

January 31, 2023

## ECL Finance Limited: Rating actions for PTCs backed by unsecured business loan receivables securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after Dec-22 Payout (Rs. crore)	Rating Action
UBL Trust 9	PTC Series A1	54.08	3.54	0.00	[ICRA]AAA(SO); Withdrawn
UBL Trust 10	PTC Series A1	47.53	NA	9.63	[ICRA]AA+(SO); Upgraded from [ICRA]AA-(SO)
UBL Trust 11	PTC Series A1	37.34	NA	10.59	[ICRA]AA(SO); Upgraded from [ICRA]AA-(SO)

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) tabulated above are backed by unsecured business loan receivables originated by [ECL Finance; rated [ICRA]A+(Stable)]. The rating for UBL Trust 10 and UBL Trust 11 has been upgraded on account of the high amortisation, which has led to the build-up of the credit enhancement (CE) 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 December 2022 payout month.

ICRA has also withdrawn the rating for PTCs issued under UBL Trust 9 as all the payouts to the investors in this instrument have been made and no further payments are due to the investors. The key rating drivers, liquidity position, rating sensitivities have not been captured as the rating assigned to the instruments have been withdrawn. The previous detailed rating rationale of surveillance exercise is available at the following link: [Click here](#)

### Pool performance summary

A summary of the performance of the pools till the November 2022 collection month (December 2022 payout) has been tabulated below.

Parameter	UBL Trust 10	UBL Trust 11
Months post securitisation	13	11
Pool amortisation	74.15%	66.62%
PTC Series A1 amortisation	79.73%	71.63%
Cumulative collection efficiency	98.71%	96.97%
Cumulative prepayment rate	8.47%	4.98%
Average monthly prepayment rate	0.68%	0.46%
Loss-cum-30+ (% of initial pool principal) <sup>1</sup>	1.84%	4.93%
Loss-cum-90+ (% of initial pool principal) <sup>2</sup>	1.74%	3.58%
Cumulative CC utilisation	0.00%	0.00%
CC available (as % of balance pool)	38.69%	29.96%
EIS over balance tenure (as % of balance pool)	7.60%	7.36%
Principal subordination (% of balance pool) PTC A1	27.08%	20.97%
Breakeven collection efficiency	33.04%	46.90%

<sup>1</sup> POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

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

## Key rating drivers

### Credit strengths for UBL Trust 10 and UBL Trust 11

- Build-up of credit enhancement cover over future PTC payouts with the gradual amortisation of the pools.
- Healthy collection performance seen in both the pools resulting in high amortisation with nil CC utilisation till date.

### Credit challenges

- Exposed to inherent risk in the asset class, namely, unsecured business loans.
- Performance of the pools would remain exposed to macro-economic shocks/business disruptions, if any.

### Description of key rating drivers highlighted above

The two live pools, namely UBL Trust 10 and UBL Trust 11 have demonstrated a healthy performance with cumulative collection efficiency of over 96% (~99% for UBL Trust 10 and 97% for UBL Trust 11), high PTC amortisation (~80% for UBL Trust 10 and ~72% for UBL Trust 11) and moderate delinquencies, which is below the expected mean loss assumed for the balance tenure of the pools. Any shortfall in the collections in the past has been absorbed by the subordination and/or excess interest spread available in the structure. Hence, there has been no CC utilisation till date in any of the pools. Further, due to the significant amortisation of the PTC/pools, there has been a considerable build-up in the CE for the balance tenure of the PTC payouts. ICRA notes that the delinquency level in UBL Trust 11 has been relatively higher than that of UBL Trust 10. However, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating for the transaction. ICRA will continue to closely monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

**Performance of past rated pools:** ICRA has a rating outstanding on three unsecured business loan pool that was originated by ECL Finance. The pools have reported a healthy collection efficiency up to the December 2022 payouts with no instance of CC utilisation.

### Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the Originator's loan portfolio. Given the modest track record of ECL Finance in the unsecured business loan segment, ICRA has also taken into account the credit quality experience of other more established players and ICRA's expectation of the credit quality of business loans. ECL Finance's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. Though the company resorts to legal recourse for some of the delinquent loans, this may not always be a feasible option particularly given the small ticket size and the unsecured nature of the loans issued.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

After making these adjustments, the expected loss and prepayments during the balance tenure of the pools are provided in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	UBL Trust 10	2.0-3.0%	8.0-12.0% p.a.
2	UBL Trust 11	3.0-4.0%	8.0-12.0% p.a.

## Liquidity position

### For UBL Trust 10 and UBL Trust 11: Strong

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC Series A1 investors.

## Rating sensitivities

**Positive factors** – The rating could be upgraded based on sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future PTC payouts from the credit enhancements.

**Negative factors** – The rating could be downgraded based on sustained weak collection performance of the underlying pool leading to higher than expected delinquency levels and credit enhancement utilisation levels.

## Analytical approach

The rating action is based on the performance of the pools till November 2022 (collection month), the present delinquency profile of the pools, the CE available in the pools, and the performance expected over the balance tenure of the pools.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a> <a href="#">ICRA's Policy on Withdrawal of Credit Rating</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

ECL Finance Limited is a systemically important non-deposit taking non-banking financial company (NBFC-ND-SI) registered with the RBI. It is the primary wholesale lending company for the Edelweiss Group. EFSL held 99.99% of the equity as on March 31, 2022. CDPQ Private Equity Asia PTE Ltd. held CCDs of Rs. 1,039.5 crore as on March 31, 2022.

The company currently carries out the Group's financing activities like structured collateralised corporate loans, real estate financing, loans against securities, small and medium-sized enterprise (SME) loans, loan against property, employee stock ownership plan (ESOP) financing and initial public offering (IPO) funding. It reported a net profit of Rs. 79.36 crore on total income of Rs. 1,660.77 crore in FY2021 compared to a net profit of Rs. 2.23 crore on total income of Rs. 2,001.39 crore in FY2021. Its total assets stood at Rs. 18,979.08 crore while its net worth was Rs. 2,482.33 crore as of March 31, 2022 compared to Rs. 14,345.98 crore and Rs. 2,559.45 crore, respectively, as of March 31, 2021. The borrowings stood at Rs. 10,955.15 crore as of March 31, 2022 compared to Rs. 15,956.18 crore as of March 31, 2021. The CRAR stood at 30.50% (Tier 1 of 16.38%) as of March 31, 2021 compared to 25.26% (Tier 1 of 13.77%) as of March 31, 2021.

### Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (EFSL), the holding company of the Edelweiss Group of companies, was incorporated in 1995 by first-generation entrepreneurs to offer investment banking services primarily to technology companies. At present, the Group is engaged in wholesale and retail financing, distressed assets resolution, corporate debt syndication and debt restructuring, institutional and retail equity broking, corporate finance advisory, wealth advisory and asset management. It forayed into housing finance in FY2011, life insurance in FY2012 and general insurance in FY2018.

On a standalone basis, EFSL had posted total income of Rs. 1,372 crore and a PAT of Rs. 933 crore in FY2022 compared to Rs. 1,722 crore and Rs. 716 crore, respectively, in FY2021. It had a net worth of Rs. 5,000 crore, total borrowings of Rs. 2,432 crore

and total assets of Rs. 8,042 crore as of March 31, 2022 compared to Rs. 4,126 crore, Rs. 838 crore and Rs. 5,981 crore, respectively, as of March 31, 2021.

#### Key financial indicators

Edelweiss Financial Services Limited (Consolidated)	FY2020	FY2021	FY2022
Net interest income	1,109	200	61
Total income	9,603	10,849	7,305
Profit after tax (Edelweiss' share)	(2,045)	265	189
Profit after tax - Including MI	(2,044)	254	212
Net worth	7,207	7,677	7,592
Loan asset	28,361	22,455	20,006
Total assets	54,280	46,350	43,188
Return on assets	-3.5%	0.5%	0.5%
Return on equity	-25.7%	3.4%	2.8%
Gross NPA (%)	5.3%	7.7%	7.1%*
Net NPA (%)	4.1%	4.1%	1.6%
Net NPA/Net worth (%)	11.9%	8.2%	2.7%
Gross gearing (times)	5.1	3.7	3.0
CRAR (%)	21%	21%	30%

Source: Company, ICRA research; All ratios as per ICRA calculations; \*includes Rs. 558 crore of exposures which has been fully provisioned.

#### 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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
				Jan 31, 2023	Aug 10, 2022	Sep 24, 2021	July 06, 2021	-	-
<b>UBL Trust 9</b>	PTC Series A1	54.08	0.00	[ICRA]AAA(SO); withdrawn	[ICRA]AAA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-

Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
				Jan 31, 2023	Feb 22, 2022	Dec 02, 2021	-	-
<b>UBL Trust 10</b>	PTC Series A1	47.53	9.63	[ICRA]AA+(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-

Trust Name	Current Rating (FY2023)					Chronology of Rating History		
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	for the Past 3 Years		
				Jan 31, 2023	May 24, 2022	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
UBL Trust 11	PTC Series A1	37.34	10.59	[ICRA]AA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-	-

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
UBL Trust 9	PTC Series A1	Moderately Complex
UBL Trust 10	PTC Series A1	Moderately Complex
UBL Trust 11	PTC Series A1	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: [Click Here](#)

#### Annexure I: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
UBL Trust 9	PTC Series A1	June 2021	9.25%	October 2024	0.00	[ICRA]AAA(SO); Withdrawn
UBL Trust 10	PTC Series A1	November 2021	9.25%	May 2024	9.63	[ICRA]AA+(SO)
UBL Trust 11	PTC Series A1	January 2022	9.10%	July 2024	10.59	[ICRA]AA(SO)

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

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.

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### Branches



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