

August 12, 2022

Edelweiss Housing Finance Limited: Rating confirmed as final for securities 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 | [ICRA]AAA(SO); provisional rating confirmed as final |

*Instrument details are provided in Annexure-1

Rationale

In May 2022, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to Series A notes issued by ML Trust 5. The securities 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) 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 July 2022 payout month has been provided below.

| Parameter | ML Trust 5 |
|--|------------|
| Months post securitisation | 3 |
| Actual pool amortisation | 10.44% |
| Scheduled pool amortisation | 0.89% |
| Actual PTC amortisation | 10.44% |
| Average monthly prepayment rate | 3.29% |
| Cumulative collection efficiency | 99.48% |
| Monthly collection efficiency | 99.67% |
| Loss cum 0+ dpd | 1.37% |
| Loss cum 30+ dpd | 0.07% |
| Loss cum 90+ dpd | 0.00% |
| Cumulative cash collateral utilisation | 0.00% |

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS) and cash collateral (CC)
- There are 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 given that the pool has contracts with floating rate and fixed rate loans, while the yield on 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 performance: ICRA has rating outstanding on six PTC transactions backed by HL receivables for EHFL. The pools have reported adequate collections with nil CC utilisation up to the July 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 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 | Instrument | Current Rating (FY2023) | | | | Chronology of Rating History for the Past 3 Years | | |
|---|------------|----------------|--------------------------|--------------------------------|-------------------------|---------------------------|---|-------------------------|-------------------------|
| | | | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | August 12, 2022 | May 17, 2022 | | | |
| 1 | ML Trust 5 | Series A Notes | 243.56 | 243.56 | [ICRA]AAA(SO) | 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 and Outlook |
|------------|----------------|-----------------------------|--------------------------------|----------------|--------------------------|----------------------------|
| ML Trust 5 | Series A Notes | May 2022 | 8.01% (repo + spread of 3.61%) | March 2042 | 243.56 | [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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Branches



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