

April 24, 2020

Indiabulls Housing Finance Limited: Update on assignee payouts issued under Innovation Trust XXXII Dec-19 originated by Indiabulls Housing Finance Limited

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Principal O/s after Mar-20 Payout (Rs. Cr.)	Rating Action
Innovation Trust XXXII Dec-19	Assignee Payouts	492.60 [#]	443.81	[ICRA]AA(SO), Outstanding

*Instrument details are provided in Annexure-1

[#]The initial rated amount was Rs. 497.61 crore, at the time of execution the pool was changed to Rs. 492.60 crore.

Update

ICRA has taken note of the recent development for the above mentioned transaction where Indiabulls Housing Finance Limited (IBHFL) was unable to fund the Collection and Payment Account (CPA) account to meet the payout scheduled on April 13, 2020 due to the nationwide lockdown on account of Covid-19 pandemic that led to logistical issues in making payments in time. However, the payouts have subsequently been done on April 20, 2020. ICRA also notes that as per the transaction structure, the assignee (Central Bank of India) has adequate cash collateral (Rs. 44.78 crore i.e. 9% of initial pool principal) to meet any shortfalls. The cash collateral is adequate to cover the next 10 months of scheduled assignee payouts, even if collections were to be zero.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS) and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date
- Moderately high weighted average seasoning of around 20 months

Credit challenges

- The pool is made up of moderately high-ticket size loans (around 17% share of contracts with ticket size > Rs. 1 crore) with average loan ticket size of around Rs. 35 lakhs
- Moderate share (61%) of salaried employed borrowers
- High share of contracts with balance tenure greater than 20 years

It is envisaged that for this transaction, the Assignee will avail the partial credit guarantee (PCG) under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to public sector banks (PSBs) for purchasing high-rated pooled assets from NBFCs/housing finance companies (HFCs). ICRA has not factored in the PCG while arriving at the assigned rating.

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the Assignee. The first line of support for meeting the scheduled Assignee Payouts is the EIS of 16.20% in the structure, which is subordinated. A CC of 9.09% of the initial pool principal provided by IBHFL acts as further credit enhancement in the transaction.

The scheduled cash flow promised to the Assignee on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The pool amortisation schedule and thus the promised payouts to the Assignee are subject to modification on account of prepayments.

The pool is characterised by a low obligor concentration with the top 10 obligors together accounting for only 6.73% of the overall pool principal amount. There are no overdue contracts in the pool as on the pool cut-off date. The selected pool consists of receivables from loans given at a moderate loan-to-value (LTV; average LTV of 66.82%). Further, the share of contracts with a balance tenure of more than 20 years is relatively high at 60.17%. Around 39% of the contracts in the pool are given to self-employed borrowers who have performed weaker in the portfolio. The average seasoning and pre-securitisation of this pool are moderate at 20.20 months and 5.60%, respectively.

Past rated pool performance: In the past, ICRA has rated one HL pool and two HL/loan against property (LAP) mixed IBHFL originated pools. The pools have performed well with a collection efficiency of more than 99% and a negligible loss-cum-90+ dpd level till the collection month of September 2019. Given the significant quantum of EIS in all the pools, the cumulative cash collateral utilisation after the October 2019 payouts is nil in all the pools.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of Mortgage Backed Securities (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 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 3.0-4.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12.0-18.0% per annum.

Liquidity position: Strong

The cash collections and credit collateral available in the transaction are expected to be comfortable to meet the assignee payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the assignee payouts for a period of 20 months.

Rating sensitivities

Positive triggers – The rating could be upgraded on the sustained strong collection performance of the underlying pool contracts (>95%), leading to lower-than-expected delinquency levels, and on an increase in the cover (to about two times from the present level) available for future assignee payouts from the credit enhancements.

Negative triggers – Pressure on the ratings could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the assignee representative 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

Incorporated in 2005, IBHFL is a housing finance company registered with National Housing Bank. In March 2013, the parent company, Indiabulls Financial Services Limited, merged with IBHFL. The company provides mortgage loans, LRD and construction finance with a prime focus on the mortgage and home finance business. As on December 31, 2019, the company's AUM was Rs. 1,02,335 crore.

On a consolidated basis, IBHFL reported a net profit of Rs. 4,091 crore on a total income of Rs. 16,387 crore in FY2019 compared to a net profit of Rs. 3,895 crore on a total income of Rs. 14,663 crore in FY2018. In 9M FY2020, the company reported a net profit of Rs. 2,063 crore on a total income of Rs. 10,059 crore¹. Its tangible net worth was Rs. 17,078 crore while CRAR was 29.0% as on December 31, 2019.

Key financial indicators of IBHFL (consolidated)

	FY2018 Ind AS	FY2019 Ind AS
Net interest income*	4,483	5,128
Profit before tax	4,900	5,634
Profit after tax	3,895	4,091
Assets under management	1,22,233	1,20,525
Total assets	1,34,283	1,31,068
%Tier 1	15.07%	19.81%
% CRAR	20.82%	26.49%
Net gearing (times)	6.76	4.67
% Net profit/Average total assets	3.27%	3.08%
% Return on net worth	29.56%	26.61%
% Gross NPAs (% of AUM)	0.77%	0.88%
% Net NPAs (% of AUM)	0.34%	0.69%
% Net NPA/Net worth	4.98%	5.07%

Source: IBHFL and ICRA research; Amount in Rs. crore; All ratios are as per ICRA calculations

*Net interest income is calculated as the sum of interest income from financing activities and fixed deposits, and other operating charges less interest expenses

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Type	Current Rating (FY2021)			Rating History for the Past 3 Years			
			Rated Amount	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					24-Apr-20	06-Feb-20	02-Jan-20		
1	Innovation Trust XXXII Dec-19	Assignee Payouts	492.60	443.81	[ICRA]AA(SO), Outstanding	[ICRA]AA(SO)*	Provisional^ [ICRA]AA(SO)	-	-

Amount in Rs. crore

^Initial rating assigned

* rating confirmed as final

Complexity level of the rated instrument

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 Name	Date of Issuance	Coupon Rate [^]	Scheduled Maturity Date*	Amount Rated (Rs. crore ¹)	Current Rating
Innovation Trust XXXII Dec-19	Assignee Payouts	December 2019	9.25%	December 2049	443.81	[ICRA]AA(SO), Outstanding

** Scheduled maturity and average life at transaction initiation; may change on account of prepayment*

[^] Coupon rate is floating and linked to Assignee's MCLR

¹ 100 lakh = 1 crore = 10 million

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