pool, the credit enhancement 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

ISFCL is a housing finance company, which was 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, 2024, the company had a managed portfolio of Rs. 6,084 crore spread across 15 states/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. ISFCL had incorporated a 100%-subsidiary in March 2022 – India Shelter Capital Finance Limited (ISCFL) for the purpose of lending as a non-banking financial company catering to the loan against property segment. However, regulatory approval has not been received yet.

ISFCL reported a profit of Rs. 248 crore in FY2024 on an AUM of Rs. 6,084 crore as on March 31, 2024 vis-à-vis a profit of Rs. 155 crore in FY2023 on an AUM of Rs. 4,359 as on March 31, 2023. The gross and net NPAs stood at 1.0% and 0.7%, respectively, as on March 31, 2024.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Total income	460	606	861
Profit after tax	128	155	248
AUM (incl. assigned portfolio; IGAAP valuation)	3,073	4,359	6,084
Gross stage 3	2.1%	1.1%	1.0%
CRAR	55.9%	52.7%	70.9%

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 (FY2025)				Chronology of rating history for the Past 3 Years			
	Instrument	Initial amount rated (Rs. crore)	Current amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				July 22, 2024	July 20, 2023	July 28, 2022	Nov 11, 2021	Aug 25, 2021
Rafael 08 2021	PTC Series A1	29.17	14.25	**[ICRA]AAA(SO)**	**[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)**	**[ICRA]A+(SO)**	**Provisional [ICRA]A+(SO)**

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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Rafael 08 2021	PTC Series A1	Aug 30, 2021	9.30%^	Dec 17, 2039	14.25	[ICRA]AAA(SO)
	PTC Series A2		11.00%		2.89	[ICRA]A+(SO)

^ 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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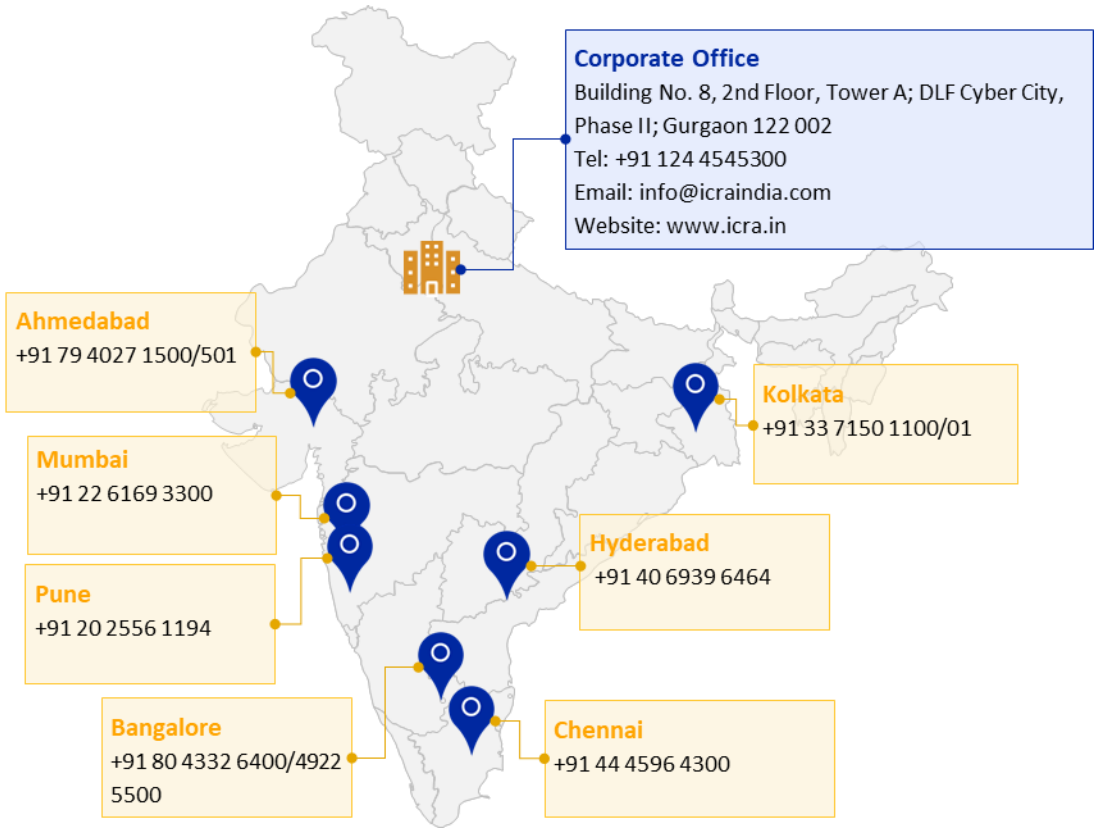

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