

November 24, 2023

ECL Finance Limited: Rating actions for PTCs backed by unsecured business loan receivables securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after Oct-23 Payout (Rs. crore)	Rating Action
UBL Trust 10	PTC Series A1	47.53	9.63	0.00	[ICRA]AA+(SO); Withdrawn
UBL Trust 11	PTC Series A1	37.34	10.59	0.00	[ICRA]AA(SO); Withdrawn
UBL Trust 16	Series A1 PTC	25.61	NA	1.19	[ICRA]AAA(SO); Upgraded from [ICRA]AA(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) tabulated above are backed by unsecured business loan receivables originated by ECL Finance Limited; [ECL; rated [ICRA]A+(Stable)]. The rating upgrade factors in the sustained healthy collections witnessed in the pool. Due to the amortisation in UBL Trust 16 transaction, there has been a significant build-up of the credit enhancement (CE) cover over the future PTC payouts. Nonetheless, the pool's performance would remain exposed to macro-economic shocks/business disruptions.

ICRA has also withdrawn the ratings for PTCs issued under UBL Trust 10 and UBL Trust 11 as all the payouts to the investors in the above-mentioned instruments have been made and no further payments are due to the investors. The key rating drivers, liquidity position, rating sensitivities have not been captured for these instruments as the ratings assigned have been withdrawn. The previous detailed rating rationale of surveillance exercise is available at the following link: [Click Here](#)

Pool performance summary

A summary of the performance of the pool till the September 2023 collection month (October 2023 payout) has been tabulated below.

Parameter	UBL Trust 16
Months post securitisation	15
Pool amortisation	81.04%
Series A1 PTC amortisation	95.33%
Cumulative collection efficiency	97.36%
Cumulative prepayment rate	8.71%
Average monthly prepayment rate	0.61%
Loss-cum-30+ (% of initial pool principal) ¹	3.17%
Loss-cum-90+ (% of initial pool principal) ²	2.69%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	26.38%
EIS over balance tenure (as % of balance pool)	7.71%
Principal subordination (% of balance pool)	79.08%

¹ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

² POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

Key rating drivers – UBL Trust 16

Credit strengths

- Substantial amortisation of the PTC resulting in high credit enhancement build up for future PTC payouts
- Cash collateral fully covers the future PTC payouts in the transaction

Credit challenges

- Not applicable

Description of key rating drivers highlighted above - UBL Trust 16

The pool has shown healthy cumulative collection efficiency of ~97% as of the September 2023 collection month (i.e. October 2023 payout month). The loss-cum-90+ days past due (dpd) is moderate at 2.69% as of the September 2023 collection month. ICRA has also taken note of the high amortisation in the pool (~81%), which has led to the CC covering the entire future PTC payouts. Thus, the break-even collection efficiency is nil for the transaction. Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the ratings to the current levels in the transaction. ICRA will continue to monitor the performance of the pool. Any further rating action is unlikely, given the limited residual tenure of the pool.

Performance of past rated pools: ICRA has a rating outstanding on one unsecured business loan pool that was originated by ECL Finance. The pool has reported a healthy collection efficiency up to the October 2023 payouts with no instance of CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions 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 coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the Originator's loan portfolio. Given the modest track record of ECL Finance in the unsecured business loan segment, ICRA has also taken into account the credit quality experience of other more established players and ICRA's expectation of the credit quality of business loans. ECL Finance's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. Though the company resorts to legal recourse for some of the delinquent loans, this may not always be a feasible option particularly given the small ticket size and the unsecured nature of the loans issued.

Liquidity position – UBL Trust 16: Superior

The liquidity of the rated transaction is expected to be superior as the CC covers the future payouts entirely.

Rating sensitivities – UBL Trust 16

Positive factors – Not Applicable

Negative factors – Ratings are unlikely to be downgraded for transaction as the CC is fully covering the future PTC payouts

Analytical approach

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

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

ECL Finance Limited is a systemically important non-deposit taking non-banking financial company (NBFC-ND-SI) registered with the Reserve Bank of India (RBI). It is the primary wholesale lending company for the Edelweiss Group.

The company currently carries out the Group's financing activities like structured collateralised corporate loans, real estate financing, loans against securities, small and medium-sized enterprise (SME) loans, loan against property, employee stock ownership plan (ESOP) financing and initial public offering (IPO) funding. It reported a net profit of Rs. 110.8 crore on total income of Rs. 1,602.2 crore in FY2023 compared to Rs. 79.4 crore and Rs. 1,660.8 crore, respectively, in FY2022. As of March 31, 2023, the capitalisation profile was characterised by a net worth of Rs. 2,671.6 crore, a gearing of 3.77 times and a capital adequacy ratio of 30.8%.

Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (Edelweiss), the holding company of the Edelweiss Group of companies, was incorporated in 1995 to offer investment banking services primarily to technology companies. At present, the Group is engaged in wholesale and retail lending, home finance, distressed assets resolution, general insurance, life insurance, alternatives and asset management. On a standalone basis, Edelweiss posted a total income of Rs. 3,089 crore and a PAT of Rs. 2,388 crore in FY2023 compared to total income of Rs. 1,373 crore and PAT of Rs. 933 crore in FY2022. While on a consolidated basis, Edelweiss posted a total income of Rs. 8,633 crore and a PAT of Rs. 344 crore in FY2023 compared to total income of Rs. 7,305 crore and PAT of Rs. 189 crore in FY2022. With fair valuations of stake held in Nuvama in FY2023, the Group had a consolidated net worth of Rs. 7,846 crore as of March 31, 2023. However, with allotment of 30% stake held in Nuvama to shareholders of Edelweiss, the consolidated net worth is expected to decline by ~Rs. 2,352 crore.

Key financial indicators

Edelweiss Financial Services Limited (Consolidated)	FY2021	FY2022	FY2023
Net interest income	200	61	371
Total income	10,849	7,305	8,633
Profit after tax (Edelweiss' share)	265	189	344
Profit after tax - Including MI	254	212	406
Net worth	7,677	7,592	7,846
Loan asset	22,455	20,098	17,354
Total assets	46,350	43,280	44,064
Return on assets	0.50%	0.47%	0.93%
Return on equity	3.41%	2.78%	5.25%
Gross NPA*	8.53%	8.46%	12.45%
NNPA/ Gross loan book*	4.52%	1.92%	2.73%
Net NPA	4.96%	2.15%	3.15%
Net NPA/Net worth	8.17%	2.65%	2.64%
Gross gearing (times)	3.70	2.99	2.77
CRAR (%)	21.0%	30.0%	33.9%

Source: Company, ICRA research; All ratios as per ICRA calculations

*excluding credit substitutes

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
				Nov 24, 2023	Jan 31, 2023	Feb 22, 2022	Dec 02, 2021	-
UBL Trust 10	PTC Series A1	47.53	0.00	[ICRA]AA+(SO); Withdrawn	[ICRA]AA+(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
				Nov 24, 2023	Jan 31, 2023	May 24, 2022	Feb 04, 2022	-
UBL Trust 11	PTC Series A1	37.34	0.00	[ICRA]AA(SO); Withdrawn	[ICRA]AA(SO)	[ICRA]AA-(SO)	Provisional [ICRA]AA-(SO)	-

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
				Nov 24, 2023	Nov 10, 2022	Jul 29, 2022	-	-
UBL Trust 16	Series A1 PTC	25.61	1.19	[ICRA]AAA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
UBL Trust 10	PTC Series A1	Moderately Complex
UBL Trust 11	PTC Series A1	Moderately Complex
UBL Trust 16	Series A1 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](#)

Annexure I: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
UBL Trust 10	PTC Series A1	November 2021	9.25%	May 2024	0.00	[ICRA]AA+(SO); Withdrawn
UBL Trust 11	PTC Series A1	January 2022	9.10%	July 2024	0.00	[ICRA]AA(SO); Withdrawn
UBL Trust 16	Series A1 PTC	July 2022	9.90%	December 2023	1.19	[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.

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