March 31, 2021

IIFL Finance Limited: Rating confirmed as final for PTCs backed by gold loan receivables issued by Liquid Gold Series 5

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Liquid Gold Series 5	PTC Series A	285.00	[ICRA]A1+(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In March 2021, ICRA had assigned a Provisional [ICRA]A1+(SO) rating to PTC Series A issued by Liquid Gold Series 5. The pass-through certificates (PTCs) are backed by a pool of Rs. 343.23 crore gold loan receivables (underlying pool principal of Rs. 304.12 crore) originated by IIFL Finance Limited (IIFL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of subordination, excess interest spread (EIS) and cash collateral (CC)
- No overdue contracts in the pool as on pool cut-off date

Credit challenges

- Moderate geographical concentration in the pool at state level
- Moderate loan-to-value (LTV) profile with high share of higher LTV contracts
- Pool's performance will remain exposed to any fresh disruptions that may arise due to Covid-19 pandemic

Description of key rating drivers highlighted above

IIFL would assign the future receivables arising from the selected pool of loans to a special purpose vehicle (trust). The trust would issue a single series of PTC Series A amounting to 93.71% of the total pool principal backed by the assigned loan against gold receivables.

The first line of support for the Series A PTCs in the transaction is in the form of a subordination of 6.29% of the pool principal (includes over-collateralisation). All collections from the pool that exceed the promised monthly 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 monthly 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 CC of 5.50% 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 monthly interest payouts and the principal on the scheduled maturity date, the trustee will utilise the CC to meet the shortfall. Additionally, the subordination and EIS available in the structure will provide credit enhancement support.

There are no overdues in the pool as on the cut-off date. The pool consists of loans that have low seasoning with a weighted average seasoning of 3.4 months. It has a moderate LTV profile with an average LTV of around 69% at the time of loan disbursement. The pool has moderate geographical concentration with the top three states contributing around 37% to the pool principal.

Performance of past rated pools: ICRA has rated 34 PTC gold loan transactions of IIFL till date with the last PTC transaction rated in March 2021. All the pools, except the pools rated post October 2020, have fully matured. The delinquencies were low in all the matured pools while the prepayments were high.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (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 current 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 current pool is estimated at 2.0-3.0% with certain variability around it.

Liquidity position: Strong

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. This structural feature imparts significant liquidity to 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 CC amounting to 5.50% of the pool principal amount is available in the transaction. The CC is adequate to meet the promised interest payouts due to the PTC investors for nearly seven months, even in the unlikely scenario of no collections in the pool.

Rating sensitivities

Positive factors - Not applicable as the instrument is rated at the highest level on the short-term scale.

Negative factors - The rating could be downgraded on the sustained weak collection performance of the underlying pool contracts, leading to high delinquency levels and decreased cover available for the future PTC payouts from the credit enhancement.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

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

IIFL Finance Limited's consolidated net worth stood at Rs. 5,000 crore as on September 30, 2020. It reported a profit after tax (PAT) of Rs. 503 crore in FY2020 on total assets of Rs. 34,341 crore compared to Rs. 796 crore and Rs. 33,239 crore, respectively, in FY2019. The company reported a PAT of Rs. 245 crore in H1 FY2021 on total assets of Rs. 35,314 crore as on September 30, 2020.

Key financial indicators

IIFL Finance Limited (consolidated)	FY2019 (Audited)	FY2020 (Audited)	6M FY2021 (Unaudited)
Total revenues	5,085	4,821	2,810
Profit after tax	796	503	245
Net worth	4,359	4,766	5,000
Loan book (AUM)	34,904	37,951	40,843
Total assets	33,239	34,341	35,314
Gross NPA	2.0%	2.3%	1.8%
Net NPA	0.6%	1.0%	0.8%
Gearing (times)	6.2	5.8	5.8

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 31, 2021	Mar 24, 2021	-	-	-
1	Liquid Gold Series 5	PTC Series A	285.00	285.00	[ICRA]A1+(SO)	Provisional [ICRA]A1+(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

ISIN	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0H9Y15012	Liquid Gold Series 5	PTC Series A	March 2021	7.72%	March 2022	285.00	[ICRA]A1+(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments and accelerated amortisation*

Source: *Company*

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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

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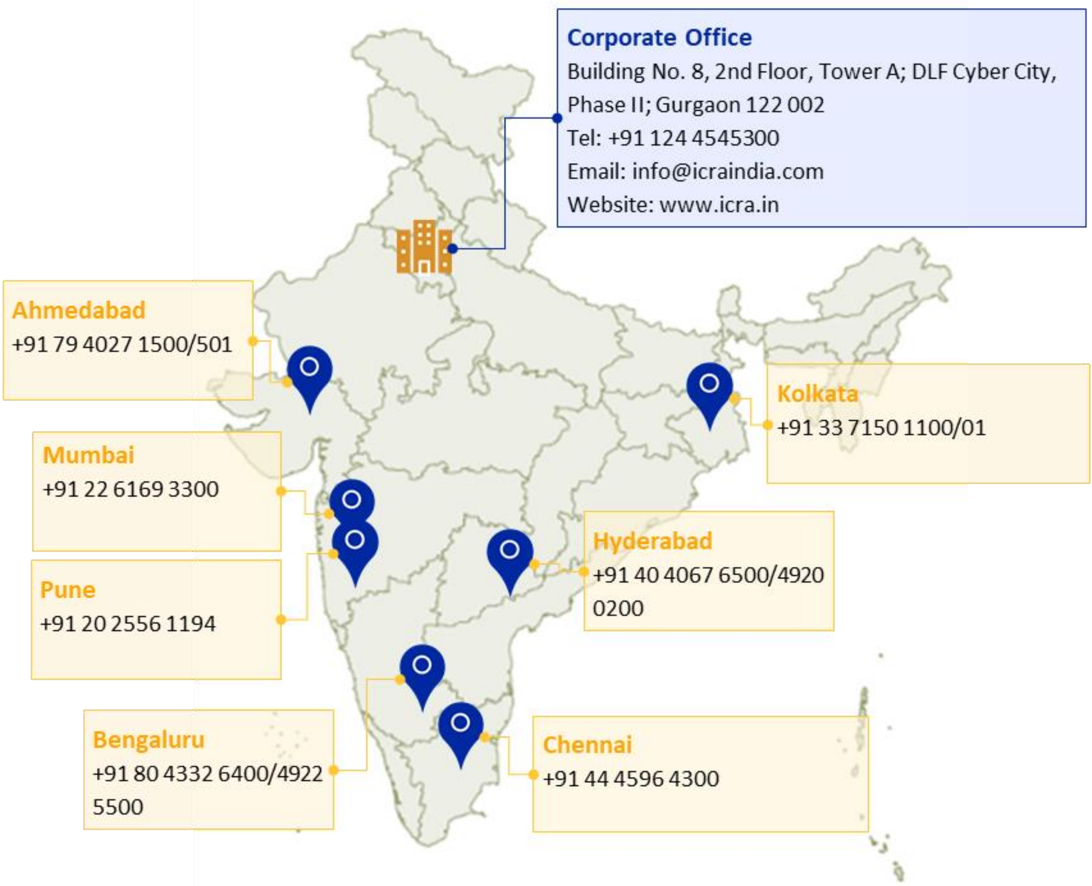

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