March 22, 2023

Shriram Housing Finance Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 PTCs and Provisional [ICRA]A-(SO) assigned to Series A2 PTCs backed by mortgage loan receivables issued by Ignite 5 Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Ignite 5 Trust	Series A1 PTCs	93.12	Provisional [ICRA]AAA(SO); Assigned
	Series A2 PTCs	4.90	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

Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) rating to the Series A1 pass-through certificates (PTCs) and a Provisional [ICRA]A-(SO) rating to Series A2 PTCs issued under a securitisation transaction originated by Shriram Housing Finance Limited (SHFL; rated [ICRA]A1+). The securities are backed by a pool of Rs. 161.02 crore (underlying pool principal of Rs. 98.02 crore) of home loan (HL) and loan against property (LAP) receivables. The pool of assets, which is being securitised by SHFL (the originator), was earlier acquired by it from ICICI Home Finance Limited (ICICI HFC) through direct assignment.

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 SHFL in the name of the trust, (ii) subordination of 5.0% of the pool principal for Series A1 PTCs, (iii) the entire excess interest spread (EIS) in the structure (12.58% for Series A1 PTCs and 5.42% for Series A2 PTCs), 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 EIS, subordination for Series A1 PTCs and CC
- No overdue contracts in the pool as on the cut-off date; further, contracts have never been delinquent after assignment to SHFL
- High weighted average seasoning of around 55 months

Credit challenges

- High geographical concentration with top 3 states accounting for ~57% of the pool outstanding
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly promised cash flows for Series A1 PTCs will comprise the interest payment to Series A1 PTCs at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTCs is promised on the final maturity date. Series A2 PTCs are subordinate to Series A1 PTCs. During the tenure of Series A1 PTCs, the collections from the pool, after making the promised interest payout to Series A1 PTCs, will be used to make the expected principal payouts to Series A1 PTCs. However, this principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTCs would be carried forward to the subsequent payout. Further, after the maturity of Series A1 PTCs, the payout to Series A2 PTCs will be on expected basis. Also, the principal and interest on Series A2 PTCs will be due and payable only on the final maturity date. The final maturity date for both tranches of PTCs is January 25, 2043.

The first line of support for Series A1 PTCs in the transaction is in the form of a subordination of 5.0% of the pool principal in the form of Series A2 PTCs. The EIS available after meeting the promised and expected payouts to the PTCs will be passed on to SHFL. A CC of 5.00% of the initial pool principal (Rs. 4.90 crore), to be provided by SHFL in the name of the trust, would act as further CE in the transaction. 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 pool consists of 488 HL and LAP contracts with future receivables of Rs. 161.02 crore (underlying principal of Rs. 98.02 crore). The weighted average seasoning of the pool remains high at ~55 months as on the pool cut-off date (January 31, 2023). There are no overdue contracts in the pool as on the cut-off date; further, none of the contracts had ever been delinquent after assignment to SHFL. The pool has high geographical concentration with the top 3 states (Maharashtra, Andhra Pradesh and Karnataka) contributing ~57% to the initial pool principal amount. Moreover, the yield earned by SHFL (from the underlying direct assignment transaction) and the PTC yield are linked to the same external benchmark rate. Hence, the transaction is not exposed to interest rate basis risk, though the underlying pool yield is linked to a different benchmark rate. Furthermore, the nature of the transaction would lead to commingling risks with two entities, viz. ICICI HFC and SHFL. However, the commingling risks associated with SHFL would be limited to a few days only, i.e. the difference between the receipt of funds from ICICI HFC and the payin date for the transaction. Also, the pool's performance would remain exposed to any macro-economic shocks/business disruptions.

Past rated pools: This is the first transaction for SHFL to be rated by ICRA.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) 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 the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of ICICI HFC's loan portfolio (as the pool was initially originated by ICICI HFC; further, the entity continues to make collections from the underlying borrowers). ICRA has also considered the credit quality experience of other established players in the mortgage business.

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 assigned ratings.

For the current pool, after adjusting for key features of the pool like seasoning and overdues, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 2.50-3.50%, with certain variability around it. The pool has high seasoning and has also displayed a strong repayment track record with nil peak days past due (dpd) in the last 12 months. The prepayment rate for the underlying pool is estimated at 12.00-18.00% per annum.

Liquidity position

For Series A1 PTCs: Superior

As per the transaction structure, only the interest amount is promised to the Series A1 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 CE are expected to be highly comfortable to meet the promised payouts to the Series A1 PTC investors.

Series A2 PTCs: Strong

Series A2 PTCs are subordinated to Series A1 PTCs and the entire principal and interest are promised on the legal maturity date of the transaction. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A2 PTC investors.

Rating sensitivities

Positive factors

Series A1 PTCs: Not applicable

Series A2 PTCs: The sustained strong collection performance of the underlying pool (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and lower CE utilisation levels, would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of the ICICI HFC portfolio till December 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 final ratings 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 rating, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Shriram Housing Finance Limited (SHFL) is a housing finance company registered with National Housing Bank (NHB). It is a part of Shriram Group. On August 04, 2011, the company received its Certificate of Registration from NHB as required under Section 29A of the National Housing Bank Act, 1987. The company's primary operation is to provide loans for the purchase or construction of residential space and loan against property. As on December 31, 2022, it had assets under management (AUM) of Rs. 7,178 crore while catering to more than 36,000 borrowers across 15 states in India through a network of 123 branches.

Key financial indicators (audited)

Particulars	FY2021	FY2022	9M FY2023*
Total income	422	549	566
Profit after tax	62	80	101
Assets under management	3,929	5,355	7,178
Gross stage 3	1.9%	1.7%	1.2%
Net stage 3	1.5%	1.3%	0.9%

*Source: Company, ICRA Research; *Unaudited numbers; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Trust Name</th><th colspan="4">Current Rating (FY2023)</th><th colspan="3">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Instrument</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th></tr>
<tr><th>March 22, 2023</th><th>-</th><th>-</th><th>-</th></tr>
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Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	Moderately Complex
Series A2 PTCs	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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Ignite 5 Trust	Series A1 PTCs	March 2023	8.65%^	January 2043	93.12	Provisional [ICRA]AAA(SO)
	Series A2 PTCs	March 2023	8.65%^	January 2043	4.90	Provisional [ICRA]A-(SO)

**Scheduled maturity date at transaction initiation; may change on account of prepayments*
^ Coupon rate is floating and linked to SBI's 1-year MCLR
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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