

October 05, 2020

IIFL Home Finance Limited: Ratings reaffirmed for PTCs issued under mortgage loan securitisation transactions

Summary of rating actions

Sr.no	Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount after Aug-20 Payout (Rs. crore)	Rating Action
1	Elite Mortgage HL Trust June 2016	PTC Series A	74.43	36.07	29.50	[ICRA]AAA(SO); Reaffirmed
2	Elite Mortgage LAP Trust June 2016	PTC Series A	63.06	18.07	14.33	[ICRA]AAA(SO); Reaffirmed
3	Elite Mortgage HL Trust Sep 2016	PTC Series A	50.49	32.73	28.11	[ICRA]AAA(SO); Reaffirmed
4	Elite Mortgage LAP Trust Sep 2016	PTC Series A	58.36	24.01	17.59	[ICRA]AAA(SO); Reaffirmed
5	Elite Mortgage HL Trust Dec 2016	PTC Series A	44.32	28.09	23.00	[ICRA]AAA(SO); Reaffirmed
6	Elite Mortgage LAP Trust Dec 2016	PTC Series A	61.55	21.91	15.41	[ICRA]AAA(SO); Reaffirmed
7	Solitaire Mortgage -1 Trust March 2017	PTC Series A	387.93	189.29	150.01	[ICRA]AAA(SO); Reaffirmed
8	Solitaire Mortgage -2 Trust June 2017	PTC Series A	122.34	64.02	54.10	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) originated by IIFL Home Finance Limited (IHFL) are backed by eight mortgage loan pools. The ratings reaffirmation factors in the moderate to high amortisation of the PTCs under the transactions. The amortisation has led to a healthy cover build-up of the credit enhancement over the future PTC payouts. The breakeven collection efficiencies are also comfortable compared to the actual collection levels observed in these pools.

Pool performance summary

A summary of the performance of the pools till the July 2020 collection month August 2020 payout) has been tabulated below.

Parameter	Elite Mortgage HL Trust June 2016	Elite Mortgage LAP Trust June 2016	Elite Mortgage HL Trust Sep 2016	Elite Mortgage LAP Trust Sep 2016
PTC amortisation (%)	60.36%	77.28%	44.33%	69.86%
Cumulative collection efficiency (%) ¹	99.64%	99.77%	99.82%	99.65%
Breakeven collection efficiency ² (%)	60.89%	31.02%	73.11%	45.59%
Loss-cum-90+ (% of initial pool principal) ³	0.30%	0.12%	0.29%	0.00%
Loss-cum-180+ (% of initial pool principal) ⁴	0.30%	0.12%	0.29%	0.00%
Cumulative CC utilisation (% of initial CC)	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool principal)	27.40%	48.62%	20.34%	33.32%
Trapped EIS (as % of balance pool principal)	10.04%	26.82%	5.25%	21.74%
EIS over balance tenure (as % of balance pool)	32.75%	51.31%	22.92%	41.38%
Cumulative prepayment rate ⁵	45.17%	65.50%	31.51%	51.61%
Average prepayment rate	1.19%	2.11%	0.80%	1.53%

Parameter	Elite Mortgage HL Trust Dec 2016	Elite Mortgage LAP Trust Dec 2016	Solitaire Mortgage -1 Trust March 2017	Solitaire Mortgage -2 Trust June 2017
PTC amortisation (%)	48.11%	74.96%	61.33%	55.78%
Cumulative collection efficiency (%)	99.99%	100.00%	99.42%	99.87%
Breakeven collection efficiency (%)	68.96%	35.74%	59.60%	68.45%
Loss-cum-90+ (% of initial pool principal)	0.00%	0.00%	0.48%	0.64%
Loss-cum-180+ (% of initial pool principal)	0.00%	0.00%	0.48%	0.57%
Cumulative CC utilisation (% of initial CC)	0.00%	0.00%	0.00%	0.00%
CC available (as % of balance pool principal)	20.95%	29.78%	26.72%	22.26%
Trapped EIS (as % of balance pool principal)	6.44%	28.20%	11.45%	8.91%
EIS over balance tenure (as % of balance pool)	32.47%	71.89%	43.75%	35.43%
Cumulative prepayment rate	35.88%	63.89%	49.92%	44.25%

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 – Cash collateral available-Trapped EIS)/ 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

⁵ Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal

Average prepayment rate	1.00%	2.29%	1.67%	1.53%
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Key rating drivers

Credit strengths

- Amortization of PTCs has resulted in build-up of Cash Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts
- High collection efficiency resulting in low delinquency levels exhibited by the pool

Credit challenges

- Moderate obligor concentration in LAP pools
- Moderate share of contracts in pool under moratorium after Aug-20 payout
- PTC Yield is linked to an external benchmark while interest rate on the underlying loans is linked to originator's PLR—which leads to a basis risk in the structure for all pools except Mar-17 pool where the PTC yield is fixed and leads to an interest rate risk in structure

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency above 99% till the July 2020 collection month. The loss-cum-180+ dpd is lower than 1.0% for all the pools. There was a drop in collections in April 2020, however the collections have shown an improving trend in the period of May 2020 to July 2020. The number of borrowers availing moratorium has been in the range of 20-40% in the pools with share of moratorium higher for LAP contracts. Any shortfall in the collections has been largely absorbed by the EIS or trapped EIS in the structure. Also, there has been no utilisation of CC till the August 2020 payouts. However, the pool and PTC yields in all the transactions except Mar-17 pool are linked to the originator and investor lending rates, respectively, thereby creating a basis risk in the structure.

The investors in the transaction had granted a moratorium to the underlying contracts for five months (April 2020 to August 2020 collections), in line with the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020 and May 22, 2020. The PTC investor payouts for all the pools had also been modified accordingly in the transaction. As per the investor approval for the pool, the credit enhancement was to be used to meet the promised interest payouts and promised principal payouts (to the extent of borrowers in the underlying pool who have not availed a moratorium) for the May 2020 to September 2020 payouts for all the pools except Solitaire Mortgage-1 Trust March - 2017 and Solitaire Mortgage-2 Trust June -2017. For these two pools, as per investor approval specifies that credit enhancement would be used to meet the shortfall in promised interest payouts during aforesaid period. Further the maturity date for the pools would be revised accordingly.

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

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 the 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. Taking into account the high obligor concentration and the profile of the borrowers in the LAP pools, ICRA has modelled the transaction as a CDO (i.e at a contract level for all obligors) with an implied probability of default (PD) and loss given default (LGD). The PD is commensurate with non-investment grade rating on the obligors and the balance tenure of the loans extended. The LGD has been assumed after taking into account the nature and value of the underlying collateral and LTV of the loans. Additionally, a minimum level of base correlation has been assumed among the borrowers, with a further add-on correlation for borrowers belonging to same geography/category. Further, any prolonged slowdown in the macro-level economic activity could lead to stress on the pool's performance. After making these adjustments, the expected loss and prepayments during the balance tenure of the pools are given in the table below.

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Elite Mortgage HL Trust June 2016	1.0-1.5%	15-23% p.a.
2	Elite Mortgage LAP Trust June 2016	1.5-2.0%	23-30% p.a.
3	Elite Mortgage HL Trust Sep 2016	1.5-2.0%	15-23% p.a.
4	Elite Mortgage LAP Trust Sep 2016	2.0-2.5%	23-30% p.a.
5	Elite Mortgage HL Trust Dec 2016	1.5-2.0%	15-23% p.a.
6	Elite Mortgage LAP Trust Dec 2016	1.5-2.0%	23-30% p.a.
7	Solitaire Mortgage -1 Trust March 2017	1.5-2.0%	18-27% p.a.
8	Solitaire Mortgage -2 Trust June 2017	2.0-2.5%	18-27% p.a.

Liquidity position: Superior

The liquidity of the rated transactions is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of cash collateral available of 20-48% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pools in a stress scenario, the cash collateral would cover the shortfalls in the PTC payouts for a period of more than 30 months.

Rating sensitivities

Positive triggers – Not applicable

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

Analytical approach

The rating action is based on the performance of the pool till July 2020 (collection month), the present delinquency levels, the credit enhancement available in the pool, 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

IIFL Home Finance Limited

IIFL Home Finance Limited is a wholly-owned subsidiary of IIFL Finance Limited (post-merger of India Infoline Finance Limited with IIFL Finance Limited) and registered with National Housing Bank (NHB) as a housing finance company. Incorporated in 2006, the company offers affordable home loans, loan against property and construction finance loans.

IIFL Finance Limited

IIFL Finance was a listed non operating holding company with India Infoline Finance a systematically important, non-deposit accepting non-banking financial company (NBFC-ND-SI) as its subsidiary. As part of the merger scheme with the receipt of NBFC license by IIFL Finance Limited, India Infoline Finance Limited has now been merged with IIFL Finance Limited with effect from March 30, 2020. IIFL along with its subsidiaries, IIFL Home Finance (registered as Housing Finance Company) and Samasta Microfinance Limited (registered as NBFC-MFI) offers home loans, loan against property, MSME loans, gold loans, microfinance and real estate loans.

Key financial indicators (consolidated for IIFL Finance Limited)

	FY2019 (Audited)	FY2020 (Audited)	Q1FY2021 (Provisional)
Total income (Rs. Crore)	2,568	2,487	673
Profit after tax (Rs. Crore)	795	502	32
Loan book (AUM) (Rs. Crore)	34,904	37,951	38,335
Gross NPA	1.96%	2.31%	1.95%
Net NPA	0.63%	0.97%	0.86%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)					
1	Elite Mortgage HL Trust June 2016	PTC Series A	74.43	29.50	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)					
2	Elite Mortgage LAP Trust June 2016	PTC Series A	63.06	14.33	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)					
3	Elite Mortgage HL Trust Sep 2016	PTC Series A	50.49	28.11	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)					
4	Elite Mortgage LAP Trust Sep 2016	PTC Series A	58.36	17.59	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)					
5	Elite Mortgage HL Trust Dec 2016	PTC Series A	44.32	23.00	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)		05-Oct-2020	04-Sep-2019	03-Aug-2018	05-Oct-2017
6	Elite Mortgage LAP Trust Dec 2016	PTC Series A	61.55	15.41	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)		05-Oct-2020	04-Sep-2019	03-Aug-2018	05-Oct-2017
7	Solitaire Mortgage -1 Trust March 2017	PTC Series A	387.93	150.01	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years			
		Type	Initial Rated Amount	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)		05-Oct-2020	04-Sep-2019	03-Aug-2018	05-Oct-2017
8	Solitaire Mortgage -2 Trust June 2017	PTC Series A	122.34	54.10	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

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	Month of Issuance	Coupon Rate	Scheduled Maturity Date [#]	Rated Amount (Rs. crore)	Current Rating
1	Elite Mortgage HL Trust June 2016	PTC Series A	June 2016	Floating (linked to investor MCLR)	September 2038	29.50	[ICRA]AAA(SO)
2	Elite Mortgage LAP Trust June 2016	PTC Series A	June 2016	Floating (linked to investor MCLR)	March 2030	14.33	[ICRA]AAA(SO)
3	Elite Mortgage HL Trust Sep 2016	PTC Series A	September 2016	Floating (linked to investor MCLR)	June 2038	28.11	[ICRA]AAA(SO)
4	Elite Mortgage LAP Trust Sep 2016	PTC Series A	September 2016	Floating (linked to investor MCLR)	August 2035	17.59	[ICRA]AAA(SO)
5	Elite Mortgage HL Trust Dec 2016	PTC Series A	December 2016	Floating (linked to investor MCLR)	October 4041	23.00	[ICRA]AAA(SO)
6	Elite Mortgage LAP Trust Dec 2016	PTC Series A	December 2016	Floating (linked to investor MCLR)	April 2033	15.41	[ICRA]AAA(SO)
7	Solitaire Mortgage -1 Trust March 2017	PTC Series A	March 2017	7.25% p.a. fixed	March 2041	150.01	[ICRA]AAA(SO)
8	Solitaire Mortgage -2 Trust June 2017	PTC Series A	June 2017	Floating (linked to investor MCLR)	September 2037	54.10	[ICRA]AAA(SO)

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

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