

January 03, 2020

## Magma Housing Finance Limited: Provisional [ICRA]AA(SO) rating assigned to Assignee Payouts to be issued under MHFL PNB DA DEC'19

### Summary of rating action

Issue Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
MHFL PNB DA DEC'19	Assignee Payouts	200.65	Provisional [ICRA]AA(SO); assigned

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

### Rationale

ICRA has assigned a rating of Provisional [ICRA]AA(SO) [pronounced provisional ICRA double A structured obligation] to Assignee Payouts under a securitisation transaction, MHFL PNB DA DEC'19, originated by Magma Housing Finance Limited (MHFL). The Assignee Payouts are backed by receivables from a Rs. 200.65 crore pool of Housing Loan (HL) contracts.

The provisional rating is based on the strength of cash flows from the selected pool of contracts, MHFL's track record in the Mortgage loan 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 Cash Collateral;
- Pool is devoid of any delinquent contracts as on the pool cut-off date;

#### Credit challenges

- The pool has low weighted average seasoning of 14.26 months
- High share of self-employed borrowers at around 69%

It is envisaged that for this transaction, the Assignee will avail the Partial Credit Guarantee (PCG)' under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from NBFCs/Housing Finance Companies (HFCs). ICRA has not factored in the PCG while arriving at the assigned rating.

### Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the assignee. The first line of support for meeting the scheduled assignee payouts is the EIS of 38.5% in the structure, which is subordinated. A cash collateral of 9.00% of the initial pool principal provided by MHFL acts as further credit enhancement in the transaction.

The scheduled cash flow promised to the assignee on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The pool amortisation schedule and thus the promised payouts to the Assignee are subject to modification on account of prepayments.

The pool is characterised by a low obligor concentration with the top 10 obligors together accounting for only 3.11% of the overall pool principal amount. There are no of overdue contracts in the pool as on the pool cut-off date. The selected pool consists of receivables from loans given at a moderate LTV (average LTV of 64.26%). Further, the share of contracts with a balance tenure of more than 20 years is relatively moderate at 18.92%. Around 69% of the contracts in the pool are given to self-employed borrowers who have performed weaker in the portfolio. The average seasoning and pre-securitization of this pool is low at 14.26 months and 3.08% respectively.

**Past rated pool performance:** ICRA has rated 4 HL loan PTCs originated by MHFL – one in Feb-19, two in Mar-19 and one in Jul-19. The pools have shown good performance well with collection efficiency between 92% - 99% and negligible loss-cum-90+ dpd level till August 2019 collection month. Given the significant quantum of EIS in all the pools, the cumulative cash collateral utilisation after the September 2019 payouts is nil in all the pools.

### Key rating assumptions

ICRA's cash flow modeling for surveillance of MBS transactions involves 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 the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, and also the performance and 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 these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 3.5% - 4.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12.0% - 18.0% per annum.

### Liquidity position: Strong

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of a cash collateral amounting to 9.00% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the cash collateral would cover the shortfalls in the assignee payouts for a period of 26 months.

### Rating sensitivities

**Positive triggers** – Sustained strong collection performance of the underlying pool contracts (>95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements.

**Negative triggers** – Sustained weak collection performance of the underlying pool (Monthly collection efficiency <90%) leading to higher than expected delinquency levels and CE utilization levels

## Analytical approach

The rating action is based on the analysis of the performance of MHFL's portfolio till Sep 2019 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

Magma Housing Finance Limited (MHFL) is registered with National Housing Bank as a non-deposit taking housing finance company. 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. It commenced disbursements under the new management in June 2013. MHFL currently provides housing loans, loan against property (LAP) and construction finance.

On a standalone basis, MHFL reported a profit after tax of Rs. 34.0 crore on a total asset base of Rs. 1,986 crore in FY2019 against a profit after tax of Rs. 33.8 crore on a total asset base of Rs. 1,534 crore in FY2018. In H1 FY2020, MHFL reported a profit of Rs. 24 crore on a total asset base of Rs. 2,186 crore. On a consolidated basis, the Group reported a profit after tax of Rs. 304 crore on a total asset base of Rs. 16,789 crore in FY2019 compared to a profit after tax of Rs. 237 crore on a total asset base of Rs. 14,894 crore in FY2018. In H1 FY2020, the Group reported a profit after tax of Rs. 40 crore on a total asset base of Rs. 15,857 crore compared to a profit after tax of Rs. 145 crore on a total asset base of Rs. 15,457 crore in H1 FY2019.

MHFL's portfolio grew by 29.36% to Rs. 1896 crore as on March 31, 2019 from Rs. 1,465 crore as on March 31, 2018. Its asset quality improved with gross NPAs relative to the on-balance sheet book declining to 1.8% (Net NPA of 1.2%) as on March 31, 2019 from 5.4% (Net NPA of 3.3%) as on March 31, 2018. In H1 FY2020, the asset quality was impacted with gross NPA% and net NPA% rising to 2.2% and 1.6%, respectively. The delinquencies are expected to remain volatile, given the company's relatively risky target segment (small entrepreneurs, self-employed and non-income proof category) and seasoning impact. MHFL's capitalisation profile improved with the CRAR increasing to 33.8% as on September 30, 2019 from 30.9% as on March 31, 2018 on account of an increase in the Tier II capital. Its profitability indicators improved in H1 FY2020 with RoA and RoE increasing to 2.3% and 13.7%, respectively, from 1.9% and 10.4%, respectively, in FY2019. MHFL's majority funding is in the form of term loans from banks with its borrowing mix comprising term loans (47%), working capital lines (27%), NCDs (8%), securitisation (12%) and subordinated debt (6%) as on September 30, 2019.

MHFL has a rating outstanding of [ICRA]AA- with negative outlook on its long term debt programme.

### Key financial indicators (MHFL; MFL Consolidated)

	FY2018 Standalone Ind-AS	FY2019 Standalone Ind-AS	H1 FY2020 Standalone Ind-AS	FY2018 Consolidated* Ind-AS	FY2019 Consolidated* Ind-AS	H1 FY2020 Consolidated* Ind-AS
Net interest income	89	110	60	981	1,101	510
Profit after tax	34	34	24	237	304	40
Gross advances (on-book)	1,465	1,896	2,072	14,664	15,645	14,581
AUM	1,808	2,430	2,897	15,801	17,029	16,463
CRAR%	30.9%	35.0%	33.8%	17.3%^	24.9%^	27.6%^
Return on average assets%**	2.2%	1.9%	2.3%	1.6%	1.8%	0.5%
Return on average equity%	11.5%	10.4%	13.7%	11.3%	12.9%	2.9%
% Gross NPAs	5.4%	1.8%	2.2%	8.6%	4.8%	6.4%
% Net NPAs	3.3%	1.2%	1.6%	4.5%	3.1%	4.2%
% Net NPA/ Net worth	14.77%	6.50%	9.40%	31.69%	17.24%	21.77%

Source: Magma, ICRA research; Amount in Rs. crore

\*\* On gross value of assets; \*Includes MFL & MHFL; ^MFL Standalone

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

### Any other information: None

### Rating history for last three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating 03-Jan-20	FY2019	FY2018	FY2017
1	MHFL PNB DA DEC'19	Assignee Payouts	200.65	200.65	Provisional [ICRA]AA(SO)	-	-	-

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

Issue Name	Instrument Name	Date of Issuance	Coupon Rate <sup>^</sup>	Scheduled Maturity Date*	Amount Rated (Rs. crore <sup>1</sup> )	Current Rating
MHFL PNB DA DEC'19	Assignee Payouts	December 2019	9.10%	July 2049	200.65	Provisional [ICRA]AA(SO)

\* Scheduled maturity and average life at transaction initiation; may change on account of prepayment  
<sup>^</sup> linked to Assignee 1 yr Repo linked lending rate (RLLR)

<sup>1</sup> 100 lakh = 1 crore = 10 million

## Analyst Contacts

**Abhishek Dafria**  
+91 22 6114 3440  
[abhishekdafria@icraindia.com](mailto:abhishekdafria@icraindia.com)

**Gaurav Mashalkar**  
+91 22 6114 3431  
[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Ayush Agarwal**  
+91 22 6114 3417  
[ayush.agarwal@icraindia.com](mailto:ayush.agarwal@icraindia.com)

## Relationship Contact

**L Shivakumar**  
+91 22 6169 3304  
[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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents