

Magma Housing Finance Limited

April 01, 2019

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
MHFL Securitisation Trust III	PTC A1	63.26	Provisional [ICRA]AA(SO); assigned
	PTC A2	2.29	Provisional [ICRA]AA(SO); assigned
	Second Loss Facility	3.93	Provisional [ICRA]BBB-(SO); assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]AA(SO) ratings to PTC Series A1 and PTC Series A2 and a rating of [ICRA]BBB-(SO) to Second Loss Facility (SLF) under a securitisation transaction originated by Magma Housing Finance Limited (MHFL). The PTCs are backed by a pool of Rs. 140.08 crore housing loan receivables (underlying pool principal of Rs. 65.56 crore).

Rationale

The provisional ratings are based on the strength of cash flows from the selected pool of contracts, MHFL's track record in the mortgage loans business, the available credit enhancement in the form of credit collateral and subordination of Excess Interest Spread (EIS), and the integrity of the legal structure. The ratings are subject to fulfilment of all 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 Excess Interest Spread (EIS) and Credit Collateral;
- Pool is devoid of any delinquent contracts as on the pool cut-off date;
- The selected pool is characterized by moderate seasoning of 33.2 months and low average ticket size of Rs. 14.0 Lakhs.

Credit Weakness

- High Share of self-employed contracts accounting for ~76% of the overall pool principal amount;
- Share of contracts with LTV greater than 75% is moderate at ~19%.

Description of key rating drivers highlighted above:

According to the transaction structure, the loan pool receivables will be transferred "at par" to a Special Purpose Vehicle (SPV) and the Trust will issue two series of PTCs, backed by the same. The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of subordination of the excess interest spread (EIS) in the structure (amounting to around 25.11% of the pool principal amount).

Further support is available through credit collateral stipulated at 12.50% of the total pool principal amount (Rs. 8.19 crore). The credit collateral will be split into First Loss Facility (FLF) amounting to 6.50% of the pool principal amount (Rs. 4.26 crore) and Second Loss Facility (SLF) amounting to 6.00% of the pool principal amount (Rs. 3.93 crore). The SLF would be utilized only after the FLF is exhausted.

The pool consists entirely of variable rate home loans given to individual borrowers. The pool is characterised by moderate seasoning (average seasoning of around 33.18 months). The pool does not have any overdue contracts as on the pool cut-off date. The pool has an average LTV of around 63.90%, however nearly 18.9% of the pool contracts have LTV of greater than 75%. The share of self-employed borrowers in the pool is high at around 75.9%. This borrower category is perceived to be riskier as compared to salaried class borrowers. The obligor concentration in the current pool is low with the top 10 obligors together accounting for around 8.05% of the pool principal.

Performance of past rated pools: This is the third PTC transaction originated by MHFL to be rated by ICRA. The last two were rated in February 2019 and March 2019 respectively.

Key Rating Assumptions

ICRA's cash flow modelling for rating of MBS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for 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 also the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is given in the table below.

Sr. No	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	MHFL Securitisation Trust III	3.5%-4.5%	15%-23% p.a.

Liquidity Position

There is credit collateral available in the transaction amounting to 12.50% of the pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 27 months of PTC payouts in full.

Analytical approach

The rating action is based on the analysis of the past performance of MHFL's portfolio, 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:

Magma Housing Finance Limited (MHFL) is a non-deposit taking Housing Finance Company registered with National Housing Bank. The company was initially promoted as GE Money Housing Finance by GE Capital Corporation. Subsequently, in February 2013, the company was acquired by MFL through its subsidiary Magma Advisory Limited. The company commenced disbursements under the new management in June 2013. MHFL currently provides housing loans, loan against property and construction finance.

The book size has grown steadily since June 2013 and as of December 2018, the entire managed Housing loan portfolio of MHFL stood at Rs. 1,048 crore. Average monthly disbursements for 9M FY19 have been around Rs. 47 crore with an average lending rate (IRR) of 12.5% over this period.

MHFL's long term debt programs are rated [ICRA]AA- (Stable).

Key financial indicators

MHFL (Audited)	FY2017	9MFY2018
Net Interest Income	91.9	67.5
Profit after tax	33.7	21.8
%Tier 1	22.6%	25.5%
%Tier 2	0.6%	0.5%
% CRAR	23.2%	26.0%
% Gross NPA	4.4%	6.4%
% Net NPA	3.7%	5.3%

Amounts in Rs. crore, ratios as per ICRA calculations

Source: MHFL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019 April 2019	Date & Rating in FY2018	Date & Rating in FY2017
1	MHFL SECURITISATION TRUST III	PTC A1	63.26	63.26	Provisional [ICRA]AA(SO)		
		PTC A2	2.29	2.29	Provisional [ICRA]AA(SO)	NA	NA
		Second Loss Facility	3.93	3.93	Provisional [ICRA]BBB-(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 I Detail of Instruments

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date*	Amount Rated (Rs. crore ¹)	Current Rating
MHFL SECURITISATION TRUST III	PTC A1	March 2019	Floating; Linked to 1 year MCLR of investor [#]	March 2041	63.26	Provisional [ICRA]AA(SO)
	PTC A2		Residual	March 2041	2.29	Provisional [ICRA]AA(SO)
	Second Loss Facility		-	-	3.93	Provisional [ICRA]BBB-(SO)

* Based on scheduled maturity of the pool contracts; may change on account of prepayment and yield change. The weighted average life of the pool after taking into account prepayments is expected to be much lower at around 8-10 years

[#] Initially at 9.90% p.a.p.m

¹ 100 lakh = 1 crore = 10 million

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