

October 03, 2023

Piramal Capital & Housing Finance Limited (erstwhile Dewan Housing Finance Corporation Limited): Provisional [ICRA]AAA(SO) assigned to Series A SN backed by home loan receivables issued by Nirvana Trust September 2023

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------|-------------|----------------------------------|-------------------------------------|
| Nirvana Trust September 2023 | Series A SN | 482.01 | Provisional [ICRA]AAA(SO); Assigned |

*Instrument details are provided in Annexure I

| | |
|--|--|
| Rating in the absence of the pending actions/documents | No rating would have been assigned as it would not be meaningful |
|--|--|

Rationale

ICRA has assigned a provisional rating to the securities issued under a securitisation transaction originated by Piramal Capital & Housing Finance Limited {PCHFL; rated [ICRA]AA (Stable)}. The securities are backed by a pool of Rs. 1,038.90-crore home loan (HL) receivables (underlying pool principal of Rs. 482.01 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 11.00% of the initial pool principal to be provided by PCHFL (the originator), (ii) the entire excess interest spread (EIS) in the structure (29.87% of the initial pool principal), as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS and CC
- No overdue contracts in the pool as on the cut-off date and no contracts have been delinquent in the last 12 months
- High share (~73%) of contracts in the initial pool with a CIBIL score of at least 750

Credit challenges

- High geographical concentration with share of top 3 states at ~57% of the initial pool
- Yield for securitisation notes (SNs) is linked to an external benchmark while the interest rate on the underlying loans is floating, leading to basis risk in the structure
- Performance of the pool would remain exposed to any macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

The first line of support for Series A SN in the transaction is in the form of an EIS of 29.87% of the initial pool principal. The EIS available after meeting the promised payouts to Series A SN will flow back to the originator. A CC of 11.00% of the initial pool principal (Rs. 53.03 crore), to be provided by PCHFL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised mortgage-backed securitisation (MBS) payouts during any month, the trustee will utilise the CC to meet the same.

As per the transaction structure, the monthly promised cash flows for Series A SN will comprise the payment of the scheduled Series A SN principal and the scheduled interest payment to the subscribers of Series A SN at the predetermined interest rate on the principal outstanding. The residual EIS (after meeting the scheduled SN payout and top-up of CC, if any, in any month) would flow back to the originator.

The pool consists of 5,790 HL contracts with future receivables of Rs. 1,038.90 crore (underlying principal of Rs. 482.01 crore). The weighted average seasoning of the pool remains high at ~9 months as on the pool cut-off date (August 31, 2023). The borrower profile, with a substantial share of the loan contracts (~73%) having a CIBIL score of at least 750, provides comfort. However, the pool has high geographical concentration with the top 3 states (Maharashtra, Telangana and Gujarat) contributing ~57% to the initial pool principal amount. Moreover, it has contracts with a floating rate with the SN yield linked to an external benchmark while the interest rate on the underlying loans is floating. Hence, the transaction is exposed to basis risk and any downward movement in the benchmark yield will reduce the EIS available in the transaction. Also, the pool's performance would remain exposed to any macroeconomic shocks/business disruptions.

Performance of past rated pools: ICRA has rated three PTC transactions of PCHFL. The performance of the live pools (which have completed at least 2 months post securitisation) has been healthy with a monthly collection efficiency of more than 98% and no CC utilisation till the August 2023 payout.

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 4.0-5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-20.0% per annum.

Liquidity position: Superior

The pool collections and the CC available in the transaction are expected to be highly comfortable to meet the Series A SN investor payout. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the credit collateral would cover the shortfalls in the securities payouts for a period of 27 months.

Rating sensitivities

Positive factors – Not applicable

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

Analytical approach

The rating action is based on the analysis of the performance of PCHFL's HL portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Piramal Capital & Housing Finance Limited (PCHFL), a wholly-owned subsidiary of Piramal Enterprises Limited (PEL), is registered as a housing finance company with National Housing Bank (NHB) and is engaged in various financial services businesses. It provides both wholesale and retail funding opportunities across industries. PCHFL was incorporated in February 2017. It was formed as a 100% subsidiary of Piramal Finance Ltd (PFL), which was a wholly-owned subsidiary of PEL. Until 2016, the financing portfolio was booked at PEL with limited operations at PFL. In FY2017, following a business restructuring, Rs. 13,706 crore of assets and Rs. 12,575 crore of liabilities were transferred to PFL from PEL.

In August 2017, PCHFL received a certificate for the commencement of the housing finance business from NHB. Subsequently, PEL's board approved a scheme of amalgamation of PFL and Piramal Capital Ltd (PCL) into PCHFL. PCL was a subsidiary of PEL and had limited operations. The merger process was completed in July 2018 with effect from March 31, 2018. Post the merger, PCHFL became a wholly-owned subsidiary of PEL.

Further, as per the resolution plan approved by the National Company Law Tribunal (NCLT), the existing liabilities of Dewan Housing Finance Corporation Limited (DHFL) were discharged by the erstwhile PCHFL and a consideration of Rs. 34,250 crore (comprising upfront cash of Rs. 14,700 crore and issuance of debt instruments of Rs. 19,550 crore) was paid to DHFL's creditors. The erstwhile PCHFL was reverse merged with DHFL with effect from September 30, 2021 and the amalgamated entity (DHFL) was renamed Piramal Capital & Housing Finance Limited.

In 2022, the Group underwent restructuring with the pharma business within PEL being carved out into a new entity – PPL. Further, PHL Fininvest Limited was merged into PEL; thus, PEL is now a non-banking financial company (NBFC) with PCHFL as its 100% subsidiary.

In the real estate segment, the platform provides housing finance and other financing solutions across the entire capital stack such as structured debt, construction finance, flexi lease rental discounting, etc. PCHFL also offers customised financing solutions to the hospitality sector.

The wholesale business in the non-real estate sector includes separate verticals – Corporate Finance (CFG) and Emerging Corporate Lending (ECL). CFG provides customised funding solutions to companies across sectors such as infrastructure, renewable energy, industrials, auto components, etc, while ECL focuses on providing funds to small and medium enterprises.

PCHFL's Group companies provide customised strategies to institutional and retail investors that include Mumbai Redevelopment Fund and Apartment Fund (through Piramal Fund Management) and strategic partnerships with leading global pension funds such as Canadian Pension Plan Investment Board (CPPIB), APG and Ivanhoe Cambridge.

Key financial indicators (audited)

| PCHFL | FY2021 | FY2022 | FY2023 |
|------------------|--------|--------|--------|
| Total income | 5,088 | 6,187 | 6,650 |
| Profit after tax | 1,034 | 526 | -7,425 |
| AUM | 32,353 | 52,044 | 50,427 |
| Gross NPA | 3.5% | 2.3% | 3.5% |
| Net NPA | 1.9% | 1.2% | 1.9% |

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| S. No. | 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 |
| | | | | | Oct 03, 2023 | - | - | - |
| 1 | Nirvana Trust September 2023 | Series A SN | 482.01 | 482.01 | Provisional [ICRA]AAA(SO) | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-------------|----------------------|
| Series A SN | 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 |
|---|-------------|-----------------------------|-------------|----------------|--------------------------|---------------------------|
| Nirvana Trust September 2023 | Series A SN | September 2023 | 8.40%^ | September 2048 | 482.01 | Provisional [ICRA]AAA(SO) |

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

^Floating, linked to 6M-I-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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