# Reliance Home Finance Limited

February 26, 2019

## Summary of rated instruments

| Issue Name | Instrument* | Initial Amount (Rs. Crore) | Rated Amount (Rs. Crore) | Rating action |
|---|---|---|---|---|
| Indian Receivable Trust 2018 Series 1 | PTC Series A | 868.45 | 868.45 | Provisional rating of [ICRA]AA(SO) confirmed as final |
| Indian Receivable Trust 2018 Series 2 | PTC Series A | 634.20 | 634.20 | Provisional rating of [ICRA]AA(SO) confirmed as final |
| Indian Receivable Trust 2018 Series 7 | PTC Series A | 120.15 | 120.15 | Provisional rating of [ICRA]AAA(SO) confirmed as final |

*Instrument details are provided in Annexure-1

## Rating action

ICRA has confirmed the provisional ratings assigned to PTCs issued by Indian Receivable Trust Series 1, Indian Receivable Trust Series 2 and Indian Receivable Trust Series 7 trusts as final, as tabulated above.

## Rationale

In November 2018, ICRA had assigned Provisional [ICRA]AA(SO) rating to PTC Series A, issued by Indian Receivable Trust 2018 Series 1 trust and Indian Receivable Trust 2018 Series 2. In December 2018, ICRA had assigned Provisional[ICRA]AAA(SO) rating to PTC series A, issued by Indian Receivable Trust 2018 Series 7. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transactions have been provided to ICRA, the said ratings have now been confirmed as final.

## Key rating drivers

## Credit Strengths

- Availability of credit enhancements in the form of EIS and Credit Collateral;
- Pools are devoid of any delinquent contracts as on the pool cut-off date;
- Moderately high share of borrowers under the income based lending scheme.

## Credit Challenges

- Moderate geographical concentration with top state accounting for 40% -53% of the pool prinicpal
- Low pre-securitisation amortisation of the contracts in the pools

## Description of key rating drivers highlighted above:

According to the transaction structure, the loan pool receivables will be transferred “at par” to a Special Purpose Vehicle (SPV) and the Trust will issue a single series of PTCs, backed by the same. The first line of support for meeting scheduled PTC payouts is the subordination of EIS in the structure. Cash collateral provided by RHFL acts as further credit enhancement in the transactions. In the event of shortfall in meeting the PTC payouts during any month, the Trustee will utilize the cash collateral to meet the shortfall. The Credit Collateral will be in the form of a Fixed Deposit (FD) with a bank that is acceptable to ICRA.

The pools consist entirely of variable rate mortgage loan given to individual borrowers. The PTC yield is also variable and linked to an external benchmark. The pools are characterised by moderate average seasoning in the range of 16-21 months. None of the pools not have any overdue contracts as on the pool cut-off date. The pools have moderate to high share of borrowers under the income-based lending scheme which is a positive. The pools have moderate geographical concentration with top state accounting for 40%-53% of pool principal.

## Key rating assumptions

ICRA's cash flow modelling for rating of MBS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is given in the table below.

| Sr. No | Transaction Name | Expected Loss (% of initial pool principal) | Prepayment |
|---|---|---|---|
| 1 | Indian Receivable Trust 2018 Series 1 | 3.0%-4.0% | 12%-24% p.a. |
| 2 | Indian Receivable Trust 2018 Series 2 | 3.0%-4.0% | 12%-24% p.a. |
| 3 | Indian Receivable Trust 2018 Series 7 | 3.0%-4.0% | 12%-24% p.a. |

## Liquidity Position

There is credit collateral (cash reserve) available in the transactions amounting to 12.00%, 9.00% and 13.25% of the initial pool principal amount in IRT Series 2018 1, IRT Series 2018 2 and IRT Series 2018 7 transactions respectively. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 20 months, 19 months and 27 months of PTC payouts in full for transactions respectively.

**Performance of past rated pools:** ICRA has rated 13 mortgage loan pools originated by RCL/RHFL till date. 3 of these transactions have not completed more than 2 payouts till date. All the remaining 10 live pools have performed well with collection efficiency of more than 99% and negligible/ low loss-cum-180+ dpd levels till Jan-19 payout month.

## 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:

Reliance Home Finance Limited (RHFL), a subsidiary of Reliance Capital Limited (RCL), was incorporated in FY2008. Registered as a Housing Finance Company with the National Housing Bank, RHFL is engaged in mortgaged based lending operations. RHFL was listed on the stock exchanges in India in the second half of September 2017 after it was hived off from RCL. Following this RCL's stake in the entity reduced to ~48%, while the overall promoter holding in the entity was ~75% as on December 31, 2017.

Since commencing business operations in July 2009, majority of incremental housing loans (HL) are booked on RHFL while the majority of incremental Loan Against Property (LAP) accounts are booked on RCL. RHFL reported a profit before tax of Rs. 172 crore in H1 FY2019 on a total income of Rs. 921 crore compared to a profit before tax of Rs. 127 crore on a total income of Rs. 932 crore in H1 FY2018.

The short-term debt of RHFL has a rating outstanding of [ICRA]A1+ from ICRA.

## Key financial indicators

| RHFL (Standalone) | FY2016 | FY2017 | FY2018 |
|---|---|---|---|
| Net Operating Income | 132 | 142 | 296 |
| Profit after tax | 87 | 173 | 181 |
| Networth | 620 | 1,130 | 1,929 |
| Loan Book (AUM) | 7,357 | 11,174 | 16,379 |
| Total assets | 7,694 | 11,305 | 15,684 |
| Return on assets | 1.31% | 1.82% | 1.34% |
| Return on equity | 15.04% | 19.73% | 11.81% |
| Gross NPA | 0.97% | 0.84% | 0.87% |
| Net NPA | 0.74% | 0.58% | 0.67% |
| Capital adequacy ratio | 16.3% | 19.3% | 19.8% |
| Gearing | 10.61 | 8.68 | 6.90 |

*Amounts in Rs. crore, ratios as per ICRA calculations*

## Status of non-cooperation with previous CRA: Not Applicable

## Any other information: Not Applicable

## Rating history for last three years:

| S.No | Name of Instrument | Current Rating Type | Current Rating Initial Amount Rated (Rs. Crores) | Current Rating Amount Outstanding (Rs. Crores) | Current Rating Month-year & Rating Feb 2019 | Chronology of Rating History for the past 3 years Month-year & Rating Nov 2018 | Month-year & Rating in FY2018 | Month-year & Rating in FY2017 | Month-year & Rating in FY2016 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Indian Receivable Trust 2018 Series 1 | PTC Series A | 868.45 | 868.45 | [ICRA]AA(SO) | Provisional [ICRA]AA(SO) | - | - | - |

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|---|---|---|---|---|---|---|---|---|---|
| 2 | Indian Receivable Trust 2018 Series 2 | PTC Series A | 634.20 | 634.20 | [ICRA]AA(SO) | Provisional [ICRA]AA(SO) | - | - | - |

| S.No | Name of Instrument | Current Rating Type | Current Rating Initial Amount Rated (Rs. Crores) | Current Rating Amount Outstanding (Rs. Crores) | Current Rating Month-year & Rating Feb 2019 | Chronology of Rating History for the past 3 years Month-year & Rating Dec 2018 | Month-year & Rating in FY2018 | Month-year & Rating in FY2017 | Month-year & Rating in FY2016 |
|---|---|---|---|---|---|---|---|---|---|
| 3 | Indian Receivable Trust 2018 Series 7 | PTC Series A | 120.15 | 120.15 | [ICRA]AAA(SO) | Provisional [ICRA]AA(SO) | - | - | - |

## Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

## Annexure-1: Instrument Details

| Issue Name | Instrument | Month of Issuance | Coupon Rate | Scheduled Maturity Date# | Rated Amount (Rs. crore[1]) | Current Rating |
|---|---|---|---|---|---|---|
| Indian Receivable Trust 2018 Series 1 | PTC Series A | November 2018 | 10.15%* | August 2043 | 868.45 | [ICRA]AA(SO) |
| Indian Receivable Trust 2018 Series 2 | PTC Series A | November 2018 | 9.10%* | August 2043 | 634.20 | [ICRA]AA(SO) |
| Indian Receivable Trust 2018 Series 7 | PTC Series A | December 2018 | 10.00%* | November 2043 | 120.15 | [ICRA]AAA(SO) |

*# per annum payable monthly*
**Floating; Linked to 1 year MCLR of investor*

[1] *100 lakh = 1 crore = 10 million*

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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.

For more information, visit www.icra.in

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