June 24, 2021

Magma Housing Finance Limited: Ratings reaffirmed for PTCs and SLF issued under four home loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
MHFL Securitisation Trust I	PTC Series A1	48.06	37.96	28.70	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.74	1.38	1.04	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	2.99	2.99	2.99	[ICRA]BBB-(SO); Reaffirmed
MHFL Securitisation Trust II	PTC Series A1	55.89	42.58	32.31	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	2.79	2.12	1.61	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	3.08	3.08	3.08	[ICRA]BBB-(SO); Reaffirmed
MHFL Securitisation Trust III	PTC Series A1	63.26	49.19	38.46	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	2.29	1.78	1.39	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	3.93	3.93	3.93	[ICRA]BBB-(SO); Reaffirmed
MHFL Securitisation Trust IV	PTC Series A1	34.99	32.07	23.85	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.27	1.16	0.87	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	2.36	2.36	2.36	[ICRA]BBB-(SO); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

Pass through certificates (PTCs) and Second Loss Facility (SLF) have been issued under four securitisation transactions originated by Magma Housing Finance Limited (MHFL). The PTCs are backed by housing loan receivables originated by MHFL. The receivables have been assigned to the respective trusts at par and each trust has issued two series of PTCs backed by the same.

The rating reaffirmation for all the transactions is on account of the strong performance of the pools till May 2021 payouts, and moderate buildup of the credit enhancement in the transactions owing to pool amortisation. The break-even collection efficiencies are also comfortable when compared to the actual collection levels observed in these pools.

Pool Performance summary

A summary of the performance of the pools till Apr-21 collection month has been tabulated below.

Parameter	MHFL Securitisation Trust I	MHFL Securitisation Trust II	MHFL Securitisation Trust III	MHFL Securitisation Trust IV
PTC Amortization (%)	40.29%	42.18%	39.20%	31.84%
Cumulative collection efficiency (%)[1]	98.41%	99.01%	99.21%	98.87%
Break even collection efficiency[2] (%)	68.65%	71.12%	70.84%	70.86%
Loss cum 90+ (% of initial pool principal)[3]	3.62%	0.72%	1.20%	2.03%
Loss cum 180+ (% of initial pool principal)[4]	2.09%	0.55%	1.12%	0.17%
Cumulative CC utilization (% of initial CC)	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool principal)	20.94%	18.16%	20.56%	19.07%
EIS over balance tenure (as % of balance pool)	43.60%	41.44%	38.28%	45.88%
Cumulative prepayment rate[5]	33.81%	34.46%	31.68%	27.32%

Key rating drivers

Credit strengths

- Moderate amortization of PTCs resulting in moderate build-up of Credit Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts
- Cumulative collection efficiency of pools remained above 98% as of May 2021 payout
- No CC utilisation in any pool till date

Credit challenges

- Higher share of self-employed borrowers in the pools
- PTC Yield for all pools is linked to an external benchmark while interest rate on the underlying loans is linked to originator's lending rate —which leads to a basis risk in the structure
- Decline in collections witnessed in Apr-21 due to the second wave of the Covid-19 pandemic; however, gradual recovery expected as lockdowns ease and fresh infections reduce
- Pool's performance remains exposed disruptions arising out of the second wave of Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of the pools has been healthy with cumulative collection efficiency in the region of 97-99% till April 2021 collection month for all the pools. Any shortfall in the collections has been largely absorbed by the EIS in the structure and there has been no CC utilisation in the transactions till the April 2021 payouts. An important feature of the structures of these transactions is that the yield on PTC Series A2 is residual thereby extending further support to the transaction. Due to moderate amortisation of these pools there has been a build-up of credit enhancement in all these transactions.

The pools have a higher share of self-employed borrowers, in the range of 60%-70%. Further in all the transactions, the pool and PTC yields are linked to originator and investor lending rates respectively thereby creating a basis risk in the structure.

Overall, the credit enhancement available for meeting balance payouts to the investors is sufficient to reaffirm the ratings at the current rating level in the transactions. ICRA will continue to monitor the performance of these transactions. Any further

[1] *Cumulative collections till date / cumulative billings till date plus opening overdues*

[2] *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*

[3] *POS on contracts aged 90+ dpd + overdues / Initial POS on the pool*

[4] *POS on contracts aged 180+ dpd + overdues / Initial POS on the pool*

[5] *Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal*

rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

The pool's performance remains exposed to the disruptions arising from the second wave of the pandemic. Several restrictions or lockdown like situations due to the pandemic would impact the collections in the near term and a possible increase in delinquencies. However, the pools are geographically diversified and currently has a limited presence in states with severe restrictions, which is a positive.

Key rating assumptions

ICRA's cash flow modelling for surveillance of MBS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 the performance and 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 loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	MHFL Securitisation Trust I	4.0%-5.0%	12% - 18% p.a.
2	MHFL Securitisation Trust II	2.0%-3.0%	12% - 18% p.a.
3	MHFL Securitisation Trust III	2.5%-3.5%	12% - 18% p.a.
4	MHFL Securitisation Trust IV	3.5%-4.5%	12% - 18% p.a.

Liquidity position: Strong for PTCs

The liquidity of the rated transactions is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of credit collateral available in the range of 18%-21% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the PTC payouts for a period of over forty months.

Liquidity Position: Adequate for Second loss facility

The second loss facility has adequate support available in the transactions from the first loss facility and EIS.

Rating sensitivities

Positive factors – Sustained strong collection performance of the underlying pool contracts leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement (CE).
Negative factors – Sustained weak collection performance of the underlying pool leading to higher than expected delinquency levels and CE utilization levels.

Analytical approach

The rating actions are based on the performance of the pools till April 2021 (collection month), the present delinquency levels analysis of the performance of MHFL's portfolio till March 2021, the performance expected over the balance tenure of the pool and the credit enhancement cover available in the transactions.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Magma Housing Finance Limited (MHFL) is registered with National Housing Bank as a non-deposit taking housing finance company. The company was initially promoted as GE Money Housing Finance by GE Capital Corporation. Subsequently, in February 2013, the company was acquired by Magma Fincorp Limited (MFL) through its subsidiary Magma Advisory Limited. It commenced disbursements under the new management in June 2013. MHFL currently provides housing loans, loan against property (LAP) and construction finance.

On a standalone basis, MHFL reported a profit after tax of Rs. 11 crore on a total managed asset base of Rs. 3,978 crore in FY2021 against a profit after tax of Rs. 43 crore on a total asset base of Rs. 3,283 crore in FY2020. The company's managed portfolio stood at Rs. 3,978 crore, as on March 31, 2021, 59% of which was towards home loans and 41% towards LAP and construction finance. The company's reported gross and net stage 3 asset ratios stood at 1.6% and 0.8%, respectively, as on March 31, 2021.

Key financial indicators

MHFL	FY2020	FY2021
Net Revenue	177	246
Profit after tax	43	11
Assets under management	3,283	3,978
Gross Stage 3	1.6%	1.6%
Net Stage 3	1.0%	0.8%

Source: *Company, ICRA research; All ratios as per ICRA 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 (FY2022)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun 24, 2021	Jun 18, 2020	May 28, 2019	Mar 08, 2019
1	MHFL SECURITISATION TRUST I	PTC Series A1	48.06	28.70	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	1.74	1.04	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		Second Loss Facility	2.99	2.99	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jun 24, 2021	Jun 18, 2020	May 28, 2019	Mar 28, 2019
2	MHFL SECURITISATION TRUST II	PTC Series A1	55.89	32.31	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	2.79	1.61	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		Second Loss Facility	3.08	3.08	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Jun 24, 2021	Jun 18, 2020	May 28, 2019	Apr 01, 2019	-
3	MHFL SECURITISATION TRUST III	PTC Series A1	63.26	38.46	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		PTC Series A2	2.29	1.39	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		Second Loss Facility	3.93	3.93	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Jun 24, 2021	Jun 18, 2020	Oct 25, 2019	Jul 25, 2019	-
4	MHFL SECURITISATION TRUST IV	PTC Series A1	34.99	23.85	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		PTC Series A2	1.27	0.87	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-
		Second Loss Facility	2.36	2.36	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
MHFL SECURITISATION TRUST I	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second Loss Facility	Moderately Complex
MHFL SECURITISATION TRUST II	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second Loss Facility	Moderately Complex
MHFL SECURITISATION TRUST III	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second Loss Facility	Moderately Complex
MHFL SECURITISATION TRUST IV	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second Loss Facility	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
MHFL SECURITISATION TRUST I	PTC Series A1	March 2019	Floating; Linked to 1-year MCLR of investor	November 2042	28.70	[ICRA]AA(SO)
	PTC Series A2		Residual		1.04	[ICRA]AA(SO)
	Second Loss Facility		-		2.99	[ICRA]BBB-(SO)
MHFL SECURITISATION TRUST II	PTC Series A1	March 2019	Floating; Linked to 1-year MCLR of investor	December 2042	32.31	[ICRA]AA(SO)
	PTC Series A2		Residual		1.61	[ICRA]AA(SO)
	Second Loss Facility		-		3.08	[ICRA]BBB-(SO)
MHFL SECURITISATION TRUST III	PTC Series A1	March 2019	Floating; Linked to 1-year MCLR of investor	December 2042	38.46	[ICRA]AA(SO)
	PTC Series A2		Residual		1.39	[ICRA]AA(SO)
	Second Loss Facility		-		3.93	[ICRA]BBB-(SO)
MHFL SECURITISATION TRUST IV	PTC Series A1	July 2019	Floating; Linked to 1-year MCLR of investor	July 2043	23.85	[ICRA]AA(SO)
	PTC Series A2		Residual		0.87	[ICRA]AA(SO)
	Second Loss Facility		-		2.36	[ICRA]BBB-(SO)

** Based on scheduled maturity of the pool contracts; may change on account of prepayment and yield change. The weighted average life of the pool after taking into account prepayments is expected to be much lower at around 8-10 years*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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.

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