

July 21, 2022

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL Trust 12	Series A1 ABS	65.05	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In April 2022, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to Series A1 ABS issued by HL Trust 12. The securities are backed by a pool of Rs. 185.10 crore home loan (HL) receivables (underlying pool principal of Rs. 72.28 crore) originated by Edelweiss Housing Finance Limited (EHFL, rated [ICRA]A+(Stable)). 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 rating has now been confirmed as final.

A summary of the performance of the pool as of June 2022 payout month has been provided below.

Parameter	HL Trust 12
Months post securitisation	3
Actual pool amortisation	4.51%
Scheduled pool amortisation	0.59%
Actual PTC amortisation	5.25%
Average monthly prepayment rate	1.40%
Cumulative collection efficiency	95.59%
Loss cum 0+ dpd	11.03%
Loss cum 30+ dpd	5.59%
Loss cum 90+ dpd	0.32%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of subordination, excess interest spread (EIS) and cash collateral (CC) for Series 1 ABS
- High share of contracts in pool having CIBIL score 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% of the pool 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 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 10.00% of the pool principal, which is 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 is being 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), is provided by EHFL, acts 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 comprises the payment of the scheduled principal amount (which is 90% of the billed pool principal) and the interest payment at the predetermined interest rate on the Series A1 ABS principal outstanding. The surplus, in relation to the principal portion of the pool receivables along with the prepayment amount, would be used for the payment of Series A1 for faster amortisation. Following the payment of Series A1 ABS in full, the principal to Series A2 ABS is to be paid on an expected basis (to the extent of the billed pool principal) on a monthly basis. The yield on Series A2 ABS is in the form of the EIS in the structure. The surplus EIS available, after meeting the promised and expected payouts to Series A1 ABS, will be passed on as the expected yield to Series A2 ABS.

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. ICRA takes notes of spike in softer delinquencies in the pool, where loss cum 0+ dpd stood at ~11% as of Jun-22 payout month.

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 (53% of the pool) and fixed rate (47% of the pool) loans, while the ABS yield is fixed. Hence, the transaction is exposed to interest rate basis risk, which means any downward movement in benchmark yield 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 performance: ICRA has rating outstanding on five PTC transactions backed by HL receivables for EHFL. The pools have reported adequate collections with nil CC utilisation up to the June 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 ABS 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 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

Edelweiss Housing Finance Limited (EHFL) is a housing finance company registered with National Housing Bank. It was incorporated in FY2011 following the Group's strategy of creating a larger retail footprint. The Group provides HLs and loan against property through EHFL. Over the last couple of years, the company has realigned its strategy to focus on low ticket-sized home loans. As of March 31, 2022, Edelweiss Rural & Corporate Services held a 55.23% stake, followed by Edelweiss Finance Company Limited (39.77%) and EFSL (5.00%).

The company reported a profit after tax (PAT) of Rs. 13.80 crore on total income of Rs. 513.90 crore in FY2022 compared to a net profit of Rs. 3.73 crore on total income of Rs. 551.06 crore in FY2021. Its total assets stood at Rs. 3,956.67 crore while its net worth was Rs. 777.63 crore as of March 31, 2022 compared to Rs. 4,931.10 crore and Rs. 762.80 crore, respectively, as of March 31, 2021. The borrowings stood at Rs. 2,293.02 crore as of March 31, 2022 compared to Rs. 3,481.37 crore as of March 31, 2021. The loan book stood at Rs. 3,096.44 crore as of March 31, 2022 compared to Rs. 3,595.86 crore as of March 31, 2021. The CRAR stood at 28.3% as of March 31, 2022 compared to 26.5% as of March 31, 2021.

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 engaged 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.

On a standalone basis, EFSL had posted total income of Rs. 1,372 crore and a PAT of Rs. 933 crore in FY2022 compared to Rs. 1,722 crore and Rs. 716 crore, respectively, in FY2021. It had a net worth of Rs. 5,000 crore, total borrowings of Rs. 2,432 crore and total assets of Rs. 8,042 crore as of March 31, 2022 compared to Rs. 4,126 crore, Rs. 838 crore and Rs. 5,981 crore, respectively, as of March 31, 2021.

Key financial indicators

Edelweiss Financial Services Limited (consolidated)	FY2020	FY2021	FY2022
Total income	9,603	10,849	7,305
Profit after tax - Including minority interest	(2,044)	254	212
Loan assets	28,361	22,455	20,006
Gross NPA (%)	5.3%	7.7%	7.1%*
Net NPA (%)	4.1%	4.1%	1.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

** Includes Rs. 558 crore of exposures, which has been fully provisioned*

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
					July 21, 2022	March 28, 2022			
1	HL Trust 12	Series A1 ABS	65.05	65.05	[ICRA]AAA (SO)	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

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 12	Series A1 ABS	March 2022	7.75%	October 2063	65.05	[ICRA]AAA(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

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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