

November 25, 2022

Edelweiss Housing Finance Limited: Ratings reaffirmed for PTCs issued under three mortgage loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount after Previous Rating Exercise (Rs. crore)	Amount O/s after Oct-22 Payout (Rs. crore)	Rating Action
HL Trust 7	PTC Series A1	166.86	NA	121.58	[ICRA]AAA(SO); reaffirmed
	PTC Series A2	3.41	NA	3.41	[ICRA]AA+(SO); reaffirmed
HL Trust 12	Series A1 ABS	65.05	NA	54.16	[ICRA]AAA(SO); reaffirmed
HL Trust 14	Series A1 ABS	44.77	NA	36.79	[ICRA]AAA(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by housing loan receivables originated by Edelweiss Housing Finance Limited {EHFL; rated [ICRA]A+ (Stable)}. The receivables have been assigned to the trust at par and the trust has issued two series of PTCs for HL Trust 7 and one series of asset-backed securities (ABS) for HL Trust 12 and 14, backed by the same. The ratings reaffirmation is on account of the moderate amortisation of the pools, which has led to the build-up of the credit enhancement cover available in the structure. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools.

Pool performance summary

A summary of the performance of the pools till the September 2022 collection month has been tabulated below.

Parameter	HL Trust 7	HL Trust 12	HL Trust 14
Months post securitisation	14	7	7
Pool amortisation	26.59%	14.85%	16.13%
PTC amortisation			
– PTC Series A1	27.14%	16.75%	17.82%
– PTC Series A2	0.00%	-	-
Cumulative collection efficiency ¹	99.37%	98.17%	99.43%
Breakeven collection efficiency ²	75.31%	61.04%	63.58%
Loss-cum-90+ (% of initial pool principal) ³	0.26%	0.11%	0.00%
Loss-cum-180+ (% of initial pool principal) ⁴	0.13%	0.00%	0.00%
Cumulative CC utilisation (% of initial CC)	0.00%	0.00%	0.00%
CC available (% of balance pool principal)	13.62%	9.98%	11.92%

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

² It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Cash collateral available – Trapped EIS) / Balance pool cash flows

³ POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

⁴ POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool

Parameter	HL Trust 7	HL Trust 12	HL Trust 14
EIS over balance tenure (% of balance pool)			
– PTC Series A1	37.16%	82.97%	59.97%
– PTC Series A2	37.16%	-	-
Cumulative prepayment rate⁵	23.44%	14.02%	14.45%

Key rating drivers

Credit strengths

- Build-up of credit enhancement (cash collateral (CC) and excess interest spread (EIS) cover available for the balance PTC payouts) available in the structure with the gradual amortisation of the pools
- High collection efficiency exhibited by the pools, leading to low delinquency levels in the harder buckets

Credit challenges

- Exposure to interest rate risk as the pool has contracts with floating rate and fixed rate loans, while the yield on securities is fixed except for HL Trust 7 where the yield on the PTC is variable
- Moderate share of self-employed borrowers in the pools
- Performance of the pools would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The performance of the pools has been healthy with a cumulative collection efficiency of more than 98% till the September 2022 collection month. The loss-cum-90+ days past due (dpd) remained sub-1% in the last 12 months except for HL Trust 12. There has been a spike in delinquencies in the softer buckets (loss-cum-30+ dpd) in the HL Trust 12 pool, though the performance has improved as of the September 2022 collection month. Also, there has been no instance of CC utilisation in any of the pools.

The pools have fixed and floating rate contracts, while the yield on the securities is fixed (except for HL Trust 7 where the yield on the PTC is variable), thereby creating interest risk in the structure. Any downward movement in the benchmark yield will reduce the EIS available in the transactions. The balance pools have a moderate share of self-employed borrowers, which is a relatively weaker performing segment. Also, the performance of the pools would remain exposed to macro-economic shocks/business disruptions.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings at the current levels in the transactions. ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Performance of past rated pools: ICRA has ratings outstanding on eight PTC transactions backed by home loan (HL) receivables of EHFL. The pools, which have completed at least three payouts, have reported adequate collections with nil CC utilisation up to the October 2022 payouts.

Key rating assumptions

ICRA's cash flow modelling for mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The

⁵ Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

assumptions for the loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as the performance and 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 loss and prepayments during the balance tenure of the pool is given in the table below.

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
HL Trust 7	4.0-5.0%	6-20% p.a.
HL Trust 12	5.0-6.0%	6-20% p.a.
HL Trust 14	5.0-6.0%	6-20% p.a.

Liquidity position

For PTC Series A1 of HL Trust 7 and Series A1 ABS of HL Trust 12 and HL Trust 14: Superior

The cash collections and the credit collateral available in the transactions are expected to be highly comfortable to meet the 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 investor payouts for a period of 3-6 years.

For PTC Series A2 of HL Trust 7: Strong

PTC Series A2 is subordinated to PTC Series A1 and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash collections and the credit enhancement available in the transaction are expected to be comfortable to meet the PTC Series A2 investor payouts.

Rating sensitivities

Positive factors

For PTC Series A1 of HL Trust 7 and Series A1 ABS of HL Trust 12 and HL Trust 14 – Not applicable

For PTC Series A2 of HL Trust 7 – The rating for PTC Series A2 could be upgraded if sustained strong collection performance is witnessed, leading to low delinquency levels and further build-up of the credit enhancement cover.

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the performance of the pools till September 2022 (collection month), the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

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 HLs. 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 capital-to-risk weighted assets ratio (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 (audited)

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 exposure of Rs. 558 crore, which has been fully provisioned

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					November 25, 2022	November 22, 2021	August 26, 2021	-	-
1	HL Trust 7	PTC Series A1	166.86	121.58	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A2	3.41	3.41	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-

Sr. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					November 25, 2022	July 21, 2022	March 28, 2022	-	-
2	HL Trust 12	Series A1 ABS	65.05	54.16	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Sr. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					November 25, 2022	July 21, 2022	April 05, 2022	-	-
3	HL Trust 14	Series A1 ABS	44.77	36.79	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
HL Trust 7	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
HL Trust 12	Series A1 ABS	Moderately Complex
HL Trust 14	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Trust Name	Instrument Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	HL Trust 7	PTC Series A1	August 2021	8.43%	March 2050	121.58	[ICRA]AAA(SO)
		PTC Series A2		EIS^	March 2050	3.41	[ICRA]AA+(SO)
	HL Trust 12	Series A1 ABS	March 2022	7.75%	October 2063	54.16	[ICRA]AAA(SO)
	HL Trust 14	Series A1 ABS	March 2022	7.75%	July 2055	36.79	[ICRA]AAA(SO)

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

^Yield is on expected basis and not promised

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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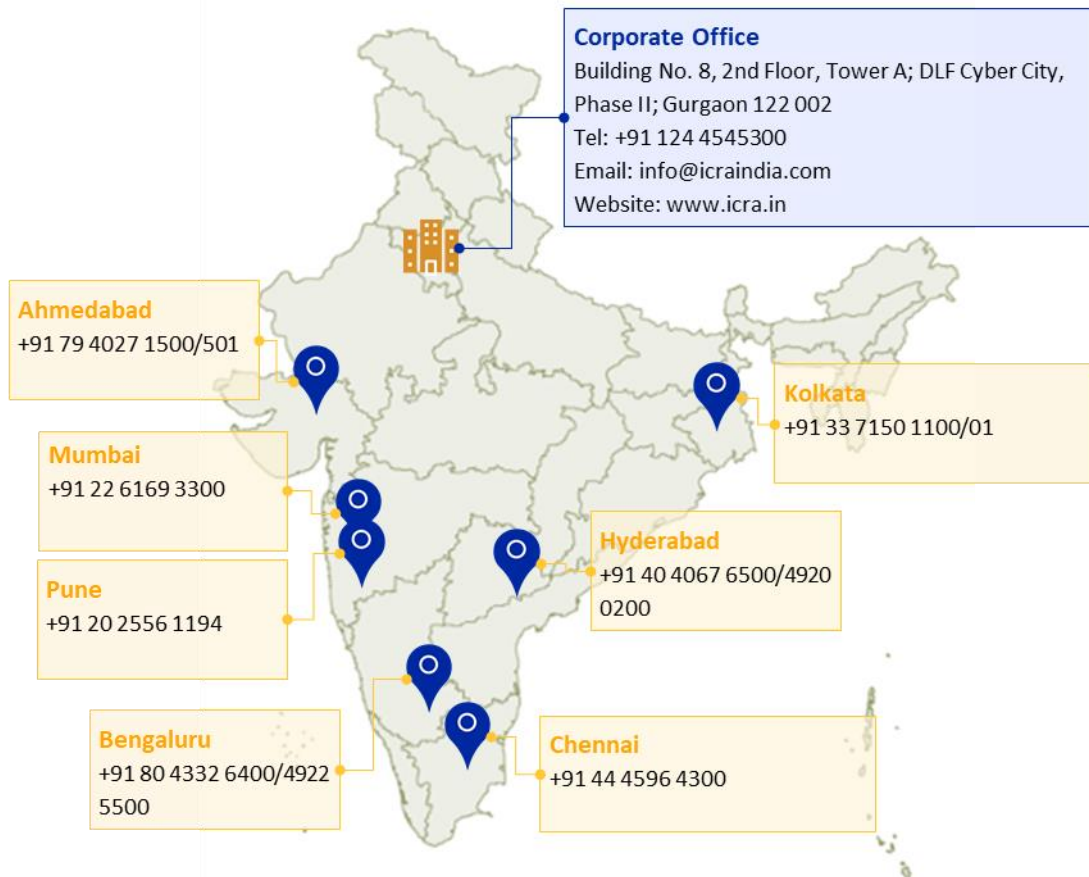
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