

April 28, 2022

Ummeed Housing Finance Private Limited: Provisional [ICRA]AA(SO) assigned to SN Series A1 backed by home loan receivables issued by Ruby 04 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Ruby 04 2022	SN Series A1	38.55	Provisional [ICRA]AA(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 securitisation notes (SNs) issued under a securitisation transaction originated by Ummeed Housing Finance Private Limited (UHFPL). The SNs are backed by future receivables from a pool of Rs. 42.84 crore (principal amount; receivables of Rs. 89.61 crore) of home loans (HLs).

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 10.00% of the pool principal to be provided by UHFPL (originator), (ii) subordination of 10.00% of the pool principal as over-collateral, and (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 and CC
- None of the contracts are overdue or were overdue in the past till the cut-off date
- Weighted average seasoning of ~29 months

Credit challenges

- High geographical concentration with share of top state at ~51%
- SN yield for the pool is linked to an external benchmark while interest rate on the underlying loans is linked to originator's lending rate, leading to a basis risk in the structure
- 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

According to the transaction structure, the loan pool receivables will be assigned at par to the SN investors. The promised monthly cash flow schedule comprises the interest payments to SN Series A1 at the predetermined interest rate on the principal outstanding and the promised SN Series A1 principal payout to the extent of 90% of the pool principal billing. On each payout date, the available cash flow, after meeting the promised payouts to SN Series A1, will be utilised to meet the expected

SN Series A1 principal payout (to the extent of 10% of the pool principal billing). The EIS will not flow to the originator and would instead be utilised for the prepayment of the principal on a monthly basis.

The first line of support for SN Series A1 in the transaction is in the form of a subordination of 10.00% of the pool principal and the EIS. A CC of 10.00% of the initial pool principal (Rs. 4.28 crore), to be provided by UHFPL, would act as further CE in the transaction. In case of a shortfall in meeting the promised SN payouts during any month, the trustee will utilise the CC to meet the shortfall. The residual EIS (after meeting the promised and expected SN payout and top-up of the CC (if any) in any month) will not flow back to the originator and would instead be utilised towards the repayment of the SN principal on a monthly basis.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is ~29 months as on the pool cut-off date (March 31, 2022). Further, most of the loan contracts (~94%) in the pool have a CIBIL score of more than 700. The pool has high geographical concentration with the top state contributing ~52% to the initial pool principal amount. The SN yield for the pool is linked to an external benchmark, while the interest rate on the underlying loans is a mix of the fixed rate and the variable rate linked to the originator's lending rate, leading to a basis risk in the structure. Also, the pool's performance would remain exposed to disruptions caused by the pandemic.

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 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 mean shortfall in principal collection during the tenure of the pool is estimated at 4.00-5.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.00-20.00% per annum.

Liquidity position: Strong

The cash collections and the credit collateral available in the transaction are expected to be comfortable to meet the SN Series A investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stressed scenario, the recommended CC would cover the shortfalls in the SN payouts for a period of more than 50 months.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (>95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of UHFPL's HL portfolio till March 2022, 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	Rating Methodology for Securitisation Transactions
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 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.

About the company

Ummeed Housing Finance Private Limited (UHFPL) is a housing finance company registered with National Housing Bank (NHB). The company started its operations in August 2016. Focused on providing financial solutions for housing to low and middle-income families in India, UHFPL focuses on providing loans for home purchase, renovation, and enhancement of residential property. The company has raised equity share capital of Rs. 5.5 crore (Rs. 2.33 crore primary) from Morgan Stanley Private Equity and Norwest Capital, LLC. UHFPL's total net worth reached Rs. 451.76 crore as on March 31, 2022. The company's equity investors include Morgan Stanley, Lightrock Global Fund, CX Partners, Norwest Capital and Thyme Private Limited.

The company's loan book stood at Rs. 783.83 crore as on March 31, 2022. It provides tailor-made products (HLs, loan against property, secured business loans, and secured small ticket business loans) with an average ticket size of Rs. 6.91 lakh to customers with informal sources of income. As on March 31, 2022, UHFPL had 43 operational branches in 5 states with a team of 605 employees.

Key financial indicators

UHFPL	FY2020 (audited)	FY2021 (audited)	FY2022 (provisional)
Total income	5	11	18
Net worth	255	267	452
Loan book (AUM)	451	580	783
Gross stage 3 (%)	0.14%	0.68%	0.73%
Net stage 3 (%)	0.12%	0.43%	0.48%

Source: Company, ICRA Research; Amount 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 (FY2023)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					April 28, 2022	-	-	-
1	Ruby 04 2022	SN Series A1	38.55	38.55	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
SN Series A1	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
Ruby 04 2022	SN Series A1	April 2022	8.15%#	April 2043	38.55	Provisional [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) + 0.9%

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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