

July 29, 2022

Ummeed Housing Finance Private Limited: Rating confirmed as final for SNs backed by home loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
RUBY 04 2022	SN Series A1*	38.55	[ICRA]AA(SO); provisional rating confirmed as final

* Instrument details are provided in Annexure I

Rationale

In April 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to Securitisation Notes (SNs) Series A1 issued by Ruby 04 2022. The SNs are backed by loan receivables of a Rs. 42.84-crore pool (principal amount; receivables of Rs. 89.61 crore) of home loan contracts originated by Ummeed Housing Finance Private Limited (UHFPL). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance post July 2022 payout is shown in the following table.

Parameter	RUBY 04 2022
Months post securitisation	3
Pool amortisation	4.28%
SN Series A1 amortisation	7.10%
Cumulative prepayment rate	3.00%
Cumulative collection efficiency	100.00%
Loss cum 0+ dpd	0.13%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS) and cash collateral (CC)
- None of the contracts are overdue or has been overdue in the past till the cut-off date
- Weighted average seasoning of ~29 months as on the cut-off date

Credit challenges

- High geographical concentration with share of top state at ~51% in initial pool principal
- SN yield for the pool is linked to an external benchmark while interest rate on the underlying loans is linked to originator's lending rate, leading to a basis risk in the structure
- Pool's performance will remain exposed to any disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the SN investors. The promised monthly cash flow schedule will comprise the interest payments to SN Series A1 at the predetermined interest rate on the principal outstanding and the promised SN Series A1 principal payout to the extent of pool 90% of the pool principal billing. On each payout date, the available cash flow, after meeting the promised payouts to SN Series A1, will be utilised to meet the expected SN Series A1 principal payout (to the extent of 10% of pool principal billing). The EIS will not flow to the originator and would instead be utilised for the prepayment of the principal on a monthly basis.

The first line of support for SN Series A1 in the transaction is in the form of a subordination of 10.00% of the pool principal and the EIS. A CC of 10.00% of the initial pool principal (Rs. 4.28 crore), provided by UHFPL, shall act as further CE in the transaction. In case of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall. The residual EIS (after meeting promised and expected SN payouts and top-up of CC (if any) in any month) will not flow back to the originator and would instead be utilised towards the repayment of the SN principal on a monthly basis.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is ~29 months as on the pool cut-off date (March 31, 2022). Further, most of the loan contracts (~94%) in the pool have a CIBIL score of more than 700. The pool has high geographical concentration with the top state contributing ~51% to the initial pool principal amount. The SN yield for the pool is linked to an external benchmark, while the interest rate on the underlying loans is a mix of fixed rate and variable rate linked to the originator's lending rate, leading to a basis risk in the structure. Also, the pool's performance would remain exposed to disruptions caused by the pandemic.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the past performance of the originator's portfolio and the rated pools as well as 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.00-5.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.00-20.00% per annum.

Liquidity position: Strong

The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the SN Series A investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stressed scenario, the recommended CC would cover the shortfalls in the SN payouts for more than 50 months.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (>95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE could lead to a rating upgrade.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of UHFPL's portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Ummeed Housing Finance Private Limited is a housing finance company registered with National Housing Bank. The company started its operations in August 2016. Focused on providing financial solutions for housing to low and middle-income families in India, UHFPL focuses on providing loans for home purchase, renovation, and enhancement of residential property. The company raised equity share capital of Rs. 270 crore (Rs. 168-crore primary) from Morgan Stanley private equity and Norwest Capital, LLC. Its total net worth reached Rs. 452 crore as on March 31, 2022. The company's equity investors are: Morgan Stanley, Lightrock Global Fund (LGT), CX Partners, Norwest Capital and Thyme Private Limited.

UHFPL's loan book stood at Rs. 765.76 crore as on March 31, 2022. It caters to customers with informal sources of income and offers them tailor-made products (housing loan, loan against property, secured business loan, and secured small ticket business loan) with an average ticket size of Rs. 6.91 lakh. As on March 31, 2022 it had 55 operational branches in 5 states with a team of 700 employees.

Key financial indicators

UHFPL	FY2020 (audited)	FY2021 (audited)	FY2022 (provisional)
Total income	5	11	18
Net worth	255	267	452
Loan book (AUM)	451	580	766
Gross stage 3	0.14%	0.68%	0.73%
Net stage 3	0.12%	0.43%	0.48%

Source: Company, ICRA Research; 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
					July 29, 2022	April 28, 2022			
1	Ruby 04 2022	SN Series A1	38.55	38.55	[ICRA]AA (SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
SN Series A1	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 I: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
RUBY 04 2022	SN Series A1	April 2022	8.15% [#]	April 2043	38.55	[ICRA]AA(SO)

*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

[#] 1-year marginal cost of funds based lending rate (MCLR) + 0.9%

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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