

August 16, 2019

## India Infoline Finance Limited: Provisional [ICRA]AAA(SO) rating assigned to PTCs issued under gold loan securitization transaction – Shining Metal Trust August 2019

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Shining Metal Trust August 2019	PTCs Series A	400.00	Provisional [ICRA]AAA(SO) assigned

*\*Instrument details are provided in Annexure-1*

### Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) rating to the PTCs Series A under a securitisation transaction originated by India Infoline Finance Limited (IIFL). The pass-through certificates (PTCs) are backed by a pool of Rs. 479.85 crore gold loan receivables (underlying pool principal of Rs. 430.66 crore).

The provisional rating is based on the strength of cash flows from the selected pool of contracts, IIFL's track record in the loan against gold business, the available credit enhancement in the form of (i) a cash collateral (CC) of 5.00% of the pool principal to be provided by the Originator, (ii) subordination of 7.12% of the pool principal for PTC Series A, and (iii) subordination of Excess Interest Spread (EIS)<sup>1</sup> in the structure, as well as the integrity of the legal structure. The rating is 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

- The first line of support available for the transaction through subordination of the excess interest spread (EIS) (amounting to around 6.63% of the pool principal amount); excess collections including EIS after meeting the scheduled PTC payouts in any month would be used for accelerated principal payouts and passed on to PTC investors
- Further credit support available through subordination of 7.12% of pool principal amount for PTC Series A followed by a CC equivalent to 5.00% of the initial pool principal.
- No overdue contracts in the pool as on pool cut-off date

#### Credit challenges

- The selected pool is characterised by low seasoning (average seasoning of ~3.4 months)
- The selected pool had average loan-to-value (LTV) of 72.24% at the time of loan disbursement

<sup>1</sup> Difference between pool interest and PTC interest

## Description of key rating drivers highlighted above

IIFL would assign the future receivables arising from the selected pool of 115,019 loans to a special purpose vehicle (trust). The trust would issue one series of PTC Series A amounting to 92.88% of the total pool principal backed by the assigned loan against gold receivables

The first line of support for Series A PTCs in the transaction is in the form of a subordination of 7.12% of the pool principal (includes over-collateralisation). All collections from the pool that are in excess of the promised weekly interest payout to the PTCs would be utilised to accelerate the amortisation of the PTCs. The scheduled PTC principal payout at the end of the weekly payouts will be revised accordingly. The entire principal amount is promised to PTC Series A in a single bullet instalment on the scheduled maturity date.

A cash collateral of 5.00% of the initial pool principal provided by IIFL acts as further credit enhancement in the transaction. In the event of a shortfall in meeting the promised PTC weekly interest payouts and the PTC principal on the scheduled maturity date, the trustee will utilise the cash collateral to meet the shortfall. Additionally, the EIS available in the structure will provide credit enhancement support.

There were no overdues in the pool on the cut-off date. The pool consists of loans that have low seasoning with a weighted average seasoning of ~3.4 months. The pool has a higher LTV profile with average LTV, at the time of loan disbursement, being 72.24%.

In ICRA's opinion, the level of credit enhancement is sufficient to protect the investors from delinquencies and credit losses even under significantly stressed loss assumptions.

**Performance of past rated pools:** ICRA has rated 26 PTC gold loan transactions of IIFL till date with the last PTC transaction rated in July 2019. Previous 18 transactions rated before June 2019 have fully matured. The PTCs in the case of the erstwhile four transactions rated in December 2017 were paid within three months of the transaction. All the rated pools showed high prepayments with low to nil delinquencies. Out of the 2 pools rated in June 2019 in the limited performance data available till July 2019 payout the delinquencies are low while prepayments have been moderate with no credit collateral utilization till July 2019 payout.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed security (ABS) transactions involves the simulation of potential delinquencies (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the shortfall in collections are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to account for the current macroeconomic situation as well as 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 2-3% with certain variability around it.

## Liquidity position

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a weekly basis. This structural feature imparts significant liquidity in the transaction, as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised PTC payouts.

Additionally, a cash collateral amounting to 5.00% of the pool principal amount is available in the transaction. The cash collateral is adequate to meet promised interest payouts due to the PTC investors for ~26 weeks, even in an unlikely scenario of no collections in the pool.

## Analytical approach

The rating action is based on the analysis of the past performance of IIFL's loan against gold portfolio 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

## About the company

IIFL, a subsidiary of IIFL Holdings Limited, is characterised as a systemically important non-deposit taking non-banking financial company (NBFC). It focuses on secured lending and its product portfolio includes mortgage loans, gold loans, capital market finance, healthcare equipment finance and commercial vehicle finance. The Group merged a wholly-owned subsidiary of IIFL, namely Moneyline Credit Limited, with IIFL w.e.f. April 1, 2011.

### IIFL Holdings Limited

IIFL Holdings Limited (formerly known as India Infoline Ltd.) was founded in 1995 as an independent financial research provider. The company's name was changed to IIFL Holdings Limited in FY2014 when it became a non-operating holding company. The Group is engaged in equity broking, portfolio management services, depository services, investment banking, distribution of mutual funds and other financial products, commodity broking, margin funding, consumer loan funding and wealth management.

The IIFL Group's consolidated net worth stood at Rs. 5,066 crore as on March 31, 2018. The group reported a PAT of Rs. 1,162 crore (Rs. 911 crore after minority interest) in FY2018 on total assets of Rs. 43,703 crore compared to PAT of Rs. 822 crore (Rs. 686 crore after minority interest) in FY2017 on total assets of Rs. 33,761 crore. The group reported a PAT of Rs. 872 crore in 9M FY2019 on total assets of Rs. 42,927 crore.

### Key financial indicators (audited; consolidated for IIFL Holdings)

	FY2017	FY2018	9M FY2018^	9M FY2019^
Total revenues	4,925	6,437	4,691	5,374
Profit after tax	822	1,162	741	872
Net worth <sup>2</sup>	5,637	6,566	6404	7734
Loan book (AUM)	25,896	37,835	27,288	36,400
Total assets	33,761	43,703	35,526	42,927
PAT/ATA*	2.90%	3.00%	2.13%	2.22%
Return on equity*	14.59%	17.70%	12.02%	11.23%
Gross NPA	1.82%	1.71%	1.18%	3.74%
Net NPA	0.58%	0.79%	2.10%	1.49%
Capital adequacy ratio	18.10%	16.20%	18.20%	20.70%
Gearing <sup>3</sup>	4.32	5.02	4.55	4.13

Amounts in Rs. crore

^ As per IND AS

\* Annualised

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

### Any other information: None

### Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				August 2019	-	-	-
1 Shining Metal Trust August 2019	PTC Series A	400.00	400.00	Provisional [ICRA]AAA(SO)	NA	NA	NA

### 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](http://www.icra.in)

<sup>2</sup> Including minority interest

<sup>3</sup> Including minority interest

## Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate (p.a.p.m)	Scheduled Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Shining Metal Trust August 2019	PTC Series A	August 2019	10.00%	October 2020	400.00	Provisional [ICRA]AAA(SO)

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

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Abhijeet Ajinkya**

+91 22 6114 3434

[abhijeet.ajinkya@icraindia.com](mailto:abhijeet.ajinkya@icraindia.com)

**Gaurav Mashalkar**

+91 22 6114 3431

[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Karan Pednekar**

+91 22 6114 3433

[karanp@icraindia.com](mailto:karanp@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

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

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

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