

May 17, 2022

Edelweiss Housing Finance Limited: Provisional [ICRA]AAA(SO) assigned to Series A Notes backed by home loan and loan against property receivables issued by ML Trust 5

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
ML Trust 5	Series A Notes	243.56	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 pass-through certificates (PTCs) issued under a securitisation transaction originated by Edelweiss Housing Finance Limited {EHFL; rated [ICRA]A+ (Negative)}. The PTCs are backed by a pool of Rs. 502.97-crore home loans (HL) and loan against property (LAP) receivables (underlying pool principal of Rs. 243.56 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 12.50% of the pool principal to be provided by EHFL (originator) and (ii) subordination of 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
- No overdue contracts in the pool as on the cut-off date
- High weighted average seasoning of the pool (32 months)
- High share of contracts in the pool (~70%) with CIBIL score of more than 750

Credit challenges

- High geographical concentration with share of top 3 states at ~61% in the pool
- Exposure to interest rate risk as the pool has contracts with floating rate and fixed rate loans, while the yield on the securities has a floating rate
- 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 the Series A Notes in the transaction is in the form of the EIS (~32%). A CC of 12.50% of the initial pool principal (Rs. 30.45 crore), to be provided by EHFL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

As per the transaction structure, the promised monthly cash flow schedule comprises the interest payments to the Series A Notes at the predetermined interest rate on the principal outstanding. The principal repayment to the Series A Notes is promised on the final maturity date. The monthly principal repayment to the Series A Notes is not promised but is expected to be paid to the extent of the billing. The expected principal amounts would include the scheduled principal repayment from the pool, the actual prepayments received from the pool and a minimum of 1% of the prepayments either received from the pool or met through the EIS. If the prepayments are less than 1% on any given payout date, the EIS will be utilised to pay the principal which is equivalent to 1% minus the actual prepayment rate multiplied by the principal outstanding of the preceding month. The EIS available after meeting the promised and expected payments, as given above, is likely to flow back to the originator 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 high at ~32 months as on the pool cut-off date (March 31, 2022). Further, the majority of the loan contracts (~70%) in the pool have a CIBIL score of more than 750. The pool has high geographical concentration with the top 3 states (Maharashtra, Tamil Nadu and Gujarat) contributing 61.3% to the initial pool principal amount. Further, the pool has loan contracts with floating rate and fixed rate loans, while the PTC yield is floating. Hence, the transaction is exposed to basis risk, which means any adverse movement in the benchmark yields will reduce the EIS available in the transaction. Also, the pool's performance would remain exposed to disruptions caused by the pandemic.

Past rated pools: ICRA has rating outstanding on four PTC transactions backed by HL receivables for EHFL. The pools have reported satisfactory collections with nil CC utilisation up to the April 2022 payouts.

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 expected 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 12.0-18.0% per annum.

Liquidity position: Superior

As per the transaction structure, only the interest amount is promised to the holders of the Series A Notes on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to these investors.

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 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	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:

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 ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at 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 company. Over the last couple of years, EHFL 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. 5 crore on a total income of Rs. 393 crore in 9M FY2022 compared to a net profit of Rs. 4 crore on a total income of Rs. 551 crore in FY2021. It had a net worth of Rs. 769 crore as on December 31, 2021.

Edelweiss Financial Services Limited

Edelweiss Financial Services Limited (EFSL), the holding company of the Edelweiss Group, 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 (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
1	ML Trust 5	Series A Notes	243.56	243.56	May 17, 2022 Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A Notes	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
ML Trust 5	Series A Notes	May 2022	8.01% (repo + spread of 3.61%)	March 2042	243.56	Provisional [ICRA]AAA(SO)

* Yield reset frequency of 6 months

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

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