

August 25, 2022

Poonawalla Housing Finance Limited: Ratings reaffirmed for PTCs and SLF issued under home loan securitisation transaction

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 IV	PTC Series A1	34.99	17.64	17.05	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.27	0.64	0.62	[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) 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 trust at par and the 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 July 2022 payout month. However, the pool's performance might get impacted in case of any fresh disruptions due to the Covid-19 pandemic.

Pool Performance summary

A summary of the performance of the pool till July 2022 payout month has been tabulated below.

Parameter	MHFL Securitisation Trust IV
Months post securitisation	36
Pool Amortisation	50.4%
PTC Amortisation	51.3%
Cumulative collection efficiency ¹	100.0%
Loss cum 90+ (% of initial pool principal) ²	1.0%
Loss cum 180+ (% of initial pool principal) ³	1.0%
Break even collection efficiency ⁴	65.2%
Cumulative credit collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	26.2%
Excess interest spread (EIS) (as % of balance pool principal)	46.2%
Cumulative prepayment rate ⁵	44.2%

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

⁴ 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

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

Reset of credit enhancement

At the request of PHFL for reset of credit enhancement, ICRA has analysed the transaction at a CC of 7.9% of the balance pool principal (i.e. Rs 1.42 crore) as against current available CC of 26.2% (after July 2022 payouts). Based on the pool performance, ratings for all tranches 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 amortization of PTCs resulting in moderate build-up of Credit Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts;
- High cumulative collection efficiency of pool
- No CC utilisation in the pool till date

Credit challenges

- Higher share of self-employed borrowers in the pool
- PTC Yield for the pool 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 pool has been good with a cumulative collection efficiency of 100.0% (till July 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 pool has amortised by 50.4%. Thus, the credit enhancement has built up considerably with respect to the balance pool principal.

The pool has a higher share of self-employed borrowers at 70%. Further in the transaction, 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 (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. The performance of the pool will remain exposed to any fresh disruptions caused by the pandemic.

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 3.0% and nil credit collateral utilisation as on Jul-22 payout.

Key rating assumptions

ICRA's cash flow modelling for 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 pool are expected to be in the range of 1.75% -2.75% and 12.0%-18.0% respectively.

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 of ~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 utilization levels

Analytical approach

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

Sr. No.	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	
					Aug 25, 2022	Jun 20, 2022			Oct 25, 2019	Jul 25, 2019
1	MHFL SECURITISATION TRUST IV	PTC Series A1	34.99	17.05	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)
		PTC Series A2	1.27	0.62	[ICRA]AA(SO)	[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)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
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 IV	PTC Series A1	July 2019	Floating; Linked to 1-year MCLR of investor	October 2043	17.05	[ICRA]AA(SO)
	PTC Series A2		Residual		0.62	[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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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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