

October 20, 2023

SMFG India Home Finance Company Limited (Formerly Fullerton India Home Finance Company Ltd): Provisional [ICRA]AAA(SO) assigned to Series A1 PTC and Series A2 PTC backed by home loan receivables issued by HL PTC TRUST 01

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL PTC TRUST 01	Series A1 PTC	102.91	Provisional [ICRA]AAA(SO); Assigned
	Series A2 PTC	5.42	Provisional [ICRA]AAA(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 rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by SMFG India Home Finance Company Limited (SMHFC); a wholly owned subsidiary of SMFG India Credit Company Limited {SMICC; rated [ICRA]AAA (Stable)}. The PTCs are backed by a pool of Rs. 108.32 crore (pool principal; receivables of Rs. 246.72 crore) of home loan (HL) receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) cash collateral (CC) of 7.00% of the initial pool principal to be provided by the originator for both the Series A1 and Series A2 PTC's, (ii) subordination of 5.00% of the initial pool principal for Series A1 PTC and (iii) overall Excess Interest Spread (EIS) of 84.93% of the initial pool principal in the structure, as well as the integrity of the legal structure. The rating is 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 credit enhancement in the form of excess interest spread (EIS) and cash collateral (CC)
- There are no overdue contracts in the pool as on the cut-off date and no contracts have been delinquent in last 12 months
- High share of contracts in the initial pool having CIBIL score equal to or greater than 750 (~73%)

Credit challenges

- High geographical concentration with share of top three states at ~60% in the initial pool
- Yield for PTC is linked to an external benchmark while interest rate on the underlying loans is floating, leading to 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 underlying loans follow a monthly payment schedule. The monthly cash flow schedule comprises the promised interest payment to both Series A1 and Series A2 PTCs on a pari-passu basis at the predetermined interest rate on the principal outstanding. The principal repayment for both Series A1 and Series A2 PTC is promised on the final maturity dates, i.e. on May 20, 2048¹.

During the tenure of the PTCs, the collections from the pool, after making the promised interest payouts to Series A1 PTC, will be used to make the expected principal payouts to Series A1 PTCs (95% of pool principal billed). However, this principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payout. Post promised and expected payouts to Series A1 PTCs, the available collections from the pool will be used to make promised interest payouts to Series A2 PTC. After making the promised interest payouts to the Series A2 PTC, the remaining collections would be used to make the expected principal payouts to Series A2 PTC (5% of pool principal billed). As in the case of principal payout to Series A1 PTC, the principal payout on Series A2 PTC is not promised till the final maturity date mentioned above and any shortfall in making the expected principal payment would be carried forward to the subsequent payout.

CC can be utilised for any shortfall in the promised interest payout to Series A1 PTCs and/or Series A2 PTCs in any payout month and for principal shortfall on the final legal maturity date for both Series A1 and Series A2 PTCs. However, as mentioned earlier, on any given payout date, payout to Series A1 PTCs will have a preference over monthly payout to Series A2 PTCs.

Prepayments in the pool, in any payout month, will be utilised for the accelerated redemption of the principal portion of Series A1 and Series A2 PTCs in the ratio of 95:5 respectively. The EIS, in any payout month, will be used to prepay the principal portion of Series A1 and Series A2 PTCs (after the promised and expected payouts to the PTCs have been made every month) in the ratio of 95:5 respectively.

The CE in the transaction for Series A1 PTCs is in the form of subordination of 5.0% of the initial pool principal and overall EIS of 84.93% of the initial pool principal. A CC of 7.00% of the initial pool principal (Rs. 7.58 crore), to be provided by SMHFC, 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, if required except for principal shortfall which will be on the final legal maturity date.

The weighted average seasoning of the pool remains high at 22.32 months as on the pool cut-off date (August 31, 2023). There are no overdue contracts in the pool as on the cut-off date and no contracts have been delinquent in last 12 months. Furthermore, ~73% of the contracts in the pool have latest CIBIL score of 750 or greater, provides comfort. However, pool's performance would remain exposed to any macro-economic shocks/business disruptions, if any.

Key rating assumptions

ICRA's cash flow modelling for the rating of securities backed by HL receivables 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 based on the values observed in the analysis of the past performance of the originator's loan portfolio. 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 possible losses are measured. These are then compared with ICRA's internal benchmarks to arrive at the assigned rating.

¹ The maximum amount payable on final maturity date would be lower of outstanding PTC payable or aggregate of pool collections and CC available.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated between 3.50-4.50%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 16.0% per annum.

Liquidity position: Superior for Series A1 and A2 PTCs

As per the transaction structure, only the interest amount is promised to the 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 and A2 PTC investors.

Rating sensitivities

Positive factors – Not Applicable

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

Analytical approach

The rating action is based on the analysis of the performance of the SMHFC's HL portfolio till June 2023, 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 rating is provisional and would be converted into a final rating 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 rating 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 rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

SMFG India Home Finance Co. Ltd. (SMHFC) is a 100% owned subsidiary of SMFG India Credit Company Limited (SMICC). SMICC commenced its operations in January 2006. While 74.9% of the company is held by SMFG², the balance 25.1% is held by Angelica Investments and its nominees³. SMHFC commenced its operations in December 2015 with focus on affordable home seekers catering to under-served, aspiring lower class and middle-class segments, offering home loan and loan against property in the affordable segment to the salaried and self-employed professionals. SMHFC's lending portfolio consists of home loans, commercial property loans and loan against property.

In FY2023, SMICC reported a consolidated net profit of Rs. 710 crore on a total asset base of Rs. 40,904 crore compared to a net profit of Rs. 74 crore on total assets of Rs. 27,244 crore in FY2022. On a standalone basis, SMICC reported a net profit of Rs. 670 crore on a total asset base of Rs. 35,541 crore in FY2023 compared to a net profit of Rs. 58 crore on total assets of Rs. 23,490 crore in FY2022.

Key Financial Indicators (SMICC) (Audited and Consolidated; in Rs. Cr.)

Particulars	FY2021	FY2022	FY2023
Total income	5,282	4,093	5,712
Profit after tax	(1,214)	74	710
Assets under management	25,049	25,397	36,613
Gross stage 3	NA	6.7%	3.2%
Net stage 3	NA	3.2%	1.6%

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 (FY2023)				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
				October 20, 2023			
HL PTC TRUST 01	Series A1 PTC	102.91	102.91	Provisional [ICRA]AAA(SO)	-	-	-
	Series A2 PTC	5.42	5.42	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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](#)

² SMFG: Sumitomo Mitsui Financial Group

³ Wholly-owned subsidiary of Fullerton Financials Holdings Pte Ltd, which is entirely owned by Temasek Holdings (Private) Limited

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
HL PTC TRUST 01	Series A1 PTC	Oct 2023	8.00%^	May 2048	102.91	Provisional [ICRA]AAA(SO)
	Series A2 PTC	Oct 2023	8.00%^	May 2048	5.42	Provisional [ICRA]AAA(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company, ICRA Research, ^ floating, linked to RBI Policy Repo Rate, to be reset semi-annually

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

Anubhav Agrawal

+91 22 61143439

anubhav.agrawal@icraindia.com

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

Mrugesh Trivedi

+91 22 6114 3436

mrugesh.trivedi@icraindia.com

RELATIONSHIP CONTACT

Mr. 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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.