

June 27, 2023

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

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount O/s after May-23 Payout (Rs. crore)	Rating Action
MHFL SECURITISATION TRUST I	PTC Series A1	48.06	22.65	16.93	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.74	0.82	0.61	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	2.99	2.99	2.99	[ICRA]BBB-(SO); Reaffirmed

*Instrument details are provided in Annexure I

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 ratings have been reaffirmed on account of the healthy collection efficiency and high amortisation in the transaction, 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 May 2023 payout month.

Pool performance summary

A summary of the performance of the pool till the May 2023 payout month has been tabulated below.

Parameter	MHFL SECURITISATION TRUST I
Months post securitisation	51
Pool amortisation	63.90%
PTC amortisation	64.77%
Cumulative collection efficiency ¹	99.55%
Loss-cum-90+ (% of initial pool principal) ²	2.43%
Loss-cum-180+ (% of initial pool principal) ³	2.43%
Breakeven collection efficiency ⁴	42.28%
Cumulative credit collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	34.63%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	>100%
Cumulative prepayment rate ⁵	53.42%

¹ Cumulative collections till date / Cumulative billings till date + 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 POS at the time of prepayment of contracts prepaid till date / Initial pool principal

Key rating drivers

Credit strengths

- Healthy amortization of PTCs resulting in build-up of Credit Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts
- High cumulative collection efficiency for the pool
- No CC utilisation in the pool till date

Credit challenges

- Higher share of self-employed borrowers in the pool at ~75% of balance pool principal
- 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
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of 99.5% till the May 2023 payouts. Delinquencies in the pool had increased due to the Covid-19 pandemic with the loss-cum-90+ days past due (dpd) peaking at 4.5% as of the September 2021 payout. The delinquencies declined subsequently with the loss-cum-90+ dpd at 2.4% as of the May 2023 payout. Any shortfall in collections has been absorbed by the EIS in the structure and there has been no CC utilisation till the May 2023 payouts. An important feature of the structure of the transaction is that the yield on PTC Series A2 is residual, thereby extending further support to the transaction. The pool has seen healthy amortisation at 63.9%. Thus, the CE has built up considerably with respect to the balance pool principal. The pool has seen higher prepayments with average monthly prepayment of 1.5%. The PTC yield for the pool is linked to an external benchmark, while the interest rate on the underlying loans is linked to the originator's lending rate, leading to basis risk in the structure. Also, the pool's performance would remain exposed to any macroeconomic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings at the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Performance of past rated pools: ICRA had rated five transactions of PHFL, backed by home loan receivables. The performance of the live pools has been robust with a cumulative collection efficiency of more than 99%, loss-cum-90+ of sub-2.5% and nil CC utilisation as of the May 2023 payout month.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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% (as a% of initial pool principal) and 12.0-18.0%, respectively.

Liquidity position

For PTCs: Strong

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 CC available of ~35% 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 five years.

For SLF: Adequate

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 of contracts, leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE could result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and CE utilisation levels, could result in a rating downgrade.

Analytical approach

The rating action is based on the performance of the pool till May 2023 (payout month), the present delinquency profile of the pool, the CE available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

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. On a standalone basis, PHFL reported a profit after tax of Rs. 115 crore with assets under management of Rs. 6,289 crore in FY2023 against Rs. 77 crore and Rs. 5,060 crore, respectively, in FY2022. The company's reported gross and net stage 3 asset ratios stood at 0.8% and 0.4%, respectively, as on March 31, 2023 (1.0% and 0.6%, respectively, as on March 31, 2022).

Key financial indicators (audited; standalone)

PHFL	FY2021	FY2022	FY2023
Total income	472	470	716
Profit after tax	11	77	115
Assets under management	3,978	5,060	6,289
Gross stage 3 assets (on-book)	1.6%	1.0%	0.8%
Net stage 3 assets (on-book)	0.8%	0.6%	0.4%

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

Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				June 27, 2023	June 20, 2022	June 24, 2021	June 18, 2020	
MHFL SECURITISATION TRUST I	PTC Series A1	48.06	16.93	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	
	PTC Series A2	1.74	0.61	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	
	Second Loss Facility	2.99	2.99	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
MHFL SECURITISATION TRUST I	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: [Click Here](#)

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	MHFL SECURITISATION TRUST I	PTC Series A1	March 2019	Floating; Linked to 1-year MCLR of investor	November 2042	16.93	[ICRA]AA(SO)
		PTC Series A2		Residual		0.61	[ICRA]AA(SO)
		Second Loss Facility		-		2.99	[ICRA]BBB-(SO)

*Based on scheduled maturity of the pool's contracts; may change on account of prepayment and yield change. The weighted average life of the pool, after considering prepayments, is expected to be much lower at around 8-10 years

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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