

July 12, 2023

Shriram Housing Finance Limited: Ratings confirmed as final for PTCs issued under a mortgage loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Ignite 5 Trust	Series A1 PTCs	93.12	[ICRA]AAA(SO); provisional rating confirmed as final
	Series A2 PTCs	4.90	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2023, ICRA had assigned Provisional [ICRA]AAA(SO) rating to Series A1 Pass-Through Certificates (PTCs) and Provisional [ICRA]A-(SO) rating to Series A2 PTCs issued by Ignite 5 Trust. The securities are backed by a pool of Rs. 161.02-crore (underlying pool principal of Rs. 98.02 crore) of home loan (HL) and loan against property (LAP) receivables originated by Shriram Housing Finance Limited (SHFL/Originator). 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 pool performance after the May 2023 payouts is shown in the table below:

Parameter	Ignite 5 Trust
Months post securitisation	3
Pool amortisation	8.59%
Series A1 PTCs amortisation	9.05%
Series A2 PTCs amortisation	0.00%
Cumulative Prepayment rate	98.67%
Monthly collection efficiency	96.44%
Loss-cum 0+ days past due (dpd)	0.56%
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 CE in the form of EIS, subordination for Series A1 PTCs and CC
- No overdue contracts in the pool as on the cut-off date; further, contracts have never been delinquent after assignment to SHFL
- High weighted average seasoning of around 55 months

Credit challenges

- High geographical concentration with top 3 states accounting for ~57% of the initial pool outstanding.
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions.

Description of key rating drivers highlighted above

As per the transaction structure, the monthly promised cash flows for Series A1 PTCs comprises the interest payment to Series A1 PTCs at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTCs is

promised on the final maturity date. Series A2 PTCs is subordinate to Series A1 PTCs. During the tenure of Series A1 PTCs, the collections from the pool, after making the promised interest payout to Series A1 PTCs, will be used to make the expected principal payouts to Series A1 PTCs. However, this principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTCs would be carried forward to subsequent payout. Further, after the maturity of Series A1 PTCs, payout to Series A2 PTCs will be on expected basis. Also, the principal and interest to Series A2 PTCs will be due and payable only on the final maturity date. The final maturity date for both the tranches of PTCs is January 25, 2043.

The first line of support for Series A1 PTCs in the transaction is in the form of a subordination of 5.0% of the pool principal in the form of Series A2 PTCs. The EIS available after meeting the promised and expected payouts to the PTCs will be passed on to SHFL. A CC of 5.00% of the initial pool principal (Rs. 4.90 crore), provided by SHFL 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.

The pool comprises of 488 HL and LAP contracts with future receivables of Rs. 161.02 crore (underlying principal of Rs. 98.02 crore). The weighted average seasoning of the pool remains high at ~55 months as on the pool cut-off date (January 31, 2023). There are no overdue contracts in the pool as on the cut-off date; further none of the contracts had ever been delinquent after assignment to SHFL. The pool has high geographical concentration with the top three states (Maharashtra, Andhra Pradesh and Karnataka) contributing ~57% to the initial pool principal amount. Further, the yield earned by SHFL (from the underlying direct assignment transaction) and the PTC yield are linked to same external benchmark rate. Hence, the transaction is not exposed to interest rate basis risk; nonetheless the underlying pool yield is linked to a different benchmark rate. Furthermore, the nature of transaction would result in commingling risks with two entities, viz. ICICI HFC and SHFL. However, the commingling risks associated with SHFL would be limited to only few days i.e. difference between the receipt of funds from ICICI HFC and the payin date for the transaction. Also, the performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any.

Past rated pools: This is the first transaction for SHFL rated by ICRA.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage-backed securitisation (MBS) transactions 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 ICICI HFC's loan portfolio (as the pool was initially originated by ICICI HFC; further, the entity continues to carry out collections from the underlying borrowers). ICRA has also considered the credit quality experience of other established players in the mortgage business.

For the current pool, after adjusting for key features of the pool like seasoning, overdue, ICRA estimates the shortfall in pool principal collection within the pool's tenure at 2.50-3.50%, with certain variability around it. The pool has high seasoning and has also displayed strong repayment track record with nil peak dpd in the last 12 months. The prepayment rate for the underlying pool is estimated at 12.00-18.00% per annum.

Liquidity position

For Series A1 PTCs: Superior

As per the transaction structure, only the interest amount is promised to the Series A1 PTCs holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be highly comfortable to meet the promised payouts to the Series A1 PTCs investors.

Series A2 PTCs: Strong

Series A2 PTCs is subordinated to Series A1 PTCs and the entire principal and interest is promised on the legal maturity date of the transaction. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A2 PTCs investors.

Rating sensitivities

Positive factors –

Series A1 PTCs: Not Applicable

Series A2 PTCs: The sustained strong collection performance of the underlying pool (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and lower CE utilisation levels, would result in a rating upgrade.

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 Originator

Shriram Housing Finance Limited (SHFL) is a housing finance company registered with the National Housing Bank (NHB). It is a part of Shriram Group. On August 04, 2011, the company received its Certificate of Registration from National Housing Bank (NHB) as required under Section 29A of the National Housing Bank Act, 1987. The primary operation of the company is providing loans for the purchase or construction of residential space and loans against property. As on March 31, 2023, the company had an AUM of Rs. 8,047 crore while catering to more than 1,36,000 borrowers across 15 states in India through a network of 131 branches.

Key financial indicators (audited)

Particulars	FY2021	FY2022	FY2023
Total income	422	549	794
Profit after tax	62	80	138
Assets under management	3,929	5,355	8,047
Gross stage 3	1.9%	1.7%	0.9%
Net stage 3	1.5%	1.3%	0.7%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jul 12, 2023	Mar 22, 2023	-	-
1	Ignite 5 Trust	Series A1 PTCs	93.12	93.12	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
		Series A2 PTCs	4.90	4.90	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	Moderately Complex
Series A2 PTCs	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
Ignite 5 Trust	Series A1 PTCs	March 2023	8.65%^	January 2043	93.12	[ICRA]AAA(SO)
	Series A2 PTCs				4.90	[ICRA]A-(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments, ^ Coupon rate is floating and linked to SBI's 1 year MCLR
 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.

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