

February 09, 2024

## India Shelter Finance Corporation Limited: Ratings reaffirmed for PTCs issued under mortgage loan securitisation transaction

### Summary of rating action

| Trust Name   | Instrument*   | Initial Amount (Rs. crore) | Amount O/s after Previous Surveillance (Rs. crore) | Current Outstanding Amount after Dec 2023 Payout (Rs. crore) | Rating Action            |
|--------------|---------------|----------------------------|--|--|--------------------------|
| GHAR 09 2022 | PTC Series A1 | 79.06                      | NA   | 59.79  | [ICRA]AA(SO); Reaffirmed |
|              | PTC Series A2 | 4.16                       | NA   | 4.16   | [ICRA]A+(SO); Reaffirmed |

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by a pool of mortgage loan receivables originated by India Shelter Finance Corporation Limited {ISFC; rated [ICRA]A+ (Stable)}. The ratings have been reaffirmed on account of the healthy collection efficiency and moderate amortisation in the transaction, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The ratings draw comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the December 2023 payout month.

### Pool performance summary

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

| Parameter   | GHAR 09 2022 |
|---|--------------|
| Months post securitisation  | 15           |
| Pool amortisation   | 23.2%        |
| Overall PTC amortisation  | 23.2%        |
| PTC Series A1 amortisation  | 24.4%        |
| PTC Series A2 amortisation  | 0.0%         |
| Cumulative collection efficiency <sup>1</sup>   | 99.0%        |
| Loss-cum-90+ (% of initial pool principal) <sup>2</sup>   | 0.7%         |
| Loss-cum-180+ (% of initial pool principal) <sup>3</sup>  | 0.6%         |
| Breakeven collection efficiency <sup>4</sup>  |              |
| PTC Series A1   | 70.0%        |
| PTC Series A1 and PTC Series A2   | 78.1%        |
| Cumulative cash collateral (CC) utilisation (% of initial CC)                                   | 0.0%         |
| CC available (as % of balance pool principal)   | 6.5%         |
| Excess interest spread (EIS) over balance tenure (as % of balance pool principal) PTC Series A1 | 47.2%        |
| PTC Series A2   | 37.5%        |
| Cumulative prepayment rate <sup>5</sup>   | 16.0%        |

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

<sup>2</sup> POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

<sup>3</sup> POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool

<sup>4</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 – Credit collateral available) / Balance pool cash flows

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

## Key rating drivers

### Credit strengths

- Moderate amortisation of PTCs, resulting in build-up of cash collateral (CC), principal subordination and excess interest spread (EIS) cover
- Low delinquency levels and healthy collection efficiency exhibited by the pool till date

### Credit challenges

- High geographical concentration with share of top 3 states at around ~74% in the balance pool
- PTC yield for the pool is linked to an external benchmark while interest rate on the underlying loans is fixed rate, leading to interest rate risk in the structure. Hence, the transaction is exposed to interest rate and any adverse movement in the benchmark yield is likely to reduce the EIS available in the transaction
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

## Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of more than 98% and loss-cum-90+ days past due (dpd) of 0.7% as of the December 2023 payout month. There has been no CC utilisation in the transaction till date. Healthy collections and moderate pool amortisation have led to the build-up of the CE in the pool. The breakeven collection efficiency at the current level is lower compared to the actual collection level observed in the pool. The PTC yield for the pool is linked to the investor's external benchmark, while all the contracts in the pool have a fixed rate, leading to interest rate risk in the structure. The EIS has declined in the past few months due to the increase in the PTC yield on account of the hike in the investor benchmark rate. Also, the pool's performance would remain exposed to any macroeconomic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings at the current levels 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 CE relative to ICRA's expectations.

**Performance of past rated pools:** ICRA has rated six pools originated by ISFC in the past, backed by mortgage loans. Three of these pools have matured and their ratings have been withdrawn. The performance of the live pools has been healthy with the cumulative collection efficiency exceeding ~95% and CC utilisation remaining nil as of the December 2023 payouts.

## 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 the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools, and 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 2.5-3.5% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-18.0% per annum.

## Liquidity position: Superior

The liquidity for PTC Series A1 and PTC Series A2 is superior after factoring in the CE available to meet the promised payouts to the investor. The total CE for PTC Series A1 and PTC Series A2 would be 9.25 times and 6.50 times, respectively, of the estimated loss in the pool.

## Rating sensitivities

**Positive factors:** The ratings could be upgraded if sustained strong collection (monthly collection efficiency >95%) performance is witnessed, leading to low delinquency levels and further build-up of the CE cover.

**Negative factors:** The ratings could be downgraded on the sustained weak collection (monthly collection efficiency <90%) performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

## Analytical approach

The rating action is based on the performance of the pool till December 2023 (payout month), the present delinquency profile of the pool, the CE 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

ISFC is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. It is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-and-middle-income segment. As on March 31, 2023, the company had a managed portfolio of Rs. 4,359 crore spread across 15 states/Union Territories. It offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and loan against property (LAP). ISFC incorporated a 100%-subsidiary in March 2022 – India Shelter Finance Corporation Limited (ISFCL) for the purpose of lending as a non-banking financial company (NBFC), catering to the LAP segment, subject to regulatory approvals.

ISFC reported a profit of Rs. 155 crore in FY2023 (total comprehensive income (TCI) of Rs. 154 crore) on assets under management (AUM) of Rs. 4,359 crore as on March 31, 2023 vis-à-vis a profit of Rs. 128 crore in FY2022 (TCI of Rs. 128 crore) on AUM of Rs. 3,073 crore as on March 31, 2022. The gross and net non-performing advances (NPAs) stood at 1.1% and 0.9%, respectively, as on March 31, 2023.

The company reported a profit of Rs. 107 crore in H1 FY2024 on AUM of Rs. 5,182 crore as on September 30, 2023. The gross and net NPAs stood at 1.0% and 0.7%, respectively, as on September 30, 2023.

## Key financial indicators (audited)

|   | FY2022 | FY2023 | H1 FY2024<br>(unaudited) |
|---|--------|--------|--------------------------|
| Net interest income                             | 229    | 292    | 180                      |
| Profit after tax                                | 128    | 155    | 107                      |
| AUM (incl. assigned portfolio; IGAAP valuation) | 3,073  | 4,359  | 5,182                    |
| Gross non-performing assets (NPA)               | 2.1%   | 1.1%   | 1.0%                     |
| Net NPA   | 1.6%   | 0.9%   | 0.7%                     |

Source: Company data, 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

| S. 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 |
|        |              |                         |                                  |                                | February 09, 2024                                 | February 10, 2023       | September 30, 2022       | -                       |
| 1      | GHAR 09 2022 | PTC Series A1           | 79.06                            | 59.79                          | [ICRA]AA(SO)                                      | [ICRA]AA(SO)            | Provisional [ICRA]AA(SO) | -                       |
|        |              | PTC Series A2           | 4.16                             | 4.16                           | [ICRA]A+(SO)                                      | [ICRA]A+(SO)            | Provisional [ICRA]A+(SO) | -                       |

### Complexity level of the rated instrument

| Trust Name   | Instrument    | Complexity Indicator |
|--------------|---------------|----------------------|
| GHAR 09 2022 | PTC Series A1 | Moderately Complex   |
|              | PTC Series A2 | 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    | Date of Issuance / Sanction | Coupon Rate | Maturity Date** | Amount Rated (Rs. crore) | Current Rating |
|--------------|---------------|-----------------------------|-------------|-----------------|--------------------------|----------------|
| GHAR 09 2022 | PTC Series A1 | September 2022              | 8.70%*      | October 2041    | 59.79                    | [ICRA]AA(SO)   |
|              | PTC Series A2 |                             | 11.20%      |                 | 4.16                     | [ICRA]A+(SO)   |

\*Coupon rate is floating and linked to investor's 3M MCLR

\*\*Scheduled maturity date 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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