

November 24, 2023

Poonawalla Housing Finance Limited: Ratings reaffirmed for PTCs and SLF issued under home 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-23 Payout (Rs. crore)	Rating Action
MHFL Securitisation Trust III	PTC Series A1	63.26	22.09	19.68	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	2.29	0.80	0.71	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	3.93	3.93	3.93	[ICRA]BBB-(SO); Reaffirmed
MHFL Securitisation Trust IV	PTC Series A1	34.99	13.57	12.76	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	1.27	0.49	0.46	[ICRA]AA(SO); Reaffirmed
	Second Loss Facility	2.36	2.36	2.36	[ICRA]BBB-(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pools of home loan receivables originated by Poonawalla Housing Finance Limited (PHFL; rated [ICRA]A1+). The ratings have been reaffirmed on account of the healthy collection efficiency and high amortisation in the transactions, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The ratings draw comfort from the fact that the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool till the October 2023 payout month.

Pool performance summary

A summary of the performance of the pool till October 2023 payout month has been tabulated below.

Parameter	MHFL Securitisation Trust III	MHFL Securitisation Trust IV
Months post securitisation	55	51
Pool Amortisation	68.30%	62.89%
PTC Amortisation	68.89%	63.55%
Cumulative collection efficiency ¹	99.82%	100.67%
Loss-cum-90+ (% of initial pool principal) ²	0.61%	0.00%
Loss-cum-180+ (% of initial pool principal) ³	0.50%	0.00%
Breakeven collection efficiency ⁴	45.50%	63.78%
Cumulative credit collateral (CC) utilisation (% of initial CC)	0.00%	0.00%
CC available (as % of balance pool principal)	39.43%	35.03%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	99.98%	69.72%
Cumulative prepayment rate ⁵	55.36%	54.62%

¹ Cumulative collections till date (including advance collections) / Cumulative billings till date + Opening overdues

² POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

³ POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool

⁴ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows

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

Reset of credit enhancement⁶

At the request of the originator for resetting the credit enhancement, ICRA has analysed for both the transactions at a CC of 11.83% and 10.51% of the balance pool principal (i.e. Rs 2.46 crore and Rs. 1.42 crore) for MHFL Securitisation Trust III and MHFL Securitisation Trust IV, respectively; against the currently available CC of 39.43% and 35.03%, respectively; of the balance pool principal (after October 2023 payouts). Based on the pool's performance, the rating will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths for both pools

- High amortisation of PTCs resulting in build-up of Credit Collateral (CC) and Excess Interest Spread (EIS) cover available for the balance PTC payouts
- Healthy collections and low delinquencies observed in pools

Credit challenges for both pools

- Higher share of self-employed borrowers in the pool at ~78% of balance pool principal and ~68% of balance pool principal for MHFL Securitisation Trust III and MHFL Securitisation Trust IV transactions respectively
- PTC Yield for the pools is linked to an external benchmark while interest rate on the underlying loans is linked to originator's lending rate —which leads to a basis risk in the structure
- Performance of the pools would remain exposed to macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

The performance of both the pools has been healthy with a cumulative collection efficiency above 99.8% till October 2023 payouts. Any shortfall in the collections has been absorbed by the EIS in the structure and there has been no CC utilisation in the transaction till the October 2023 payouts. An important feature of the structure of the transaction is that the yield on PTC Series A2 is residual, thereby extending further support to the transaction. Both the pools have seen high amortisation of more than 60% and thus, the CE has built up considerably with respect to the balance pool principal. Both the pools have seen higher prepayment with average monthly prepayment being ~1.5%. The PTC yield for both the pool is linked to an external benchmark, while the interest rate on the underlying loans is linked to the originator's lending rate, leading to a basis risk in the structure. Both the pools also have a high share of self-employed borrowers. Also, the pool's performance would remain exposed to macroeconomic shocks/business disruptions, if any.

Overall, the CE 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 CE relative to ICRA's expectations.

Performance of past rated pools: ICRA had rated five transactions of PHFL, backed by home loan receivables. The performance of the live pools has been robust with a cumulative collection efficiency of more than 98%, loss-cum-90+ of sub-3.0% and nil CC utilisation as of the October 2023 payout month.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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

⁶ During one of the previous surveillance at the request of the originator CC reset was provided, however the CC reset was not carried out by the originator.

the pool. The 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, and 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 the aforementioned adjustments, the expected loss and prepayments during the balance tenure of both the pools are expected to be in the range of 1.00-2.00% (as a % of initial pool principal) and 4.8.0-18.0%, respectively.

Liquidity position

For MHFL Securitisation Trust III: Strong for PTCs

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of credit collateral available of 23% (post proposed CC reset) of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the PTC payouts for a period of 29 months.

For MHFL Securitisation Trust IV: Strong for PTCs

The liquidity of the rated transaction is expected to be strong, supported by the healthy collections expected from the pool of contracts and the presence of credit collateral available of 20% (post proposed CC reset) of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the PTC payouts for a period of 28 months.

SLF for both trusts: Adequate

The second loss facility has adequate support available in the transaction from the first loss facility and EIS.

Rating sensitivities

Positive factors - Sustained strong collection performance of the underlying pool contracts leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement (CE).

Negative factors - Sustained weak collection performance of the underlying pool leading to higher than expected delinquency levels and CE utilization levels.

Analytical approach

The rating action is based on the performance of the pools till October 2023 (payout month), the present delinquency profile of the pools, the CE available in the pools, and the performance expected over the balance tenure of the pools.

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

About the originator

Poonawalla Housing Finance Limited (PHFL) is a housing finance company registered with the Reserve Bank of India (RBI). The company provides home loans (~66% of AUM as on June 30, 2023) and loan against property ~(34% of AUM as on June 30, 2023) in the affordable housing finance segment. It had a presence in 19 states/UTs in India through a network of 175 branches as on June 30, 2023. The company reported assets under management (AUM) of Rs. 6,571 crore as on June 30, 2023 while catering to more than 65,000 customers with an average ticket size of Rs. 10 lakh.

TPG, through Perseus SG Pte Ltd. (Perseus), acquired 99.02% stake in PHFL on July 26, 2023. TPG is a global investment firm with ~ USD 135 billion in assets under management as of September 30, 2022. Perseus is advised and managed by TPG Capital (S) Pte. Ltd. which holds a capital markets services license issued by, and is regulated by, the Monetary Authority of Singapore (MAS). TPG Asia Fund VIII ultimately holds 100% of the equity interest in Perseus. TPG Asia Fund VIII is one the several funds advised or managed by TPG and has a current fund size of USD 8 billion and a fund life of 10 years.

Key financial indicators (audited; standalone)

PHFL	FY2021	FY2022	FY2023
Total income	472	470	716
Profit after tax	11	77	115
Assets under management	3,978	5,060	6,289
% Gross stage 3 assets (on-book)	1.6%	1.0%	0.8%
% Net stage 3 assets (on-book)	0.8%	0.6%	0.4%

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

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
				Nov 24, 2023	Apr 17, 2023			
MHFL SECURITISATION TRUST III	PTC Series A1	63.26	19.68	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
	PTC Series A2	2.29	0.71	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
	Second Loss Facility	3.93	3.93	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)

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
				Nov 24, 2023	Aug 28, 2023	Aug 25, 2022	Jun 20, 2022		
MHFL SECURITISATION TRUST IV	PTC Series A1	34.99	12.76	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
	PTC Series A2	1.27	0.46	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)
	Second Loss Facility	2.36	2.36	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
MHFL SECURITISATION TRUST III	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second Loss Facility	Moderately Complex
MHFL SECURITISATION TRUST IV	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second Loss Facility	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	MHFL SECURITISATION TRUST III	PTC Series A1	March 2019	Floating; Linked to 1-year MCLR of investor	January 2043	19.68	[ICRA]AA(SO)
		PTC Series A2		Residual		0.71	[ICRA]AA(SO)
		Second Loss Facility		-		3.93	[ICRA]BBB-(SO)
NA	MHFL SECURITISATION TRUST IV	PTC Series A1	July 2019	Floating; Linked to 1-year MCLR of investor	October 2043	12.76	[ICRA]AA(SO)
		PTC Series A2		Residual		0.46	[ICRA]AA(SO)
		Second Loss Facility		-		2.36	[ICRA]BBB-(SO)

**Based on scheduled maturity of the pool's contracts; may change on account of prepayment and yield change. The weighted average life of the pool, after considering prepayments, is expected to be much lower at around 8-10 years*

Annexure II: List of entities considered for consolidated analysis

Not applicable

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Branches



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