

September 08, 2023

## Housing Development Finance Corporation Limited: [ICRA]AAA(SO) reaffirmed for PTCs issued under a mortgage 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 Aug-23 Payout (Rs. crore)	Rating Action
<b>MBS 2016 SERIES I TRUST</b>	PTC Series A1	944.84	285.72	239.75	[ICRA]AAA(SO); Reaffirmed

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has reaffirmed the rating for Pass Through Certificates (PTC) originated by Housing Development Finance Corporation Limited (HDFC) which were backed by mortgage loan receivables, as tabulated above. Pursuant to the amalgamation of HDFC and HDFC Bank Limited (HDFC Bank) effective from July 01, 2023, HDFC Bank has substituted HDFC as successor in all transaction documents for the above-mentioned PTC transaction. HDFC Bank has assumed all the outstanding duties, undertakings and obligations, with respect to the transaction. Accordingly, the PTC transaction is being serviced by HDFC Bank and HDFC Bank has replaced HDFC as the corporate guarantor for this transaction.

The rating reaffirmation also takes into account of the high amortisation till the August 2023 payouts and the resultant healthy build-up of the credit enhancement covering the balance future payouts, along with the healthy collection efficiency resulting in lower delinquencies. The breakeven collection efficiency is also comfortable compared to the actual collection levels in this pool.

A summary of the pool performance after the August 2023 payout is shown in the table below:

Parameter	MBS 2016 SERIES I TRUST
Months post securitisation	86
Pool amortisation	74.63%
PTC Series A1 amortisation	74.63%
Cumulative collection efficiency <sup>1</sup>	99.72%
Cumulative Prepayment rate <sup>2</sup>	33.28%
Average monthly prepayment rate	0.47%
Loss cum 90+ dpd (% of initial pool principal) <sup>3</sup>	0.53%
Loss cum 180+ dpd (% of initial pool principal) <sup>4</sup>	0.28%
Breakeven collection efficiency <sup>5</sup>	75.87%
Cumulative credit collateral (CC) utilisation	0.00%
Cumulative credit enhancement (CE) utilisation <sup>6</sup>	8.03%
CC available (as % of balance pool principal) <sup>7</sup>	27.20%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	8.23%

<sup>1</sup> Cumulative collections / (Cumulative billings + opening overdue at the time of securitization)

<sup>2</sup> Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

<sup>3</sup> Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

<sup>4</sup> Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

<sup>5</sup> (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

<sup>6</sup> Credit Enhancement includes CC and EIS; CE utilisation depicted is purely from EIS

<sup>7</sup> CC is available in form of corporate guarantee from HDFC Bank

## Key rating drivers

### Credit strengths

- Healthy performance of the pool with cumulative collection efficiency upwards of 99% after June 2023 payout coupled with low delinquency levels demonstrated by loss-cum 90+ days past due (dpd) of sub-1% for the pool
- Buildup in credit collateral (CC) and excess interest spread (EIS) cover available for balance PTC payouts

### Credit challenges

- Exposure to interest rate basis risk as the pool yield is linked to HDFC Bank's external benchmark rate while the PTC yield is linked to the investor's MCLR

### Description of key rating drivers highlighted above

The transaction has completed 86 months post securitisation and has amortised 74.6% after the August 2023 payout. The underlying contracts in the pool have variable interest rates. The pool performance has been stable with a cumulative collection efficiency of more than 99.7% and loss-cum-180+ delinquency levels up to 0.3%. The PTC yield is linked to the investor yield with a constant spread while the pool yield is linked to HDFC Bank's external benchmark rate. This results in basis risk in the transaction. The EIS, after meeting the scheduled investor payouts, leaks out to the originator.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating of the PTCs. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the pool's performance and the availability of credit enhancement relative to ICRA's expectations.

**Performance of past rated pools:** Other than this transaction, ICRA does not have any rating outstanding on mortgage loan receivables transactions originated by HDFC. The transactions rated in the past had witnessed healthy collections with high collection efficiency and low delinquency levels.

### 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 coefficient of variation (CoV) are arrived at after considering 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 mean shortfall in principal collection during the tenure of the pool is estimated at 0.25-1.25% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0-18.0% per annum.

### Liquidity position: Superior

The pool collections and the availability of credit collateral are expected to be highly comfortable to meet the investor payouts. Assuming the monthly collection efficiency declines to 50% in the underlying pool of contracts in a stress scenario, the available credit collateral would still cover the shortfalls for a period of 33 months.

### Rating sensitivities

**Positive factors** – Not Applicable.

**Negative factors** – The rating could be downgraded on sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels or on a deterioration in HDFC Bank's credit profile.

## Analytical approach

The rating action is based on the pool's performance till August 2023 (payout month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the credit enhancement available in the transaction.

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

HDFC was India's largest housing finance entity, prior to its merger with HDFC Bank with effect from July 1, 2023, and had been in existence for over 40 years. With a presence in banking, insurance and asset management, the HDFC Group is an important part of the Indian financial services sector. In FY2023, HDFC reported a total income of Rs. 60,224 crore on an asset base of Rs. 7,26,775 crore as of March 2023, compared to a total income of Rs. 47,990 crore on an asset base of Rs. 6,40,862 crore in FY2022. It reported a profit after tax (PAT) of Rs. 16,239 crore for the year ended March 31, 2023 compared to Rs. 13,742 crore for the year ended March 31, 2022.

## Key financial indicators (audited; IndAS)

HDFC Limited	FY2021	FY2022	FY2023
Profit after tax	12,027	13,742	16,239
Gross managed portfolio	5,69,894	6,53,902	7,23,988
Total assets	5,67,599	6,40,862	7,26,775
Return on average managed assets (%)	1.9%	2.0%	2.1%
Gross stage 3 (%)	2.33%	2.27%	1.44%
Net stage 3 (%)	1.15%	1.06%	0.68%

Source: Company, ICRA Research; 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	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	
				Sep 08, 2023	Jan 27, 2023	Jan 31, 2022	Jan 18, 2021	
MBS 2016 SERIES I TRUST	PTC Series A1	944.84	239.75	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	

## Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
MBS 2016 SERIES I TRUST	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-1: Instrument details**

Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
MBS 2016 SERIES I TRUST	PTC Series A1	June 2016	8.35%^	January 2046	239.75	[ICRA]AAA(SO)

\*Scheduled maturity at transaction initiation; may change on account of prepayments; ^Floating (linked to Investor's base rate)

Source: Company

**Annexure-2: 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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