

June 20, 2022

Poonawalla Housing Finance Limited: Ratings reaffirmed for PTCs and SLF issued under 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	28.70	22.65	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.74	1.04	0.82	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	2.99	2.99	2.99	[ICRA]BBB-(SO); Reaffirmed
MHFL Securitisation Trust IV	PTC Series A1	34.99	23.85	17.64	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.27	0.87	0.64	[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

The pass-through certificates (PTCs) and Second Loss Facility (SLF) issued under both the securitisation transactions are backed by a pool of home loan receivables originated by Poonawalla Housing Finance Limited (PHFL) (erstwhile Magma Housing Finance Limited). 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 ratings have been reaffirmed on account of the high amortisation in the transaction, which has led to a build-up of the credit enhancement cover over the future PTC payouts. The ratings draw comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the May 2022 payout month. However, the pool's performance might get impacted in case of any future disruptions due to the Covid-19 pandemic.

Pool Performance summary

A summary of the performance of the pools after May-22 payout month has been tabulated below.

Parameter	MHFL Securitisation Trust I	MHFL Securitisation Trust IV
Months post securitisation	39	34
Pool Amortisation	51.85%	48.72%
PTC Amortisation	52.87%	49.60%
Cumulative collection efficiency ¹	98.17%	99.98%
Loss cum 90+ (% of initial pool principal) ²	3.07%	1.00%
Loss cum 180+ (% of initial pool principal) ³	3.07%	1.00%

¹ Cumulative collections till date / Cumulative billings till date plus opening overdues

² POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

³ POS on contracts aged 180+ dpd + overdues / Initial POS on the pool

Break even collection efficiency ⁴	59.94%	65.54%
Cumulative credit collateral (CC) utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	25.96%	25.35%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	53.25%	46.89%
Cumulative prepayment rate ⁵	43.67%	42.82%

Reset of credit enhancement

At the request of PHFL for reset of credit enhancement, ICRA has analysed the for MHFL Securitisation Trust I transaction at a CC of 7.79% of the balance pool principal (i.e. Rs 1.87 crore) as against current available CC of 25.96% of the balance pool principal (after May 2022 payouts). Based on the pool performance, ratings for all tranches of PTCs and the second loss facility (SLF) will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- Healthy amortisation of PTCs resulting in moderate build-up of CC and EIS cover available for the balance PTC payouts;
- High cumulative collection efficiency of pools
- No CC utilisation in any pool till date

Credit challenges

- Higher share of self-employed borrowers in the pools
- PTC Yield for both 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
- Pool's performance remains exposed to any fresh disruptions arising out of the Covid-19 pandemic

Description of key rating drivers highlighted above

The performance of the pools has been good with a cumulative collection efficiency is between the range of 98% to 100% (till May 2022 payouts). Any shortfall in the collections has been largely absorbed by the EIS in the structure. An important feature of the structures of the transaction is that the yield on PTC Series A2 is residual, thereby extending further support to the transaction. The pools have amortised in the range of 49% to 52%. Thus, the credit enhancement has built up considerably with respect to the balance pool principal.

The pools have a higher share of self-employed borrowers in the range of 70% to 75%. Further in the transactions, the pool and PTC yields are linked to originator and investor lending rates respectively thereby creating a basis risk in the structure. Also the performance of the pool would remain exposed to any fresh disruptions caused by the pandemic.

Overall, the credit enhancement available for meeting balance payouts to the investors (after downward reset in the CC) is sufficient to reaffirm the rating at the current rating level in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

⁴ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: $(\text{Balance cash flows payable to investor} - \text{Credit collateral available}) / \text{Balance pool cash flows}$

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

Performance of past rated pools:

ICRA had rated five transactions for PHFL backed by home loan receivables. The performance of the live pools has been robust with cumulative collection efficiency above 98%, loss cum 90+ sub 3.5% and nil credit collateral utilisation as on May-22 payout.

Key rating assumptions

ICRA's cash flow modelling for surveillance of mortgage-backed securitisation (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, and 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 of 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	3.0%-4.0%	12% - 18% p.a.
2	MHFL Securitisation Trust IV	2.5%-3.5%	12% - 18% p.a.

Liquidity position

Strong for PTCs

The liquidity of the rated transaction 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 25%-26% 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 around sixty months.

Adequate for Second loss facility

The second loss facility has adequate support available in the transaction 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 utilisation levels

Analytical approach

The rating action is based on the performance of the pool till May 2022 (payout month), the present delinquency level analysis of the performance of PHFL's portfolio till March 2022, the 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

PHFL is registered with National Housing Bank as a non-deposit taking housing finance company. It was initially promoted as GE Money Housing Finance by GE Capital Corporation. It was acquired by Magma Fincorp Limited (MFL) in February 2013. Following the acquisition of a controlling stake by the Adar Poonawalla-led Rising Sun Holdings Private Limited in MFL, the company was renamed Poonawalla Housing Finance Limited in July 2021.

PHFL provides housing loans, loan against property (LAP) and construction finance. Its assets under management stood at Rs. 5,060 crore as on March 31, 2022, comprising home loans (63%), LAP (36%) and construction finance (0.2%). On a standalone basis, PHFL reported a profit after tax of Rs. 77 crore on a total asset base of Rs. 5,060 crore in FY2022 against a profit after tax of Rs. 11 crore on a total asset base of Rs. 3,978 crore in FY2021. The company's reported gross and net stage 3 asset ratios stood at 1.0% and 0.6%, respectively, as on March 31, 2022 (1.6% and 0.8%, respectively, as on March 31, 2021).

Key financial indicators (audited; standalone)

PHFL	FY2020	FY2021	FY2022
Total income	354	472	470
Profit after tax	43	11	77
Assets under management	3,283	3,978	5,060
% Gross stage 3 assets (on-book)	1.6%	1.6%	1.0%
% Net stage 3 assets (on-book)	1.0%	0.8%	0.6%

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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jun 20, 2022	Jun 24, 2021	Jun 18, 2020	May 28, 2019	
1	MHFL SECURITISATION TRUST I	PTC Series A1	48.06	22.65	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	
		PTC Series A2	1.74	0.82	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	
		Second Loss Facility	2.99	2.99	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jun 20, 2022	Jun 24, 2021	Jun 18, 2020	Oct 25, 2019	Jul 25, 2019
2	MHFL SECURITISATION TRUST IV	PTC Series A1	34.99	17.64	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	1.27	0.64	[ICRA]AA(SO)	[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)	[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 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	22.65	[ICRA]AA(SO)
	PTC Series A2		Residual		0.82	[ICRA]AA(SO)
	Second Loss Facility		-		2.99	[ICRA]BBB-(SO)
MHFL SECURITISATION TRUST IV	PTC Series A1	July 2019	Floating; Linked to 1-year MCLR of investor	July 2043	17.64	[ICRA]AA(SO)
	PTC Series A2		Residual		0.64	[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 prepayments into account 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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