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Indiabulls Housing Finance Limited: Provisional [ICRA]AAA(SO) rating assigned to PTCs backed by home loan receivables issued by Innovation Trust XXXVIII June'20

Summary of rating action

Issue Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Innovation Trust XXXVIII June'20	PTC Series A	297.69	Provisional [ICRA]AAA(SO); Assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Indiabulls Housing Finance Limited (IBHFL). The PTCs are backed by receivables from a Rs. 297.69-crore (principal amount) pool of home loans (HL). The provisional rating is based on the strength of the cash flows from the selected pool of contracts, IBHFL's track record in the lending business, the available credit enhancement in the form of a cash collateral (CC), the subordination of excess interest spread (EIS), and the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and CC
- Absence of overdue contracts as on pool cut-off date
- Moderately low loan-to-value (LTV) profile; weighted average LTV of around 67%
- Low ticket size loans (no contracts with ticket size > Rs. 1 crore) in the pool with an average loan ticket size of Rs. 13.3 lakh
- Moderately high weighted average seasoning of 26.7 months

Credit challenges

- High share (25%) of self-employed borrowers who have performed relatively weaker compared to salaried borrowers
- Uncertainty arising from the nationwide lockdown due to Covid-19 pandemic may lead to near-term stress on the pool's performance

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC Series A investors. The first line of support for meeting the scheduled investor payouts is the EIS of 19.71% in the structure, which is subordinated. A CC of 11.00% of the initial pool principal provided by IBHFL acts as further credit enhancement in the transaction.

The scheduled cash flow promised to the investors 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 investors 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 4.2% 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 low ticket size loans given at moderately low LTVs. The average seasoning and pre-securitisation of this pool are also moderately high at 26.7 months and 12.0%, respectively. However, around 25% of the contracts in the pool are given to self-employed borrowers who have performed weaker in the portfolio. Around 10% of the contracts in the pool are under moratorium till August 2020. The status on the extension of the moratorium for the remaining contracts by the investors for the additional three months (June 2020 to August 2020 collections), as allowed by the Reserve Bank of India (RBI), will also be a key monitorable for the transaction.

Past rated pool performance: In the past, ICRA has rated two HL pools and two HL/loan against property (LAP) mixed IBHFL originated pools. The pools have performed well with a collection efficiency of more than 97% and negligible loss-cum-90+ dpd levels till the April 2020 collection month. Given the significant quantum of EIS in all the pools, the cumulative CC utilisation after the May 2020 payouts is nil in all the pools.

Key rating assumptions

ICRA's cash flow modelling for 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 the 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. ICRA notes that the ongoing nationwide lockdown and subsequent uncertainty regarding macro-level economic activity could lead to near-term stress on the pool's performance.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.50-3.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 15.0-21.0% per annum.

Liquidity position: Superior

The cash collections and the credit collateral available in the transaction are expected to be highly comfortable to meet the investor 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 PTC payouts for a period of 21 months.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), which would lead to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of IBHFL's portfolio till December 2019 and the previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

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, lease rental discounting (LRD) and construction finance with a prime focus on the mortgage and home finance business. As on December 31, 2019, the company's assets under management (AUM) stood at 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 crore[1]. Its tangible net worth was Rs. 17,078 crore while the 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*

[1] *Net of net loss on fair value changes and excluding securitisation-related gains*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date & Rating	FY2020	FY2019	FY2018
					07-Jul-20	-	-	-
1	Innovation Trust XXXVIII June'20	PTC Series A	297.69	297.69	Provisional [ICRA]AAA(SO)	-	-	-

Amount in Rs. crore

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[2])	Current Rating
Innovation Trust XXXVIII June'20	PTC Series A	June 2020	9.20%	June 2045	297.69	Provisional [ICRA]AAA(SO)

** Scheduled maturity and average life at transaction initiation; may change on account of prepayment*
^ Coupon rate is floating and linked to assignee's MCLR

[2] *100 lakh = 1 crore = 10 million*

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About ICRA Limited:

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