January 27, 2023

Edelweiss Housing Finance Limited: Rating confirmed as final for securities backed by home loan receivables issued by HL Trust 20

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL Trust 20	Series A1 ABS	24.94	[ICRA]AAA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In November 2022, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to Series A1 ABS issued by HL Trust 20. The securities are backed by a pool of Rs. 73.65 crore home loan (HL) receivables (underlying pool principal of Rs. 27.71 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 December 2022 payout month has been provided below.

Parameter	HL Trust 20
Months post securitisation	2
Actual pool amortisation	3.07%
Scheduled pool amortisation	0.50%
Actual Series A1 ABS amortisation	3.41%
Average monthly prepayment rate	1.29%
Cumulative collection efficiency	97.66%
Monthly collection efficiency	96.36%
Loss cum 0+ dpd	4.61%
Loss cum 30+ dpd	0.00%
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 subordination for Series A1 ABS, excess interest spread (EIS) and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date; however, 4.71% of the initial pool reported peak days past due (dpd) of over 60 days since origination
- High share (~55%) of contracts in the initial pool with a CIBIL score of more than 750

Credit challenges

- High geographical concentration with share of top 3 states at ~72% in the initial pool
- High obligor concentration with top 3 obligors accounting for ~13% of the initial pool principal
- Exposure to interest rate risk as the pool has contracts with floating rate and fixed rate loans, while the yield on securities is fixed
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

The first line of support for Series A1 ABS in the transaction is in the form of a subordination of 10.0% of the initial pool principal, which will be 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 will be 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 10.00% of the initial pool principal (Rs. 2.77 crore), 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 will comprise the scheduled principal amount (which is 90% of the billed pool principal) and the interest payment to Series A1 ABS at the predetermined interest rate on the principal outstanding. The surplus, in relation to the principal portion of the pool's receivables along with any 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 for Series A2 ABS is to be paid monthly on expected basis (to the extent of billing). Further, 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 comprised of 165 HL contracts with future receivables of Rs. 73.65 crore (underlying principal of Rs. 27.71 crore). While the weighted average seasoning of the pool remained moderate at ~10 months as on the pool cut-off date (September 30, 2022), the adequate borrower profile, with a substantial share of the loan contracts (~55%) having a CIBIL score of over 750, provides comfort. There were no overdue contracts in the pool as on the cut-off date, though 4.71% of the contracts (calculated on initial principal amount) had been 60+ dpd at some stage in the past.

The pool had high geographical concentration with the top 3 states (Maharashtra, Tamil Nadu and Gujarat) contributing ~72% to the initial pool principal amount. It also had high obligor concentration with the top 3 borrowers accounting for 13% of the initial pool principal. Further, the pool comprised floating rate (45% of the initial pool) and fixed rate (55%) loans, while the asset backed securitisation (ABS) yield is fixed. Hence, the transaction is exposed to interest rate basis risk, which means any downward movement in the benchmark yield will reduce the EIS available in the transaction. Furthermore, the performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any.

Past rated pools performance: ICRA has rating outstanding on nine PTC transactions backed by HL receivables for EHFL. The pools which have completed at least three payouts have reported adequate collections with nil CC utilisation up to the December 2022 payouts.

Key rating assumptions

The pool comprised 165 HL contracts, aggregating Rs. 27.71 crore. Nearly 97% of the contracts in the pool were current as of the cut-off date while over 55% of the pool had a CIBIL score of more than 750. However, 4.71% of the pool (value wise) had reported peak delinquency of over 60 days (60+ dpd) since origination (16% had peak dpd of 0+). The pool had high geographical concentration with the share of the top 3 states (Maharashtra, Tamil Nadu and Gujarat) at ~72% of the initial pool.

The obligor concentration in the pool was high (top 3 obligors accounting 13% of the initial pool). Thus, the pool's performance is likely to get influenced by the performance of a few large obligors. The variability of loss in case of a concentrated pool would be much higher than that of a regular granular pool. All loans pertaining to any borrower have been clubbed as one because if an entity defaults, it would most likely default on all its loans to a lender. ICRA's rating/credit assessment of the entities along with the balance tenure of the loans given to these entities has been taken into account to estimate the default probability for each loan. ICRA has also built in the assumptions on the quantum and timing of recovery post default. Further, a certain loss given default (LGD) has been assumed by factoring in the repossession and sale of the underlying assets. We have assumed that the recovery, post the default by a borrower, would happen with a lag. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured.

Further, for the granular portion of the pool (87% of the initial pool), the portfolio loss has been adjusted for the pool's composition depending on whether the pool deviates positively or negatively from the portfolio on various parameters that might have a bearing on the eventual loss level. For the current pool, we have incorporated the above arguments and adjusted for various pool features like seasoning, overdues, peak dpd, loan-to-value (LTV), geography, fixed obligations to income ratio (FOIR), internal rate of return (IRR), borrower segment and loan tenure.

ICRA's cash flow modelling for the rating of securities backed by housing loan receivables involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of the originator's loan portfolio. ICRA has also taken into account the credit quality experience of other established players in the mortgage business.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks to arrive at the assigned rating.

Upon modelling the cash flows, after taking into account the various above-mentioned factors, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 5.00-6.00%, with certain variability around it. The prepayment rate in the pool is assumed to be 6.0-20.0% p.a. (with a mean of 16.0%). ICRA has also factored in EHFL's track record in the mortgage business and the ongoing Covid-19 pandemic, which has impacted the performance of the company's portfolio.

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 investor payouts for a period of 42 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 Edelweiss Financial Services Limited (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
					Jan 27, 2023	Nov 03, 2022	-	-	-
1	HL Trust 20	Series A1 ABS	24.94	24.94	[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: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
HL Trust 20	Series A1 ABS	October 2022	8.75%	February 2066	24.94	[ICRA]AAA(SO)

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

Source: *Company*

Annexure II: 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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