

March 28, 2022

## Edelweiss Housing Finance Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 ABS backed by home loan receivables issued by HL Trust 12

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL Trust 12	Series A1 ABS	65.05	Provisional [ICRA]AAA(SO); Assigned

\*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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### Rationale

ICRA has assigned a provisional rating to the securities issued under a securitisation transaction originated by Edelweiss Housing Finance Limited (EHFL). The securities are backed by a pool of Rs. 185.10-crore home loan (HL) receivables (underlying pool principal of Rs. 72.28 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.50% of the pool principal to be provided by EHFL (originator), (ii) subordination of 10.00% of the pool principal for Series A1 ABS (in the form of principal payable to Series A2 ABS), (iii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of CE in the form of EIS, CC and subordination for Series A1 ABS
- High share of contracts in pool with CIBIL score of more than 750 (~71%)

#### Credit challenges

- Presence of delinquent contracts in the pool; ~5% of the pool comprises contracts which are currently 0+ days past due (dpd) while ~4% has been 90+dpd in the past (peak dpd)
- High geographical concentration with share of top 2 states at ~60%
- Pool has contracts with floating rate and fixed rate loans as well as fixed-cum-floating rate loans, while ABS yield is fixed; hence, transaction is exposed to interest rate risk
- Pool's performance will remain exposed to any disruptions that may arise due to the Covid-19 pandemic

### Description of key rating drivers highlighted above

The first line of support for Series A1 ABS in the transaction is in the form of subordination of 10.0% of the pool principal, which will be in the form of an equity tranche (Series A2 ABS). The EIS available after meeting the promised and expected payouts (as per the waterfall mechanism) to Series A1 ABS will be passed on as the expected yield to Series A2 ABS. Series A2 ABS payouts are completely subordinated to Series A1 ABS and the EIS will be available as support for principal payment to Series A2 ABS only after Series A1 ABS has been fully paid. A CC of 8.50% of the initial pool principal (Rs. 6.14 crore), to be provided

by EHFL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised ABS payouts during any month, the trustee will utilise the CC to meet the shortfall.

As per the transaction structure, the monthly promised cash flows for Series A1 ABS will comprise the payment of the billed pool principal and the interest payment at the predetermined interest rate on the Series A1 ABS principal outstanding. The additional EIS available after meeting the promised payouts to Series A1 ABS will be passed on as the expected yield to Series A2 ABS. Following the payment of Series A1 ABS in full, the principal to Series A2 ABS is to be paid on expected basis (to the extent of billed pool principal) on a monthly basis. The yield on Series A2 ABS is in the form of the EIS in the structure. For Series A2 ABS, the yield is on expected basis and not promised.

The pool comprises 363 HL contracts with future receivables of Rs. 185.10 crore (underlying principal of Rs. 72.28 crore). The weighted average seasoning of the pool is high at ~27 months as on the pool cut-off date (February 28, 2022). Further, a significant share of the loan contracts (~71%) in the pool have a CIBIL score of more than 750. The pool, however, includes delinquent contracts with ~5% of the pool comprising contracts which are currently 0+dpd while ~4% reported a peak dpd of 90+ in the past.

The pool has high geographical concentration with the top 2 states (Gujarat and Maharashtra) contributing ~60% to 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 ABS yield is fixed. Hence, the transaction is exposed to interest rate basis risk, which means 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:** ICRA has rated one PTC transaction backed by HL receivables for EHFL. The pool has reported satisfactory collections with nil CC utilisation up to the February 2022 payouts.

## Key rating assumptions

ICRA's cash flow modelling for rating securitisation 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 considering 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 5.00-6.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 6.0-20.0% per annum.

## Liquidity position: Superior

The cash collections and the credit collateral available in the transaction are expected to be highly comfortable to meet the Series A1 ABS investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the PTC payouts for a period of 47 months.

## Rating sensitivities

**Positive factors** – Not applicable

**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.

## Analytical approach

The rating action is based on the analysis of the performance of EHFL's HL and loan against property (LAP) portfolio till December 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

EHFL is a housing finance company registered with National Housing Bank. The company was incorporated in FY2011 following the Edelweiss Group's strategy of creating a larger retail footprint. The Group provides HLs and LAP through this entity. Over the last couple of years, the company has realigned its strategy to focus on low ticket-sized home loans. As on 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 a total income of Rs. 551.06 crore in FY2021 compared to a net profit of Rs. 1.56 crore on a 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 on March 31, 2021 against Rs. 5,050.83 crore and Rs. 769.08 crore, respectively, as on March 31, 2020. The borrowings stood at Rs. 3,481.37 crore as on March 31, 2021 compared to Rs. 3,859.22 crore as on March 31, 2020. The CRAR stood at 26.5% as on March 31, 2021 compared to 28.6% as on 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's calculations; Amount 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
					March 28, 2022	-	-	-
1	HL Trust 12	Series A1 ABS	65.05	65.05	Provisional [ICRA]AAA(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 ABS	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](http://www.icra.in)

## Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
HL Trust 12	Series A1 ABS	March 2022	7.75%	August 2043	65.05	Provisional [ICRA]AAA(SO)

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

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

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