

October 25, 2022

IIFL Home Finance Limited: Ratings reaffirmed for PTCs issued under three mortgage loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Sep-22 Payout (Rs. crore)	Rating Action
Elite Mortgage HL Trust Dec 2016	PTC Series A	44.32	17.37	13.28	[ICRA]AAA(SO); reaffirmed
Solitaire Mortgage - 1 Trust March 2017	PTC Series A	387.93	114.68	86.21	[ICRA]AAA(SO); reaffirmed
Solitaire Mortgage - 2 Trust June 2017	PTC Series A	122.34	42.64	34.29	[ICRA]AAA(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by mortgage loan receivables originated by IIFL Home Finance Limited (IHFL; rated [ICRA]AA(Stable)/[ICRA]A1+). The receivables have been assigned to the trust at par and the trust has issued one series of PTCs backed by the same. The ratings reaffirmation for these transactions is on account of the strong performance of the pools and the healthy build-up of the credit enhancement in these transactions owing to pool amortisation. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools.

Pool performance summary

A summary of the performance of the pools till the August 2022 collection month has been tabulated below.

Parameter	Elite Mortgage HL Trust Dec 2016	Solitaire Mortgage -1 Trust March 2017	Solitaire Mortgage -2 Trust June 2017
Months post securitisation	69	66	63
Pool amortisation	69.03%	76.80%	71.11%
PTC amortisation	70.03%	77.78%	71.97%
Cumulative collection efficiency ¹	99.61%	99.59%	98.90%
Breakeven collection efficiency ²	50.83%	42.41%	50.72%
Loss-cum-90+ (% of initial pool principal) ³	1.25%	0.60%	1.34%
Loss-cum-180+ (% of initial pool principal) ⁴	1.01%	0.26%	1.34%
Cumulative CC utilisation (% of initial CC)	0.00%	0.00%	0.00%
CC available (as % of balance pool principal)	35.55%	45.27%	34.61%
Trapped EIS (as % of balance pool principal)	12.74%	19.40%	13.86%
EIS over balance tenure (as % of balance pool)	47.16%	50.88%	57.06%
Cumulative prepayment rate ⁵	52.34%	62.33%	56.79%

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 – Cash collateral available – Trapped EIS)/ 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 / Initial pool principal

Reset of credit enhancement

At IHFL's request for resetting the credit enhancement, ICRA has analysed the following after September 2022 payouts:

- Elite Mortgage LAP Trust Dec 2016 at a cash collateral (CC) of 10.66% of the balance pool principal (i.e. Rs. 1.46 crore) against the currently available CC of 35.55% of the balance pool principal.
- Solitaire Mortgage -1 Trust March 2017 at a CC of 13.58% of the balance pool principal (i.e. Rs. 12.22 crore) against the currently available CC of 45.27% of the balance pool principal.
- Solitaire Mortgage -2 Trust June 2017 at a CC of 10.38% of the balance pool principal (i.e. Rs. 3.67 crore) against the currently available CC of 34.61% of the balance pool principal.

Based on the pools' performance, the rating for the PTCs will remain unchanged even after the reset of the CC amount for all the transactions. 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 pools, resulting in build-up of CC and excess interest spread (EIS) cover available for the balance PTC payouts
- High collection efficiency resulting in low delinquency levels in the pools

Credit challenges

- PTC yield is linked to an external benchmark while interest rate on the underlying loans is linked to originator's PLR- which leads to a basis risk in the structure except Mar-17 pool where the PTC yield is fixed and leads to an interest rate risk in structure
- The pools have a moderate share of self-employed borrowers
- Performance of the pools will remain exposed to any fresh disruptions caused due to Covid-19 pandemic

Description of key rating drivers highlighted above

The pools have shown a strong performance with a cumulative collection efficiency of more than 98.9% till the August 2022 collection month. The loss-cum-90+ days past due (dpd) has remained sub-1.5% in the last twelve months. An important feature of the structure of the transactions is that the residual EIS, after meeting the scheduled PTC payouts (promised interest at specified yield and 100% of principal billing) and the top-up of the CC, if any, in any month is retained in the structure (up to a predefined amount) as a fixed deposit with a lien marked in favour of the trustee. This trapped EIS is available to the investors in case of any shortfall in collections from the underlying contracts. Any shortfall in the collections has been absorbed by the EIS in the structure. Thus, there has been no instance of CC utilisation till the September 2022 payouts. The pool and PTC yields in both Dec-16 and Jun-17 transactions are linked to the originator and investor lending rates, respectively, thereby creating a basis risk in the structure. For the Mar-17 pool the PTC yield is fixed while the underlying pool has floating rate loans which leads to an interest rate risk in structure. The bulk of the amortisation for the pools has been in the form of prepayments as is seen for most mortgage pools. The average monthly prepayment rates for pools has been in the range of 1-1.5%. The performance of the pools will remain exposed to any fresh disruptions caused by the pandemic. The pools have a moderate share of self-employed borrowers at between 30-40%.

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

Performance of past rated pools: ICRA has rated 11 PTC mortgage loan transactions of the IHFL Group till date. All the live pools have shown a healthy performance till the August 2022 collection month with nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for mortgage-backed security (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 the rated pools as well as 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 these adjustments, the expected loss and prepayments during the balance tenure of the pools is given in the following table.

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
Elite Mortgage HL Trust Dec 2016	1.0-2.0%	5-18% p.a.
Solitaire Mortgage -1 Trust March 2017	0.5-1.5%	5-18% p.a.
Solitaire Mortgage -2 Trust June 2017	1.0-2.0%	5-18% p.a.

Liquidity position: Superior

The liquidity of the rated transactions is expected to be superior supported by the healthy collections expected from the pools of contracts and the presence of cash collateral and trapped EIS available at 48-65% 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 cash collateral and trapped EIS would cover the shortfalls in the PTC payouts for a period of almost six years.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be downgraded on the sustained weak collection performance of the underlying pools of contracts, leading to high delinquency levels, and a decrease in the cover available for future PTC payouts from the credit enhancement.

Analytical approach

The rating action is based on the performance of the pools till September 2022 (payout month), the present delinquency level analysis of the performance of IHFL's portfolio till June 2022, the performance expected over the balance tenure of the pools 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 company

IIFL Home Finance Limited is a wholly-owned subsidiary of IIFL Finance Limited and is registered with National Housing Bank (NHB) as a housing finance company. Incorporated in 2006, it offers home loans, loan against property and construction finance loans. IIFL Home Finance Limited reported a profit after tax (PAT) of Rs. 578 crore in FY2022 on total assets under management (AUM) of Rs. 23,617 crore compared to a PAT of Rs. 401 crore in FY2021 on total AUM of Rs. 20,694 crore in FY2021. The gross NPA and net NPA stood at 2.1% and 1.3%, respectively, as on March 31, 2022 compared to 2.0% and 1.2%, respectively, as on March 31, 2021.

Key financial indicators

IIFL Home Finance Limited	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)
Total income	1,803	2,068	2,221
Profit after tax	245	401	578
Assets under management	18,495	20,694	23,617
Gross NPA	1.6%	2.0%	2.1%
Net NPA	1.2%	1.2%	1.3%

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	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					October 25, 2022	October 29, 2021	October 5, 2020	September 4, 2019
1	Elite Mortgage HL Trust Dec 2016	PTC Series A	44.32	13.28	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

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					October 25, 2022	October 29, 2021	October 5, 2020	September 4, 2019
2	Solitaire Mortgage - 1 Trust March 2017	PTC Series A	387.93	86.21	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

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					October 25, 2022	October 29, 2021	October 5, 2020	September 4, 2019
3	Solitaire Mortgage - 2 Trust June 2017	PTC Series A	122.34	34.29	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

Complexity level of the rated instrument

Transaction Name	Instrument	Complexity Indicator
Elite Mortgage HL Trust Dec 2016	PTC Series A	Moderately Complex
Solitaire Mortgage -1 Trust March 2017	PTC Series A	Simple
Solitaire Mortgage -2 Trust June 2017	PTC Series A	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

ISIN	Trust Name	Instrument Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Elite Mortgage HL Trust Dec 2016	PTC Series A	December 2016	Floating; (Linked to Investor MCLR)	December 2043	13.28	[ICRA]AAA(SO)
NA	Solitaire Mortgage - 1 Trust March 2017	PTC Series A	March 2017	7.25% p.a. fixed	June 2042	86.21	[ICRA]AAA(SO)
NA	Solitaire Mortgage - 2 Trust June 2017	PTC Series A	June 2017	Floating; (Linked to Investor MCLR)	September 2037	34.29	[ICRA]AAA(SO)

*Scheduled maturity at transaction initiation; may change on account of prepayments and yield change

Source: Company

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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