January 02, 2020

# Indiabulls Housing Finance Limited: Provisional [ICRA]AA(SO) rating assigned to Assignee Payouts to be issued under Innovation Trust XXXII Dec-19

## Summary of rating action

| Issue Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Innovation Trust XXXII Dec-19 | Assignee Payouts | 497.61 | Provisional [ICRA]AA(SO) assigned |

**Instrument details are provided in Annexure-1*

## Rationale

ICRA has assigned a rating of Provisional [ICRA]AA(SO) [pronounced provisional ICRA double A structured obligation] to the Assignee Payouts issued under a securitisation transaction, Innovation Trust XXXII Dec-19, originated by Indiabulls Housing Finance Limited (IBHFL). The Assignee Payouts are backed by receivables from a Rs. 497.61-crore pool of housing loan (HL) contracts.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, IBHFL's track record in the mortgage loan business, the available credit enhancement in the form of a credit collateral and subordination of the excess interest spread (EIS), and the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

## Key rating drivers

## Credit strengths

- Availability of credit enhancement in the form of EIS and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date
- Moderately high weighted average seasoning of 20.14 months

## Credit challenges

- The pool is made up of moderately high ticket size loans (around 17% share of the contracts with a ticket size of >Rs. 1 crore) with average loan ticket size of around Rs. 34.83 lakh
- Moderate share (61%) of salaried employed borrowers
- High share of contracts with balance tenure of more than 20 years

It is envisaged that for this transaction, the Assignee will avail the partial credit guarantee (PCG) under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to public sector banks (PSBs) for purchasing high-rated pooled assets from NBFCs/housing finance companies (HFCs). ICRA has not factored in the PCG while arriving at the assigned rating.

## Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the Assignee. The first line of support for meeting the scheduled Assignee Payouts is the EIS of 16.08% in the structure, which is subordinated. A CC of 9.00% of the initial pool principal provided by IBHFL acts as further credit enhancement in the transaction.

The scheduled cash flow promised to the Assignee on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The pool amortisation schedule and thus the promised payouts to the Assignee are subject to modification on account of prepayments.

The pool is characterised by a low obligor concentration with the top 10 obligors together accounting for only 6.77% of the overall pool principal amount. There are no overdue contracts in the pool as on the pool cut-off date. The selected pool consists of receivables from loans given at a moderate loan-to-value (LTV; average LTV of 66.91%). Further, the share of contracts with a balance tenure of more than 20 years is relatively high at 60.12%. Around 39% of the contracts in the pool are given to self-employed borrowers who have performed weaker in the portfolio. The average seasoning and pre-securitisation of this pool are moderate at 20.14 months and 5.58%, respectively.

**Past rated pool performance:** In the past, ICRA has rated one HL pool and two HL/loan against property (LAP) mixed IBHFL originated pools. The pools have performed well with a collection efficiency of more than 99% and a negligible loss-cum-90+ dpd level till the collection month of September 2019. Given the significant quantum of EIS in all the pools, the cumulative cash collateral utilisation after the October 2019 payouts is nil in all the pools.

## Key rating assumptions

ICRA's cash flow modelling for the surveillance of Mortgage Backed Securities (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 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 3.0-4.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12.0-18.0% per annum.

## Liquidity position: Strong

The cash collections and credit collateral available in the transaction are expected to be comfortable to meet the investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the PTC payouts for a period of 20 months.

## Rating sensitivities

**Positive triggers** – The rating could be upgraded on the sustained strong collection performance of the underlying pool contracts (>95%), leading to lower-than-expected delinquency levels, and on an increase in the cover (to about two times from the present level) available for future investor payouts from the credit enhancements.

**Negative triggers** – Pressure on the ratings could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels.

## Analytical approach

The rating action is based on the analysis of the performance of IBHFL's portfolio till September 2019 and the previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement 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 |

## About the company

Incorporated in 2005, IBHFL is a housing finance company registered with National Housing Bank. In March 2013, the parent company, Indiabulls Financial Services Limited, merged with IBHFL. The company provides mortgage loans, lease rental discounting (LRD) and construction finance with a prime focus on the mortgage and home finance business. As on June 30, 2019, the company had assets under management (AUM) of Rs. 1,13,189 crore.

On a consolidated basis, IBHFL reported a net profit of Rs. 4,091 crore on a total income base of Rs. 16,387 crore in FY2019 compared to a net profit of Rs. 3,895 crore on a total income base of Rs. 14,663 crore in FY2018. In Q1 FY2020, the company reported a net profit of Rs. 802 crore on a total income base of Rs. 3,886 crore. Its tangible net worth was Rs. 16,854 crore and CRAR was 27.8% as on June 30, 2019.

## Key financial indicators of IBHFL (consolidated)

| | FY2018 Ind AS | FY2019 Ind AS |
|---|---|---|
| Net interest income* | 4,483 | 5,128 |
| Profit before tax | 4,900 | 5,634 |
| Profit after tax | 3,895 | 4,091 |
| Assets under management | 1,22,233 | 1,20,525 |
| Total assets | 1,34,283 | 1,31,068 |
| | | |
| %Tier 1 | 15.07% | 19.81% |
| % CRAR | 20.82% | 26.49% |
| Net gearing (times) | 6.76 | 4.67 |
| | | |
| % Net profit/Average total assets | 3.27% | 3.08% |
| % Return on net worth | 29.56% | 26.61% |
| | | |
| % Gross NPAs (% of AUM) | 0.77% | 0.88% |
| % Net NPAs (% of AUM) | 0.34% | 0.69% |
| % Net NPA/Net worth | 4.98% | 5.07% |

*Source: IBHFL and ICRA research; Amount in Rs. crore; All ratios are as per ICRA calculations*

**Net interest income is calculated as the sum of interest income from financing activities and fixed deposits, and other operating charges less interest expenses*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

| | Instrument | Current Rating (FY2020) | | | | Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | FY2018 | FY2017 |
| | | | | | 02-Jan-20 | - | - | - |
| 1 | Innovation Trust XXXII Dec-19 | Assignee Payouts | 497.61 | 497.61 | Provisional [ICRA]AA(SO) | - | - | - |

*Amount in Rs. crore*

## Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

## Annexure-1: Instrument details

| Issue Name | Instrument Name | Date of Issuance | Coupon Rate^ | Scheduled Maturity Date* | Amount Rated (Rs. crore[1]) | Current Rating |
|---|---|---|---|---|---|---|
| Innovation Trust XXXII Dec-19 | Assignee Payouts | December 2019 | 9.30% | December 2049 | 497.61 | Provisional [ICRA]AA(SO) |

** Scheduled maturity and average life at transaction initiation; may change on account of prepayment*
*^ Coupon rate is floating and linked to Assignee's MCLR*

[1] *100 lakh = 1 crore = 10 million*

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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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