

August 28, 2020

## ICICI Bank Limited: Ratings reaffirmed for PTCs and SLF issued under two 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   |
|------------------------------|---------------------------------------|----------------------------|---|--|---|
| ICICI Bank Ltd. (2005)       | PTC Series A2                         | 300.00                     | 26.98   | 22.97                                  | [ICRA]AAA(SO); Reaffirmed                             |
| MBS 1 (Aawas Trust Series 8) | PTC Series B^<br>Second Loss Facility | -<br>62.77                 | -<br>21.00  | -<br>21.00                             | [ICRA]AAA(SO); Reaffirmed<br>[ICRA]AA(SO); Reaffirmed |
| ICICI Bank Ltd. (2005)       | PTC Series A2                         | 345.39                     | 32.82   | 27.19                                  | [ICRA]AAA(SO); Reaffirmed                             |
| MBS 2 (Aawas Trust Series 5) | PTC Series B^<br>Second Loss Facility | -<br>62.77                 | -<br>27.75  | -<br>27.75                             | [ICRA]AAA(SO); Reaffirmed<br>[ICRA]AA(SO); Reaffirmed |

\* Instrument details are provided in Annexure-1

^ Initial investment by Series B PTC holders was nominal

### Rationale

The pass-through certificates (PTCs) and second loss facility (SLF) originated by ICICI Bank Limited (IBL) are backed by mortgage loan receivables. The ratings 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 PTC payouts.

### Pool performance summary

A summary of the performance of the pools after the July 2020 payout month has been tabulated below.

| Parameter  | Aawas 8 | Aawas 5 |
|--|---------|---------|
| Months post securitisation                         | 176     | 175     |
| Pool amortisation                                  | 96.9%   | 96.2%   |
| PTC amortisation                                   | 96.9%   | 96.2%   |
| Cumulative collection efficiency <sup>1</sup>      | 99.3%   | 98.6%   |
| Loss-cum-90+ dpd <sup>2</sup> (% of initial pool)  | 0.6%    | 0.9%    |
| Loss-cum-180+ dpd <sup>3</sup> (% of initial pool) | 0.6%    | 0.8%    |
| Cumulative cash collateral (CC) utilisation        | 0.0%    | 0.0%    |
| Breakeven collection efficiency <sup>4</sup>       | 0.0%    | 0.0%    |

<sup>1</sup> (Cumulative current and overdue collections till date)/(Cumulative billing till date + opening overdues at the start of the transaction)

<sup>2</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a percentage of initial pool principal

<sup>3</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 180 days, as a percentage of initial pool principal

<sup>4</sup> (Balance cashflows payable to investor – Cash collateral available)/ Balance pool cashflows

| Parameter                                     | Aawas 8 | Aawas 5 |
|---|---------|---------|
| Cash collateral (% of balance pool principal) | >100.0% | >100.0% |

## Key rating drivers

### Credit strengths

- Cumulative collection efficiency remained above 98% after July 2020 payout month for both pools
- Low delinquency observed in both pools after July 2020 payout month, with loss-cum-180+ dpd remaining below 1%
- High amortisation of the pools i.e. ~96% after July 2020 payout, leading to lower uncertainty around performance of the balance pool contracts
- Balance CC will cover the entire future payouts to investors

### Credit challenges

- PTC yield is linked to external benchmark and pool yield is linked to Originator's internal rate; therefore, inverse movement in both may lead to CC utilisation

### Description of key rating drivers highlighted above

The Aawas 8 and Aawas 5 pools have completed 176 months and 175 months post securitisation, respectively, and have amortised above 96% post the July 2020 payouts. In addition to Series A2, these pools have a Series B tranche, which is obliged to pay an amount equivalent to the principal outstanding on pre-identified contracts that can be repriced in a certain manner (conversion of underlying contracts from floating rate to fixed rate at a yield lower than what was payable to PTC Series A2 or conversion from fixed rate to floating rate). However, no such conversion has happened till date. Moreover, both pools have been characterised by a high collection efficiency (i.e. more than 98%) and low delinquency build-up (i.e. 180+ dpd as a percentage of the initial pool size remaining below 1% post July 2020 payouts). The average monthly prepayment rates for these pools were in the range of 0.7-0.8%.

IBL has granted a moratorium for 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). However, investors' consent for a moratorium for the PTC payments has not been sought because of the sizeable excess interest spread (EIS) and balance CC available in the structure.

The balance CC after July 2020 payouts of Rs 38.81 crore and Rs 48.98 crore for Aawas 8 and Aawas 5 respectively, covers the entire balance promised cashflow in the pools. Additionally, there is a credit support available in the form of a cash advance facility of Rs. 8.86 crore (38.6% of the balance PTC principal outstanding) and Rs. 8.14 crore (30.0% of the balance PTC principal outstanding) in the Aawas 8 and Aawas 5 pools respectively.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings 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.

| Sr. No | Transaction Name                                    | Expected Loss<br>(% of initial pool principal) | Prepayment   |
|--------|---|--|--------------|
| 1      | ICICI Bank Ltd. (2005) MBS 1 (Aawas Trust Series 8) | 0.5%-1.0%                                      | 12%-18% p.a. |
| 2      | ICICI Bank Ltd. (2005) MBS 2 (Aawas Trust Series 5) | 0-.5%-1.0%                                     | 12%-18% p.a. |

## Liquidity position

### Superior for PTC Series A2 and PTC Series B

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

### Strong for SLF

The first loss facility (FLF) covers around 62% of the balance promised cash flow for both pools and the rest will be utilised from the SLF in an unlikely scenario of no collections in the pools.

## Rating sensitivities

**Positive triggers** – Not applicable

**Negative triggers** – The ratings are unlikely to be downgraded as the CC available in the pools is sufficient to meet the future promised 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 | <a href="#">Rating Methodology for Securitisation Transactions</a> |
| Parent/Group Support            | Not applicable   |
| Consolidation/Standalone        | Not applicable   |

## About the company

ICICI Bank Limited (IBL) is a systemically important private sector bank in India with a 6.8% market share in banking sector advances as on December 31, 2019. With a presence in banking, insurance, asset management, investment banking and private equity, the ICICI Group is a large player in the Indian financial system. As of December 31, 2019, the bank had 5,275 branches and 15,589 ATMs. IBL was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. In 1998, ICICI Limited's shareholding in IBL reduced to 46% following a public offering of shares. Further, ICICI Limited and IBL were merged in 2002, following which the ICICI Group's financing and banking operations, both wholesale and retail, were integrated into a single entity.

For FY2019, on a standalone basis, IBL reported a net profit of Rs. 3,363 crore on total assets of Rs. 9.64 lakh crore (net profit/ATA: 0.37%) and a regulatory capital adequacy ratio of 16.89% (Tier I of 15.09% and CET I of 13.64%) as on March 31, 2019. The bank reported a net profit of Rs. 6,777 crore on total assets of Rs. 8.76 lakh crore (net profit/ATA: 0.82%) and a regulatory capital adequacy ratio of 18.42% (Tier I of 15.92% and CET I of 14.43%) as on March 31, 2018. For 9M FY2020, IBL reported a net profit of Rs. 6,709 crore on total assets of Rs. 10.07 lakh crore (net profit/ATA: 0.91%) and a regulatory capital adequacy ratio of 16.50% (Tier I of 14.98% and CET I of 13.62%) as on December 31, 2019. The bank reported gross NPAs of 5.95% and net NPAs of 1.49% as on December 31, 2019.

## Key financial indicators

|                     | FY2018   | FY2019   | 9M FY2019 | 9M FY2020 |
|---------------------|----------|----------|-----------|-----------|
| Net interest income | 23,026   | 27,015   | 19,395    | 24,340    |
| Profit after tax    | 6,777    | 3,363    | 2,394     | 6,709     |
| Total assets        | 8,79,189 | 9,64,459 | 9,12,364  | 10,07,068 |
| % Gross NPAs        | 8.84%    | 6.70%    | 7.75%     | 5.95%     |
| % Net NPAs          | 4.77%    | 2.06%    | 2.58%     | 1.49%     |

*Amount 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 | Rating        | FY2020                              | FY2019        | FY2018        |
|   |   |                         |                      |                    | 28-Aug-2020   | 30-Aug-2019                         | 31-Aug-2018   | 1-Sep-2017    |
| 1 | ICICI Bank Ltd. (2005) MBS 1 (Aawas Trust Series 8) | PTC Series A2           | 300.00               | 22.97              | [ICRA]AAA(SO) | [ICRA]AAA(SO)                       | [ICRA]AAA(SO) | [ICRA]AAA(SO) |
|   |   | PTC Series B^           | -                    | -                  | [ICRA]AAA(SO) | [ICRA]AAA(SO)                       | [ICRA]AAA(SO) | [ICRA]AAA(SO) |
|   |   | Second Loss Facility    | 62.77                | 21.00              | [ICRA]AA(SO)  | [ICRA]AA(SO)                        | [ICRA]AA(SO)  | [ICRA]AA(SO)  |

^ Initial investment by Series B PTC holders was nominal; Amount in Rs. crore

|   | Instrument  | Current Rating (FY2021) |                      |                    |               | Rating History for the Past 3 Years |               |               |
|---|---|-------------------------|----------------------|--------------------|---------------|-------------------------------------|---------------|---------------|
|   |   | Type                    | Initial Rated Amount | Amount Outstanding | Rating        | FY2020                              | FY2019        | FY2018        |
|   |   |                         |                      |                    | 28-Aug-2020   | 30-Aug-2019                         | 31-Aug-2018   | 1-Sep-2017    |
| 2 | ICICI Bank Ltd. (2005) MBS 2 (Aawas Trust Series 5) | PTC Series A2           | 345.39               | 27.19              | [ICRA]AAA(SO) | [ICRA]AAA(SO)                       | [ICRA]AAA(SO) | [ICRA]AAA(SO) |
|   |   | PTC Series B^           | -                    | -                  | [ICRA]AAA(SO) | [ICRA]AAA(SO)                       | [ICRA]AAA(SO) | [ICRA]AAA(SO) |
|   |   | Second Loss Facility    | 62.77                | 27.75              | [ICRA]AA(SO)  | [ICRA]AA(SO)                        | [ICRA]AA(SO)  | [ICRA]AA(SO)  |

^ Initial investment by Series B PTC holders was nominal; 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](http://www.icra.in)

## Annexure-1: Instrument details

| Sl. | Trust Name                   | Instrument                | Date of Issuance | Coupon Rate                          | Expected Maturity Date <sup>#</sup> | Rated Amount (Rs. crore) | Current Rating |
|-----|------------------------------|---------------------------|------------------|--------------------------------------|-------------------------------------|--------------------------|----------------|
| 1   | ICICI Bank Ltd. (2005)       | PTC Series A2             | December 2005    | Fixed (prevailing 5-yr OIS + spread) | March 2027                          | 22.97                    | [ICRA]AAA(SO)  |
|     | MBS 1 (Aawas Trust Series 8) | PTC Series B <sup>^</sup> |                  | Floating <sup>*</sup>                |                                     | -                        | [ICRA]AAA(SO)  |
|     |                              | Second Loss Facility      |                  | --                                   |                                     | 21.00                    | [ICRA]AA(SO)   |
| 2   | ICICI Bank Ltd. (2005)       | PTC Series A2             | December 2005    | Fixed (prevailing 5-yr OIS + spread) | April 2027                          | 2719                     | [ICRA]AAA(SO)  |
|     | MBS 2 (Aawas Trust Series 5) | PTC Series B <sup>^</sup> |                  | Floating <sup>*</sup>                |                                     | -                        | [ICRA]AAA(SO)  |
|     |                              | Second Loss Facility      |                  | -                                    |                                     | 27.75                    | [ICRA]AA(SO)   |

<sup>^</sup> Initial investment by Series B PTC holders was nominal

<sup>\*</sup> Linked to yield on specified loan contracts

<sup>#</sup> Expected maturity at transaction initiation; may change on account of prepayment and yield change

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