

September 28, 2023

IIFL Home Finance Limited: Ratings reaffirmed for PTCs issued under mortgage loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after Aug-23 Payout (Rs. crore)	Rating Action
Elite Mortgage HL Trust Sep 2016	PTC Series A	50.49	17.01	13.20	[ICRA]AAA(SO); reaffirmed
Elite Mortgage HL Trust Dec 2016	PTC Series A	44.32	13.28	10.91	[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+) for both the pools. The receivables of the pools have been assigned to the trust at par and the trust has issued a series of PTCs backed by the same.

The ratings reaffirmation is on account of the strong performance of the pools till the August 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 pools.

Pool performance summary

A summary of the performance of the pools till the July 2023 collection month has been tabulated below.

Parameter	Elite Mortgage HL Trust Sep 2016	Elite Mortgage HL Trust Dec 2016
Months post securitisation	83	80
Pool amortisation	72.21%	74.38%
PTC amortisation	73.86%	75.38%
Cumulative collection efficiency ¹	96.05%	97.22%
Breakeven collection efficiency ²	46.33%	48.52%
Loss-cum-90+ (% of initial pool principal) ³	0.92%	1.67%
Loss-cum-180+ (% of initial pool principal) ⁴	0.92%	1.45%
Cumulative CC utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	41.40%	42.98%
Trapped EIS (as % of balance pool principal)	10.69%	14.02%
EIS over balance tenure (as % of balance pool)	70.21%	71.95%
Cumulative prepayment rate ⁵	53.00%	55.99%

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

² 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

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

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

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

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 pools.

Credit challenges

- PTC yield is linked to an external benchmark while interest rate on the underlying loans is linked to the originator's lending rate, leading to basis risk in the structure
- Moderate share of self-employed borrowers in the pools
- 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 96% till the July 2023 collection month. The loss-cum-90+ days past due (dpd) has remained below 2.00% in all the months for both pools. An important feature of the structure of both pools 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 August 2023 payout for both pools. However, the pool and PTC yields in both transactions are linked to the originator and investor lending rates, respectively, thereby creating basis risk in the structure. The balance pools have a moderate share of self-employed borrowers.

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

Performance of past rated pools: ICRA has rated 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 a satisfactory performance till the July 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 (% of initial pool principal)	Prepayment
Elite Mortgage HL Trust Sep 2016	1.0-2.0%	5-18% p.a.
Elite Mortgage HL Trust Dec 2016	1.25-2.25%	5-18% p.a.

Liquidity position: Superior

The liquidity of the rated transactions is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of CC and trapped EIS. 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 shortfalls in the PTC payouts for the balance tenure of the PTCs.

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 pools till July 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	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

IIFL Home Finance Limited is a wholly-owned subsidiary of IIFL Finance Limited and is 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 reported a profit after tax (PAT) of Rs. 790 crore in FY2023 on a total asset base of Rs. 21,785 crore compared to Rs. 578 crore and Rs. 18,010 crore, respectively, in FY2022. It has 386 branches in 17 states.

Key financial indicators

IIFL Home Finance Limited	FY2022 (Audited)	FY2023 (Audited)
Total income	2,218	2,702
Profit after tax	578	790
Loan book (AUM)	23,617	28,512
Gross stage 3	2.1%	2.2%
Net stage 3	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	
					September 28, 2023	September 20, 2022	October 29, 2021	October 5, 2020	
1	Elite Mortgage HL Trust Sep 2016	PTC Series A	50.49	13.20	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	

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		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	
					September 28, 2023	October 25, 2022	October 29, 2021	October 5, 2020	
2	Elite Mortgage HL Trust Dec 2016	PTC Series A	44.32	10.91	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	

Complexity level of the rated instrument

Sr. No.	Name	Instrument	Complexity Indicator
1	Elite Mortgage HL Trust Sep 2016	PTC Series A	Moderately Complex
2	Elite Mortgage HL Trust Dec 2016	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 Sep 2016	PTC Series A	September 2016	Floating; Linked to 1 year MCLR of investor	June 2041	13.20	[ICRA]AAA(SO)
NA	Elite Mortgage HL Trust Dec 2016	PTC Series A	December 2016	Floating; Linked to 1 year MCLR of investor	December 2043	10.91	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Alwin Thankachan

+91 22 6114 3411

alwin.thankachan@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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