

November 22, 2021

Edelweiss Housing Finance Limited: Ratings confirmed as final for PTCs backed by home loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL Trust 7	PTC Series A1	166.86	[ICRA]AAA(SO); provisional rating confirmed as final
	PTC Series A2	3.41	[ICRA]AA+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In August 2021, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to the pass-through certificate (PTCs) Series A1 and Provisional [ICRA]AA+(SO) rating to PTC Series A2 issued by HL Trust 7. The PTCs are backed by receivables worth a Rs. 373.64 crore pool of home loans (underlying pool principal of Rs. 170.26 crore) originated by Edelweiss Housing Finance Limited (EHFL). 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 ratings have now been confirmed as final.

A summary of the performance of the pools after the October 2021 payouts has been provided below.

Parameter	HL Trust 7
Months post securitisation	2
Pool principal amortisation	5.0%
PTC Series A1 amortisation	5.2%
PTC Series A2 amortisation	0.00%
Cumulative collection efficiency (including advance collections)	98.9%
Loss-cum-0+ dpd	1.1%
Loss-cum-90+ dpd	0.0%
Cumulative cash collateral (CC) utilisation	0.0%

Key rating drivers

Credit strengths

- Availability of CE in the form of excess interest spread (EIS), CC and subordination for PTC Series A1
- All contracts in the pool are current as on the pool cut-off date
- High weighted average seasoning of ~33 months
- High share of contracts in pool having CIBIL score more than 750 (~89%)

Credit challenges

- Moderately high geographical concentration with share of top two states (Gujarat & Maharashtra) accounting for ~61% of the pool
- Pool has contracts with floating rate and fixed rate loans as well as fixed cum floating rate loans, while PTC yield is floating. Hence, transaction is exposed to interest rate basis risk

- Pool's performance will remain exposed to disruptions caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

The first line of support for PTC Series A1 in the transaction is in the form of EIS (~41%). Further, support for PTC Series A1 is in the form of subordination of 2.00% of the pool principal (in the form of principal payable to PTC Series A2). PTC Series A2 pay-outs are completely subordinated to PTC Series A1., and only after PTC Series A1 has been fully paid, EIS will be available as support for principal payment to the PTC Series A2. A CC of 10.00% of the initial pool principal (Rs. 17.03 crore), provided by EHFL, acts as a further CE in the transaction. In the event of a shortfall in meeting the promised PTC pay-outs during any month, the trustee will utilise the CC to meet the shortfall.

As per the transaction structure, the monthly promised cash flows for PTC Series A1 comprises payment of 98% of the billed pool principal and the interest payment at the predetermined interest rate on the PTC Series A1 principal outstanding. Further, 2% of the billed pool principal is paid on an expected basis to the PTC Series A1. The additional EIS available after meeting the promised and expected pay-outs to the PTC Series A1 is passed on as an expected yield to the PTC Series A2. Following payment of the PTC Series A1 in full, the principal to the PTC Series A2 will be paid on an expected basis (to the extent of billed pool principal) on a monthly basis. The yield on PTC Series A2 is in the form of EIS in the structure. For PTC Series A2, yield is on an expected basis and not promised. Further, principal to PTC Series A2 is promised on final maturity date for the transaction.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool was high at ~33 months as on the pool cut-off date (July 31, 2021). Further, the initial pool had high share of loan contracts (~89%) having a CIBIL score of more than 750. The pool had high geographical concentration with the top two states (Gujarat and Maharashtra) contributing 61.3% of the initial pool principal amount. Further, the pool has loan contracts with floating rate and fixed rate loans as well as fixed cum floating rate loans, while the PTC yield is floating. Hence, transaction is exposed to an interest rate basis risk, thereby any adverse movement in benchmark yield will reduce the EIS available in the transaction. Also, the performance of the pool would remain exposed to disruptions caused by the pandemic.

Past rated pools performance: ICRA has no live PTC transactions for EHFL.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) 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 factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 3.50-4.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0%-18.0% per annum.

Liquidity position

Superior for PTC Series A1

The cash collections and the CE available in the transaction are expected to be highly comfortable to meet the PTC Series A1 investor pay-outs. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended cash collateral would cover the shortfalls in the PTC Series A1 pay-outs for a period of 35 months.

Strong for PTC Series A2

The PTC Series A2 is subordinated to the PTC Series A1 and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash collections and the CE available in the transaction are expected to be comfortable to meet the PTC Series A2 investor payouts.

Rating sensitivities

Positive factors – The rating for PTC Series A2 could be upgraded if sustained strong collection performance is witnessed, leading to low delinquency levels and further build-up of credit enhancement cover.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a rating downgrade for the PTCs.

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

EHFL is a housing finance company registered with the National Housing Bank. The company was incorporated in FY2011 following the Group's strategy of creating a larger retail footprint. The Group provides home loans and loan against property through this entity. Over the last couple of years, the company has realigned its strategy to focus on low ticket-sized home loans. As of March 31, 2021, Edelweiss Rural & Corporate Services held a 55.23% stake, followed by Edelweiss Financial Services Limited (30.35%) and Edel Finance Company Limited (14.42%).

The company reported a profit after tax of Rs. 3.73 crore on total income of Rs. 551.06 crore in FY2021 compared to a net profit of Rs. 1.56 crore on total income of Rs. 607.40 crore in FY2020. Its total assets stood at Rs. 4,931.10 crore while its net worth was Rs. 762.80 crore as of March 31, 2021 compared to Rs. 5,050.83 crore and Rs. 769.08 crore, respectively, as of March 31, 2020. The borrowings stood at Rs. 3,481.37 crore as of March 31, 2021 compared to Rs. 3,859.22 crore as of March 31, 2020. The CRAR stood at 26.5% as of March 31, 2021 compared to 28.6% as of March 31, 2020.

Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (EFSL), the holding company of the Edelweiss Group of companies, was incorporated in 1995 by first-generation entrepreneurs to offer investment banking services primarily to technology companies. At present, the Group is involved in wholesale and retail financing, distressed assets resolution, corporate debt syndication and debt restructuring, institutional and retail equity broking, corporate finance advisory, wealth advisory and asset management. It forayed into housing finance in FY2011, life insurance in FY2012 and general insurance in FY2018.

Key financial indicators (Audited)

Edelweiss Financial Services Limited (Consolidated)	FY2020	FY2021
Total income	9,603	10,849
Profit after tax - Including minority interest	(2,044)	254
Loan assets**	28,361	21,911
Gross NPA (%)	5.3%	7.7%
Net NPA (%)	4.1%	4.1%

Source: Company, ICRA research; All ratios as per ICRA calculations; Amounts in Rs. Crore;

** Loan assets include on-book loans and security receipts

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				November 22, 2021	August 26, 2021			
1 HL Trust 7	PTC Series A1	166.86	166.86	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
	PTC Series A2	3.41	3.41	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
HL Trust 7	PTC Series A1	August 2021	7.68% [#]	March 2050	166.86	[ICRA]AAA(SO)
	PTC Series A2	August 2021	EIS [^]	March 2050	3.41	[ICRA]AA+(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

[#] 1-year Marginal Cost of funds based Lending Rate (MCLR) + 0.43%

[^]Yield is on expected basis and not promised

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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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