

February 28, 2024

## SMFG India Home Finance Company Limited (Formerly Fullerton India Home Finance Company Ltd): Rating confirmed as final for PTCs backed by home loan receivables issued by HL PTC TRUST 01

### Summary of rating action

| Trust Name      | Instrument*   | Rated Amount (Rs. crore) | Rating Action  |
|-----------------|---------------|--------------------------|--|
| HL PTC TRUST 01 | Series A1 PTC | 102.91                   | [ICRA]AAA(SO); provisional rating confirmed as final |
|                 | Series A2 PTC | 5.42                     | [ICRA]AAA(SO); provisional rating confirmed as final |

\*Instrument details are provided in Annexure I

### Rationale

In October 2023, ICRA had assigned a Provisional [ICRA]AAA(SO) rating for both Series A1 PTC and Series A2 PTC issued by HL PTC TRUST 01. The pass-through certificates (PTCs) are backed by a pool of Rs. 246.72 crore home loan receivables (underlying pool principal of Rs. 108.32 crore) originated by SMFG India Home Finance Company Limited (SMHFC). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the January 2024 payouts is shown in the table below.

| Parameter                              | HL PTC TRUST 01 |
|--|-----------------|
| Months post securitisation             | 4               |
| Pool amortisation                      | 98.84           |
| Series A1 PTC Amortisation             | 8.76%           |
| Series A2 PTC Amortisation             | 10.75%          |
| Cumulative collection efficiency       | 99.87%          |
| Cumulative Prepayment rate             | 5.95%           |
| Loss-cum-0+ dpd                        | 0.23%           |
| Loss-cum-30+ dpd                       | 0.00%           |
| Loss-cum-90+ dpd                       | 0.00%           |
| Cumulative cash collateral utilisation | 0.00%           |

### 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, 2048.

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.

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:

### Liquidity position: Superior

The liquidity position for Series A1 PTC and Series A2 PTC is superior after factoring in the CE available for meeting the promised payouts to the investor. The CE would be greater than 6.0 times the estimated loss in the pool for both Series A1 PTC and Series A2 PTC.

## 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

## Analytical approach

The rating action is based on the Trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

| 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

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 SMFG, the balance 25.1% is held by Angelica Investments and its nominees. 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. 30,187 crore in FY2023 compared to a net profit of Rs. 58 crore on total assets of Rs. 20,941 crore in FY2022.

## Key financial indicators

| Particulars              | FY2022 (Audited) | FY2023 (Audited) | 9M FY2024 (Audited) |
|--------------------------|------------------|------------------|---------------------|
| Total income             | 3,590.8          | 5,027.8          | 5,172.7             |
| Profit after tax         | 58.0             | 670.8            | 446.0               |
| Total managed assets     | 20,941.0         | 30,186.8         | 34,458.9            |
| Return on managed assets | 0.2%             | 2.3%             | 1.3%                |
| Managed gearing (times)  | 3.8              | 5.5              | 5.8                 |
| Gross stage 3            | 6.7%             | 3.8%             | 3.3%                |
| CRAR                     | 21.3%            | 18.8%            | 17.3%               |

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 (FY2024) |                          |                                |               |                           | Chronology of Rating History for the Past 3 Years |                         |                         |
|-----------------|-------------------------|--------------------------|--------------------------------|---------------|---------------------------|---|-------------------------|-------------------------|
|                 | Instrument              | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating |                           | Date & Rating in FY2023                           | Date & Rating in FY2022 | Date & Rating in FY2021 |
|                 |                         |                          |                                | Feb 28, 2024  | Oct 20, 2023              |   |                         |                         |
| HL PTC TRUST 01 | Series A1 PTC           | 102.91                   | 102.91                         | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | -   | -                       | -                       |
|                 | Series A2 PTC           | 5.42                     | 5.42                           | [ICRA]AAA(SO) | 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](#)

#### 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                   | [ICRA]AAA(SO)  |
|                 | Series A2 PTC | Oct 2023                    | 8.00%^      | May 2048       | 5.42                     | [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

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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.

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For more information, visit [www.icra.in](http://www.icra.in)

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