

July 27, 2023

## IIFL Home Finance Limited: [ICRA]AAA(SO) reaffirmed for PTCs issued under a mortgage loan securitisation transaction – Elite Mortgage HL Trust June 2019

### Summary of rating action

| Trust Name                        | Instrument*  | Initial Amount (Rs. crore) | Amount after Previous Rating Exercise (Rs. crore) | Amount after Jun-23 Payout (Rs. crore) | Rating Action             |
|-----------------------------------|--------------|----------------------------|---|--|---------------------------|
| Elite Mortgage HL Trust June 2019 | PTC Series A | 358.54                     | 182.17  | 145.15                                 | [ICRA]AAA(SO); reaffirmed |

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by housing loan receivables originated by IIFL Home Finance Limited (IIFL; rated [ICRA]AA (Stable)/[ICRA]A1+). The receivables have been assigned to the trust at par and the trust has issued a series of PTCs backed by the same.

The rating reaffirmation is on account of the strong performance of the pool till the June 2023 payouts and the healthy build-up of the credit enhancement in the transaction owing to pool amortisation. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool.

### Pool performance summary

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

| Parameter  | Elite Mortgage HL Trust June 2019 |
|--|-----------------------------------|
| Months post securitisation                               | 48                                |
| Pool amortisation  | 58.78%                            |
| PTC amortisation   | 59.52%                            |
| Cumulative collection efficiency <sup>1</sup>            | 99.40%                            |
| Breakeven collection efficiency <sup>2</sup>             | 51.37%                            |
| Loss-cum-90+ (% of initial pool principal) <sup>3</sup>  | 0.94%                             |
| Loss-cum-180+ (% of initial pool principal) <sup>4</sup> | 0.77%                             |
| Cumulative CC utilisation (% of initial CC)              | 0.00%                             |
| CC available (as % of balance pool principal)            | 36.39%                            |
| Trapped EIS (as % of balance pool principal)             | 7.28%                             |
| EIS over balance tenure (as % of balance pool)           | 87.40%                            |
| Cumulative prepayment rate <sup>5</sup>                  | 51.15%                            |

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdues

<sup>2</sup> It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available – Trapped EIS) / Balance pool cash flows

<sup>3</sup> POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

<sup>4</sup> POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool

<sup>5</sup> Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

### Reset of credit enhancement

At IIFL's request for resetting the credit enhancement, ICRA has analysed the transaction at a cash collateral (CC) of 10.92% of the balance pool principal (i.e. Rs. 16.13 crore) against the currently available CC of 36.39% of the balance pool principal. Based on the performance of the pool, the rating for the PTCs will remain unchanged even after the resetting of the CC amount for the transaction. 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 pool, resulting in high build-up of cash collateral (CC) and excess interest spread (EIS) cover available for the balance PTC payouts;
- High collection efficiency resulting in low delinquency levels exhibited by the pool.

#### Credit challenges

- PTC yield 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.
- The pool has a moderate share of self-employed borrowers
- Performance of the pool would remain exposed to macroeconomic shocks/business disruptions, if any.

### Description of key rating drivers highlighted above

The performance has been strong with a cumulative collection efficiency of more than 99% till the May 2023 collection month. The loss-cum-90+ days past due (dpd) has remained below 1.00% in all the months. An important feature of the structure of the transaction is that the residual EIS, after meeting the scheduled PTC payouts (promised interest at specified yield and 100% of principal billing) and 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 collections has been largely absorbed by the EIS in the structure. Also, there has been no instance of CC utilisation till the June 2023 payout. However, the pool and PTC yields in the transaction are linked to the originator and investor lending rates, respectively, thereby creating basis risk in the structure. The balance pool has a moderate share of self-employed borrowers at around 34%.

Overall, the credit enhancement available for meeting the balance payouts to the investors (after downward reset of the CC) is sufficient to reaffirm the rating at the current level 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 credit enhancement relative to ICRA's expectations.

**Performance of past rated pools:** ICRA has eleven PTC mortgage loan transactions of the IIFL Group till date, of which three are live as on date. All the live pools have shown satisfactory performance till the May 2023 collection month with nil CC utilisation.

### Key rating assumptions

ICRA's cash flow modelling for 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 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 pool are given in the following table.

| Transaction Name                  | Expected Loss<br>(% of initial pool principal) | Prepayment |
|-----------------------------------|--|------------|
| Elite Mortgage HL Trust June 2019 | 1.0-2.0%                                       | 5-18% p.a. |

### Liquidity position: Superior

The liquidity of the rated transaction is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of the CC as well as the trapped EIS available at ~28% (post downward reset of CC) of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC and trapped EIS would cover the shortfall in the PTC payouts for more than six years.

### Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool 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 pool till May 2023 (collection month), the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | Not Applicable   |

### About the originator

IIFL Home Finance Limited is a subsidiary of IIFL Finance Limited and 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. 790 crore on total assets under management (AUM) of Rs. 28,512 crore in FY2023 compared to Rs. 578 crore and Rs. 23,617 crore, respectively, in FY2022. The gross and net stage 3 stood at 2.2% and 1.6%, respectively, as on March 31, 2023 compared to 2.1% and 1.3%, respectively, as on March 31, 2022.

### Key financial indicators

| IIFL Home Finance Limited | FY2021<br>(Audited) | FY2022<br>(Audited) | FY2023<br>(Audited) |
|---------------------------|---------------------|---------------------|---------------------|
| Total income              | 2,068               | 2,221               | 2,731               |
| Profit after tax          | 401                 | 578                 | 790                 |
| Loan book (AUM)           | 20,694              | 23,617              | 28,512              |
| Gross stage 3             | 2.0%                | 2.1%                | 2.2%                |
| Net stage 3               | 1.2%                | 1.3%                | 1.6%                |

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 (FY2024) |                                  |                                |                         | Chronology of Rating History for the Past 3 Years |                         |                         |
|---------|-----------------------------------|-------------------------|----------------------------------|--------------------------------|-------------------------|---|-------------------------|-------------------------|
|         |                                   | Instrument              | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023                           | Date & Rating in FY2022 | Date & Rating in FY2021 |
|         |                                   |                         |                                  |                                | July 27, 2023           | July 29, 2022                                     | July 26, 2021           | July 22, 2020           |
| 1       | Elite Mortgage HL Trust June 2019 | PTC Series A            | 358.54                           | 145.15                         | [ICRA]AAA(SO)           | [ICRA]AAA(SO)                                     | [ICRA]AAA(SO)           | [ICRA]AAA(SO)           |

### Complexity level of the rated instrument

| Instrument   | Complexity Indicator |
|--------------|----------------------|
| 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: [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   | Elite Mortgage HL Trust June 2019 | PTC Series A    | June 2019        | Floating; Linked to 1 year MCLR of investor | August 2045    | 145.15                   | [ICRA]AAA(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.

For more information, visit [www.icra.in](http://www.icra.in)

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