

July 25, 2024

Shriram Housing Finance Limited: Ratings reaffirmed for PTCs issued under a mortgage loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Outstanding Amount after June 2024 Payout (Rs. crore)	Rating Action
Ignite 5 Trust	Series A1 PTCs	93.12	NA	60.66	[ICRA]AAA(SO); Reaffirmed
	Series A2 PTCs	4.90	NA	4.90	[ICRA]A-(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by mortgage loan receivables originated by Shriram Housing Finance Limited (SHFL/Originator; rated [ICRA]A1+). The pool of assets, securitised by SHFL, was acquired by it from ICICI Home Finance Limited (ICICI HFC) through a direct assignment transaction.

The reaffirmation of the ratings factors in the build-up of the credit enhancement cover over the future PTC payouts on account of moderate amortisation and healthy pool performance. The ratings also draw comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pool till the June 2024 payout month.

Pool performance summary

Parameter	Ignite 5 Trust
Payout month	June 2024
Months post securitisation	16
Pool amortisation (as % of initial pool principal)	33.1%
Cumulative collection efficiency ¹	99.3%
Loss-cum-0+ dpd ² (% of initial pool)	0.2%
Loss-cum-90+ dpd ³ (% of initial pool)	0.0%
Cumulative cash collateral (CC) utilisation	0.0%
Breakeven collection efficiency for Series A1 PTCs ⁴	81.5%
CC (% of balance pool)	7.5%
Excess interest spread (EIS; % of balance pool) for Series A1 PTCs ⁵	14.6%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will be used to repay the principal to

¹ (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

² Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 0 days, as a % of Initial pool principal

³ Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

⁴ (Balance cash flows payable to investor – CC available)/Balance pool cash flows

⁵ (Pool cash flows – Cash flows to PTC A)/Pool principal outstanding

Series A2 PTCs (subordinated to Series A1 PTCs), following the full redemption of Series A1 PTCs. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal. The nature of the transaction leads to commingling risks with two entities, viz. ICICI HFC and SHFL. However, the commingling risk associated with SHFL is limited to a few days only, i.e. the difference between the receipt of funds from ICICI HFC and the pay-in date for the transaction.

Key rating drivers and their description

Credit strengths

Moderate credit enhancement available in the structure – The ratings factor in the build-up in the credit enhancement with the cash collateral increasing to 7.5% of the balance pool principal from 5.0% at the time of securitisation. Credit support is also available in the form of the EIS and subordination.

Healthy pool performance – The pool has exhibited strong performance with a cumulative collection efficiency of ~99% till the June 2024 payout month, which has resulted in low delinquencies in the pool with 0+ days past due (dpd) of 0.2% and nil 90+ dpd. The breakeven collection efficiency has also declined and is lower than the monthly collection efficiency. Further, there have been no instances of cash collateral utilisation for the pool till date owing to the strong collection performance and the presence of the EIS.

Credit challenges

Exposed to interest rate risk – The transaction is exposed to interest rate risk as the underlying pool and the PTC yield are linked to different benchmark rates.

Risks associated with lending business – The pool’s performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA’s cash flow modelling for rating securitisation 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 assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 2.00% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6.0% to 20.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final ratings for the instruments.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Ignite 5 Trust
Originator	Shriram Housing Finance Limited
Servicer	ICICI Home Finance Limited

Transaction Name	Ignite 5 Trust
Trustee	IDBI Trusteeship Services Limited
CC holding bank	ICICI Bank Limited
Collection and payout account bank	ICICI Bank Limited

Liquidity position

Series A1 PTCs: Superior

The liquidity for Series A1 PTCs is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is 7.25 times the estimated loss in the pool.

Series A2 PTCs: Strong

The liquidity for Series A2 PTCs is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement is 3.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors

Series A1 PTCs – Not applicable

Series A2 PTCs – The sustained strong collection performance of the underlying pool, leading to lower-than-expected delinquency levels and lower credit enhancement utilisation levels, would result in a rating upgrade.

Negative factors – Pressure on the ratings could emerge in case of the consistently weak collection performance of the underlying pool, leading to higher-than expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer (ICICI HFC) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pool till June 2024 (payout month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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), which is a part of Shriram Group, is a housing finance company registered with National Housing Bank (NHB). On August 4, 2011, the company received its Certificate of Registration from NHB, as required under Section 29A of the National Housing Bank Act, 1987. SHFL primarily provides loans for the purchase or construction of residential space and loan against property. As on March 31, 2024, its assets under management stood at Rs. 13,762 crore, with the company catering to more than 2.1 lakh borrowers across 16 states in India through a network of 155 branches.

Key financial indicators (audited)

Shriram Housing Finance Limited (standalone)	FY2022	FY2023	FY2024*
Total income	549	794	1,430
Profit after tax	80	138	217
Total managed assets (grossed up for provisions)	6,001	9,108	14,854
Gross stage 3	1.7%	0.9%	1.0%
CRAR	30.9%	25.5%	25.0%

Source: Company, ICRA Research; *Limited review; 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	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				July 25, 2024	July 12, 2023	March 22, 2023	-
1 Ignite 5 Trust	Series A1 PTCs	93.12	60.66	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
	Series A2 PTCs	4.90	4.90	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Ignite 5 Trust	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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Ignite 5 Trust	Series A1 PTCs	March 15, 2023	8.80%*	January 25, 2043	60.66	[ICRA]AAA(SO)
	Series A2 PTCs				4.90	[ICRA]A-(SO)

Source: Company; * Floating, linked to 1 year SBI MCLR

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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