August 19, 2019

Reliance Home Finance Limited: Ratings confirmed for pass-through certificates issued by Indian Receivable Trust 2019 Series 2, as final

Summary of Rated Instruments

Trust Name	Instrument	Initial Amount (Rs. crore[1])	Amount after Mar-19 payout (Rs. crore)	Rating action
Indian Receivable Trust 2019 Series 2	PTC Series A	63.31	60.68	Provisional rating of [ICRA]BBB(SO)& confirmed as final

**Instrument details are provided in Annexure I*

&: The symbol implies that the ratings are under watch with developing implications

Rationale

ICRA has confirmed the provisional ratings outstanding on PTCs issued by the Indian Receivable Trust 2019 Series 2 trust as final, as tabulated above.

The originator has shared all the legal documentation pertaining to the transaction. ICRA has reviewed the same and since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction has also been provided to ICRA, the said ratings have now been confirmed as final.

In January 2019, ICRA had assigned the Provisional [ICRA]AAA(SO) rating to PTC Series A, issued by the Indian Receivable Trust 2019 Series 2 trust. In February 2019, ICRA had placed the PTC rating on 'Watch with Developing Implication' and in March 2019 had downgraded the PTC rating to Provisional [ICRA]AA(SO)& from Provisional [ICRA]AAA(SO)&. ICRA downgraded the PTC rating further to Provisional [ICRA]BBB(SO)& from Provisional [ICRA]AA(SO)& in April 2019. The rating downgrades of the PTCs were driven by the rating action taken on the Servicer in these transactions, namely RHFL. ICRA currently has a rating of [ICRA]D on the Commercial Paper programme of RHFL (Click here to view the rationale).

ICRA also notes that performance of the above-mentioned pool till July 2019 payout month has been strong, evidenced by the healthy collection efficiency and low delinquency levels.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread (EIS) and Credit Collateral;
- Pool is devoid of any delinquent contracts as on the pool cut-off date;
- High share of Residential property contracts accounting for ~95.1 of the overall pool principal amount.
- Cumulative collection efficiency of above 99% and nil cash collateral utilisation till July 2019 pay-out month.

Credit challenges

- Weakened credit profile of the servicer

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

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 pay-outs is the subordination of EIS in the structure (amounting to around 0.5% of the pool principal amount). Further credit support in the transaction is available through a Credit Collateral (CC) of 16.91% of the pool principal amount. The Credit Collateral will be in the form of a fixed deposit (FD) with a bank that is acceptable to ICRA.

As on the cut-off date, the pool consisted entirely of variable rate home loans given to individual borrowers. The pool was characterised by low seasoning (average seasoning of around 8.7 months). The pool did not have any overdue contracts as on the pool cut-off date. The pool had an average LTV of around 56.9%. The obligor concentration in the current pool was moderately high with the top 10 obligors together accounting for around 21.0% of the pool principal.

Servicer is the most important counterparty in any securitisation transaction. A significant deterioration in the credit profile of the servicer could adversely impact its operations. In the absence of an alternate servicer, such an impact on the servicer's operational capability could translate into weakened collection performance of the pools. Given the importance of the servicer's role in any securitisation transaction, its credit rating—as a proxy indicator of its operational strength—is an important input for ICRA's rating for securitisation transactions. Thus, notwithstanding the bankruptcy-remote nature of such transactions, ICRA ratings for PTCs are not entirely delinked from the servicer's stand-alone rating.

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 in 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 2019 Series 2	3.5%-4.5%	12%-24% p.a.

Liquidity Position

There is a credit collateral (cash reserve) available in the transaction amounting to 16.91% of the initial pool principal amount. Assuming even 50% of the monthly collection efficiency after July 2019 payout in the underlying pool contracts in a stress scenario, the credit collateral would cover 38 months of PTC payouts in full.

Performance of past rated pools

ICRA has rated 23 mortgage loan pools originated by RCL/RHFL till date. Out of these 11 had matured. All the remaining 12 live pools performed well with a collection efficiency above 98% and negligible / low loss-cum-180+ dpd levels till the July 19 pay-out 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 company

Reliance Home Finance Limited (RHFL) is a subsidiary of Reliance Capital Limited (RCL) and was incorporated in FY2009. RHFL is registered as a Housing Finance Company with the National Housing Bank and is involved in mortgage-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, basis which RCL's stake in the entity reduced to ~48%, while the overall promoter holding in the entity was ~75% as on December 31, 2018.

RHFL reported net profit after tax of Rs. 123-crore on a total income base of Rs. 875-crore in H1 FY2019 compared to a net profit of Rs. 181-crore on a total income base of Rs. 1671 crore in FY2018. In FY2017, the company had reported a net profit of Rs. 173-crore on a total income of Rs. 1145 crore.

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

Key financial indicators

	FY2017	FY2018	H1FY2019*
Total income	1,144.68	1,670.52	875.00
Profit after tax	172.59	180.58	123.00
Net worth	1129.60	1929.13	1880.00
Loan book (AUM)	11,174	16379	16464.00
Total assets	11346.65	15684	16305
Return on assets	1.81%	1.34%	1.54%
Return on equity	19.73%	11.81%	12.92%
Gross NPA	0.84%	0.87	0.8%
Net NPA	0.68%	0.67	0.58%
Capital adequacy ratio	19.3%	19.7%	19.4%
Gearing	8.67	6.90	7.20

Amounts in Rs. Crore, ratios as per ICRA calculations

**Annualised*

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				Chronology of Rating History for the past 3 years				
		Type	Initial Amount Rated (Rs. Crores)	Amount Outstanding (Rs. Crores)	Month-year & Rating August 2019	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
						April 2019	April 2019	March 2019	January 2019		
1	Indian Receivable Trust 2019 Series 2	PTC Series A	63.31	60.68	[ICRA]BBB(SO)&	Provisional [ICRA]BBB(SO)&	Provisional [ICRA]AA(SO)&	Provisional [ICRA]AAA(SO)&	Provisional [ICRA]AAA(SO)	N.A.	N.A.

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

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate#	Scheduled Maturity Date*	Rated Amount (Rs. crore[2])	Current Rating
1	Indian Receivable Trust 2019 Series 2	PTC Series A	January 2019	Floating; Linked to 1 year MCLR of investor	Feb 2044	60.68	[ICRA]BBB(SO)&

 # per annum payable monthly

[2] *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.

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