

September 30, 2022

India Shelter Finance Corporation Limited: Provisional [ICRA]AA(SO) assigned to PTC Series A1 and Provisional [ICRA]A+(SO) assigned to PTC Series A2 issued by GHAR 09 2022, backed by a pool of home loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
GHAR 09 2022	PTC Series A1	79.06	Provisional [ICRA]AA(SO); Assigned
	PTC Series A2	4.16	Provisional [ICRA]A+(SO); Assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a Provisional [ICRA]AA(SO) rating to the pass-through certificates (PTCs) Series A1 and a Provisional [ICRA]A+(SO) rating to PTC Series A2 under a securitisation transaction backed by home loan receivables originated by India Shelter Finance Corporation Limited {ISFCL; rated [ICRA]A+ (Stable)}. The PTCs are backed by a pool of Rs. 179.26-crore home loan receivables (underlying pool principal of Rs. 83.22 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 5.0% of the pool principal to be provided by ISFCL (originator), (ii) subordination of 5.0% of the pool principal for PTC Series A1 (in the form of principal payable to PTC Series A2), and (iii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The ratings are 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 CE in the form of subordination for PTC Series A1, EIS and CC
- High weighted average seasoning of ~32 months
- High share of contracts in pool with a Highmark score of more than 750 (~82%)

Credit challenges

- High geographical concentration with share of top 3 states at ~74%
- PTC yield for the pool is linked to an external benchmark while interest rate on the underlying loans is fixed rate, leading to 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 will be assigned at par to the PTC investors. The monthly promised cash flows for PTC Series A1 will comprise a payment of 95% of the billed pool principal and the interest payment at the predetermined interest rate on the PTC Series A1 principal outstanding. Further, 5% of the billed pool principal is to be

paid on an expected basis to the PTC Series A1. PTC Series A2 payouts are completely subordinated to PTC Series A1. The pool amortisation schedule is subject to modification on account of prepayments.

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 5.00% of the pool principal in the form of PTC Series A2. After PTC Series A1 is fully paid, no subordination would be available for PTC Series A2. Additionally, the EIS available in the structure will provide CE support to the transaction. The EIS (~56% of the pool principal initially, based on the indicated PTC yield, for PTC Series A1 and ~47% for PTC Series A2) will flow back to the originator after the promised and scheduled payouts to the PTCs have been made every month.

A CC of 5.00% of the initial pool principal (Rs. 4.16 crore) provided by ISFCL would act as a further CE in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall. The CC not only provides credit support against losses in the pool, it also imparts liquidity to the transaction.

There were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting ~74% of the pool principal. The pool consists of monthly paying loan contracts, with a high weighted average seasoning of ~32 months and a weighted average pre-securitisation amortisation of ~11%. All the loans in the pool have a fixed interest rate. However, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Past rated pools: ICRA has rated five pools originated by ISFCL in the past, backed by mortgage loans. Out of five pools, two pools have matured and their ratings have been withdrawn. The performance of the three live pools has been good till date with the cumulative collection efficiency exceeding ~95%. Two of the three pools have seen considerable amortisation till September 2022 (payout month), resulting in a significant build-up in the CE for the balance PTC payouts. No CC has been utilised till date.

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 3.0-4.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0-18.0% per annum.

Liquidity position

Strong for PTC Series A1

The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC Series A1 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 26 months.

Strong for PTC Series A2

PTC Series A2 is subordinated to PTC Series A1, and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the PTC Series A2 investor payouts.

Rating sensitivities

Positive factors – The ratings could be upgraded on the sustained strong collection performance, leading to low delinquency levels and further build-up of the CE cover.

Negative factors – The ratings could be downgraded based on the 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 analysis of the performance of ISFCL's portfolio till June 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	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional ratings would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the ratings, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

ISFCL is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. It is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-and-middle-income segment. As on March 31, 2022, ISFCL had a managed portfolio of Rs. 3,073 crore spread across 15 states/Union Territories. It offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and loan against property.

ISFCL reported a profit of Rs. 128 crore in FY2022 on assets under management (AUM) of Rs. 3,073 crore as on March 31, 2022 vis-à-vis a profit of Rs. 87 crore in FY2021 on AUM of Rs. 2,198 crore as on March 31, 2021. The gross and net non-performing assets (NPAs) stood at 2.1% and 1.6%, respectively, as on March 31, 2022.

Key financial indicators (audited)

ISFCL	FY2020	FY2021	FY2022
	IndAS	IndAS	IndAS
Net interest income	145	178	245
Profit after tax	47	87	128
Assets under management (including assigned portfolio; IGAAP valuation)	1,520	2,198	3,073
Gross non-performing assets (GNPAs)	1.2%	1.8%	2.1%
Net NPAs	0.9%	1.3%	1.6%

Source: Company, ICRA Research; All ratios as per ICRA's 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
					September 30, 2022			
1	GHAR 09 2022	PTC Series A1	79.06	79.06	Provisional [ICRA]AA(SO)	-	-	-
		PTC Series A2	4.16	4.16	Provisional [ICRA]A+(SO)			

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
GHAR 09 2022	PTC Series A1	Moderately Complex
	PTC Series A2	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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
GHAR 09 2022	PTC Series A1	September 2022	8.00%^	October 2041	79.06	Provisional [ICRA]AA(SO)
	PTC Series A2		11.20%		4.16	Provisional [ICRA]A+(SO)

Source: Company; ^ Coupon rate is floating and linked to investor's 3M MCLR

Annexure II: 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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