April 24, 2024

Piramal Capital & Housing Finance Limited: Rating confirmed as final for SNs issued under home loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Nirvana Trust January 2024	Series A SNs	336.63	[ICRA]AAA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

ICRA had assigned a provisional rating to the Series A securitisation notes (SNs) issued by Nirvana Trust January 2024 under a securitisation transaction originated by Piramal Capital & Housing Finance Limited {PCHFL; rated [ICRA]AA (Stable)}. The SNs are backed by a pool of home loan receivables originated by PCHFL with an aggregate principal outstanding of Rs. 336.63-crore (pool receivables of Rs. 712.44 crore).

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's performance after the March 2024 collection month (April 2024 payouts) is shown in the table below.

Parameter	Nirvana Trust January 2024
Months post securitisation	3
Pool amortisation	4.58%
Series A SNs amortisation	4.58%
Cumulative collection efficiency	98.83%
Cumulative prepayment rate	3.40%
Loss-cum-0+ dpd	2.77%
Loss-cum-30+ dpd	1.33%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS) and cash collateral (CC)
- There are no overdue contracts in the pool as on the cut-off date
- High share of contracts in the initial pool with a CIBIL score of at least 750 (~70%)

Credit challenges

- High geographical concentration with share of top three states at ~63% 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 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 24.26% 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. 37.03 crore) 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 2,545 home loan contracts with future receivables of Rs. 712.44 crore (underlying principal of Rs. 336.63 crore). The weighted average seasoning of the pool remained high at ~9 months as on the pool cut-off date (December 31, 2023). The borrower profile, with a substantial share of the loan contracts (~70%) 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 Karnataka) contributing ~63% 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 linked to the internal benchmark of PCHFL. Hence, the transaction is exposed to basis risk and any downward movement in the internal benchmark yield will reduce the EIS available in the transaction. Also, the pool's performance would remain exposed to macroeconomic shocks/business disruptions.

Performance of past rated pools: ICRA has rated four pass-through certificate (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 December 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: Strong

The liquidity for the SNs is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE would be 5.3 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of PCHFL's HL portfolio till December 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

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 from NHB for the commencement of the housing finance business. 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. Following 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 – Piramal Pharma Limited. 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 company 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 Group (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

PCHFL	FY2022	FY2023	9M FY2024
Total income	6,187	6,650	5,292
Profit after tax	526	-7,425	-1,169
Total managed assets	52,044	50,427	53,442
Gross NPA	2.3%	3.5%	2.8%
CRAR	22.0%	26.8%	20.9%

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 (FY2025)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					April 24, 2024	Feb 02, 2024	-	-
1	**Nirvana Trust January 2024**	Series A SNs	336.63	336.63	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Nirvana Trust January 2024	**Series A SNs**	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 January 2024	Series A SNs	January 2024	8.65%^	December 2054	336.63	[ICRA]AAA(SO)

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

^Floating, linked to 6M-I-MCLR (9.00%) plus a fixed spread of 35 bps

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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