

August 27, 2020

Standard Chartered Bank Limited: Rating reaffirmed for purchaser payouts/acquirer payouts issued under mortgage loan securitisation pools

Summary of rating action

| Trust Name | Instrument* | Initial Amount (Rs. crore) | Amount after previous rating exercise (Rs. crore) | Amount after Jul-20 payout (Rs. crore) | Rating Action |
|---|-------------------|----------------------------|---|--|---------------------------|
| Mortgage Loan Pool March 2007- III [MLP Mar-07 III] | Purchaser Payouts | 249.22 | 13.27 | 13.29 | [ICRA]AAA(SO); reaffirmed |
| Mortgage Loan Pool March 2008 [MLP Mar-08] | Acquirer Payouts | 46.38 | 2.54 | 2.38 | [ICRA]AAA(SO); reaffirmed |
| Mortgage Loan Pool June 2008 [MLP Jun-08] | Acquirer Payouts | 100.34 | 9.10 | 7.83 | [ICRA]AAA(SO); reaffirmed |
| Mortgage Loan Pool August 2008 [MLP Aug-08] | Acquirer Payouts | 50.85 | 3.29 | 2.73 | [ICRA]AAA(SO); reaffirmed |

*Instrument details are provided in Annexure-1

Rationale

The purchaser payouts/acquirer payouts originated by Standard Chartered Bank Limited (SCB) are backed by mortgage loan receivables. The rating reaffirmation for the pools is on account of the very high amortisation of these pools till the July 2020 payouts and the resultant healthy build-up of the credit enhancement covering the balance future payouts to the investors in the pools.

Pool performance summary

A summary of the performance of the pools till the June 2020 collection month has been tabulated below.

| Parameter | MLP Mar-07 III | MLP Mar-08 | MLP Jun-08 | MLP Aug-08 |
|---|----------------|------------|------------|------------|
| Purchaser payout amortisation (%) | 94.67% | 94.88% | 92.19% | 94.63% |
| Cumulative collection efficiency (%) ¹ | 99.10% | 98.23% | 94.67% | 95.30% |
| Breakeven collection efficiency ² (%) | <0% | <0% | <0% | <0% |
| Loss-cum-90+ (% of initial pool principal) ³ | 0.34% | 0.60% | 2.96% | 1.53% |
| Loss-cum-180+ (% of initial pool principal) ⁴ | 0.29% | 0.60% | 2.96% | 1.32% |
| Cumulative cash collateral (CC) utilisation (% of initial CC) | 7.61% | 3.71% | 19.70% | 10.49% |
| CC available (as % of balance pool principal) | 298.67% | 258.41% | 174.87% | 308.36% |
| Excess interest spread (EIS) over balance tenure (as % of balance pool) | -7.28% | NA | NA | NA |

¹ Cumulative collections till date / cumulative billings till date plus opening overdues

² It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

³ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 180+ dpd + overdues / Initial POS on the pool

| | | | | |
|---|--------|--------|--------|--------|
| Cumulative prepayment rate ⁵ | 71.60% | 66.70% | 68.17% | 76.34% |
|---|--------|--------|--------|--------|

Key rating drivers

Credit strengths

- High amortisation of purchaser payouts resulting in substantial build-up of CC cover
- High amortisation of the pools i.e. above ~92% after July 2020 payout, leading to lower uncertainty regarding the performance of the balance pool tenure
- Balance CC will cover the entire future payouts to investors

Credit challenges

- For Mar-07 III pool, purchaser yield is linked to external benchmark, leading to negative EIS in the pools

Description of key rating drivers highlighted above

The pools have completed more than 142 months post securitisation and have amortised above 92% post the July 2020 payout month. Till date, these pools have been characterised by a moderate to high monthly collection efficiency averaging around 90% in recent months, a high cumulative collection efficiency of more than 95% and low delinquency build-up across all four pools. The CC utilisation in all the pools has been low. Subsequently, owing to the high amortisation of all the pools, the available CC build-up is significantly high.

The investors in the pools have granted a moratorium to the underlying contracts for six months (March 2020 to August 2020 collections), in line with the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI). The investor payouts have also been modified in the pools. As per the investor approval, the credit enhancement would be utilised to meet the promised interest payouts and the promised principal payouts to the extent of the borrowers in the underlying pool who have not availed a moratorium during the aforesaid six-month period.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level for the pools. ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pools and the availability of a credit enhancement relative to ICRA's expectations.

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 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 loss and prepayments during the balance tenure of the pools are given in the table below. Further, uncertainty regarding macro-level economic activity due to the Covid-19 pandemic could lead to near-term stress on the pools' performance.

⁵ Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal
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| Sr. No | Transaction Name | Expected Loss (% of initial pool principal) | Prepayment |
|--------|---|---|--------------|
| 1 | Mortgage Loan Pool March 2007- III [MLP Mar-07 III] | 0.1%-0.5% | 12%-18% p.a. |
| 2 | Mortgage Loan Pool March 2008 [MLP Mar-08] | 0.1%-0.5% | 12%-18% p.a. |
| 3 | Mortgage Loan Pool June 2008 [MLP Jun-08] | 1.5%-2.50% | 12%-18% p.a. |
| 4 | Mortgage Loan Pool August 2008 [MLP Aug-08] | 1-.0%-2.0% | 12%-18% p.a. |

Liquidity position: Superior

The collections and CC available in the pools are expected to be comfortable to meet the investor payouts. The balance CC covers the entire balance promised cash flow in the pools.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The rating is unlikely to be downgraded as the available CC in the pools is sufficient to meet the future promised investor payouts.

Analytical approach

The rating action is based on the performance of the pools till June 2020 (collection month), the present delinquency levels, the credit enhancement 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 |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | Not applicable |

About the company

SCB India (SCBI) is a branch of Standard Chartered Bank UK, which is part of the SCB Group. The ultimate parent company of SCBI is Standard Chartered PLC, which is listed on the London Stock Exchange and on stock exchanges in Hong Kong and India. The Indian branch operations are conducted in accordance with the banking licence granted by the Reserve Bank of India (RBI) under the Banking Regulation Act, 1949. SCBI has been in operations for more than 160 years and offers a broad range of financial services through 100 branches in 43 cities. For the year ended March 31, 2020, SCBI reported a net profit of Rs. 2,834.68 crore on assets of Rs. 1,84,500 crore and a regulatory capital adequacy of 14.89% (Tier I: 13.91%). Its net NPA stood at 0.80% as on March 31, 2020 against 0.39% as on March 31, 2019.

Key financial indicators

| | FY2018 (Audited) | FY2019 (Audited) | FY2020 (Audited) |
|------------------|---------------------|---------------------|---------------------|
| Total revenues | 11,462.09 | 12,341.50 | 14,461.75 |
| Profit after tax | 1,911.17 | 2,168.55 | 2,834.68 |
| Advances | 64,165.80 | 66,838.07 | 76,213.73 |
| Gross NPA | 11.69% | 9.13% | 6.38% |
| Net NPA | 0.58% | 0.39% | 0.80% |

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

| Instrument | Current Rating (FY2021) | | | | Rating History for the Past 3 Years | | | |
|--|-------------------------|----------------------|--------------------|----------------|-------------------------------------|-------------------------|-------------------------|-------------------------|
| | Type | Initial Rated Amount | Amount Outstanding | Date & Rating | Date & Rating | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | 27-Aug-2020 | 28-May-2020 | 19-Sep-19 | 17-Aug-18 | 26-Sep-17 |
| Mortgage Loan Pool March 2007-III [MLP Mar-07 III] | Purchaser Payouts | 249.22 | 13.29 | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) |

Amount in Rs. crore

| Instrument | Current Rating (FY2021) | | | | Rating History for the Past 3 Years | | | |
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| | | | | 27-Aug-2020 | 19-Sep-19 | 17-Aug-18 | 26-Sep-17 | |
| Mortgage Loan Pool March 2008 [MLP Mar-08] | Acquirer Payouts | 46.38 | 2.38 | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | |

Amount in Rs. crore

| Instrument | Current Rating (FY2021) | | | | Rating History for the Past 3 Years | | | |
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| | Type | Initial Rated Amount | Amount Outstanding | Date & Rating | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 | |
| | | | | 27-Aug-2020 | 19-Sep-19 | 17-Aug-18 | 26-Sep-17 | |
| Mortgage Loan Pool June 2008 [MLP Jun-08] | Acquirer Payouts | 100.34 | 7.83 | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | |

Amount in Rs. Crore

| Instrument | Current Rating (FY2021) | | | Rating History for the Past 3 Years | | | |
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| | Type | Initial Rated Amount | Amount Outstanding | Date & Rating | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | 27-Aug-2020 | 19-Sep-19 | 17-Aug-18 | 26-Sep-17 |
| Mortgage Loan Pool August 2008 [MLP Aug-08] | Acquirer Payouts | 50.85 | 2.73 | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) | [ICRA] AAA(SO) |

Amount in Rs. crore

Complexity level of the rated instrument

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

| Sl. | Trust Name | Instrument Name | Date of Issuance | Coupon Rate (p.a.) | Scheduled Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|-----|--|-------------------|------------------|--------------------|--------------------------|--------------------------|----------------|
| 1 | Mortgage Loan Pool March 2007-III [MLP Mar-07 III] | Purchaser Payouts | Mar 2007 | 13.05% | Jan-36 | 13.29 | [ICRA]AAA(SO) |
| 2 | Mortgage Loan Pool March 2008 [MLP Mar-08] | Acquirer Payouts | Mar 2008 | 8.85% | Feb-33 | 2.38 | [ICRA]AAA(SO) |
| 3 | Mortgage Loan Pool June 2008 [MLP Jun-08] | Acquirer Payouts | Mar 2008 | 9.51% | May-34 | 7.83 | [ICRA]AAA(SO) |
| 4 | Mortgage Loan Pool August 2008 [MLP Aug-08] | Acquirer Payouts | Jun 2008 | 9.82% | Mar-44 | 2.73 | [ICRA]AAA(SO) |

* Based on scheduled maturity of the pool contracts; may change on account of prepayment

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About ICRA Limited:

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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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