

**Liquid Gold Series 2 Nov 2020**  
**Originator: IIFL Finance Limited (IIFL)**

November 26, 2020

**Ratings**

Instrument	Amount (Rs. Crore)	Structure	Yield	Tenure* (months)	Rating <sup>1</sup>	Credit Enhancement( Rs. Crore)	
						Over Collateral	Cash Collateral
Series A PTC	300.0 (Rs. Three Hundred Crores only)	Par	Fixed	36	<b>Provisional CARE AA (SO) [Provisional CARE Double A (Structured Obligation)]</b>	30.02	16.50

<sup>#</sup>Series A PTC is rated on the basis of Ultimate Payment of principal

<sup>\*</sup>The tenure may change due to occurrence of trigger events, prepayments or foreclosures in the pool.

Details of instruments/facilities in Annexure-1.

**Detailed Rationale and Key Rating Drivers**

CARE has assigned a rating of 'Provisional CARE AA (SO)' [pronounced as 'Provisional CARE Double A (Structured Obligation)'] to the Series A PTCs issued by Liquid Gold Series 2 Nov 2020 backed by gold loan receivables originated by IIFL Finance Limited (IIFL).

The rating for PTCs is provisional based on the structure provided to CARE by IIFL, the Originator & Assignor. The rating will be confirmed after the copies of legal documents executed in accordance with the structure, a due diligence audit report by an external auditor and an independent legal opinion is furnished by the Assignor, to the satisfaction of CARE.

The rating is based on the credit quality of the underlying loans, the transaction structure and defined payment mechanism, support in the form of credit-cum-liquidity enhancement facility and the sound legal structure of the transaction.

**Rating Sensitivities**

Positive Factors - Factors that could lead to positive rating action/upgrade:

1. Lower than expected delinquencies
2. Build-up of cash collateral (as % of Balance POS)

Negative Factors - Factors that could lead to negative rating action/downgrade:

1. Deterioration in pool collections due to COVID-19 pandemic and impact on the economy
2. Downward revision in rating of originator, creating the prospect of Commingling / Servicer Risk
3. Deterioration in the pool performance of the originator may impact the overall performance

**Detailed description of the key rating drivers**

The credit-cum-liquidity enhancement includes over collateral, credit collateral and subordination of excess interest spread (EIS) in the structure. Credit collateral will be in the form of fixed deposit with a lien marked in favour of the trust or bank guarantee as per CARE's criteria. Over collateral is fully subordinated to Series A PTCs. EIS arising in a month shall be available for meeting the payouts to Series A PTCs and replenishment of cash collateral.

The transaction is structured at par with a tenure of 36 months and will have a replenishment period and an amortising period. The tenure of the replenishment period shall be 26 months or till the occurrence of a trigger event, whichever is earlier, post which the transaction would move into its amortising period which will continue till the entire principal on the PTCs is paid off. During the replenishment period, all principal cash flows realised by the Trust from the Pool, will be utilised by the Trust for acquiring additional loan receivables from IIFL. The interest collections during this period will be utilized to make promised interest payouts to Series A PTCs and the excess cash flows will flow back to the residual beneficiary. During the amortisation period, cash flows realized by the Trust from the Pool will be used to make promised interest and expected principal payouts to the PTC holders. In case of shortfall in payment to Series A PTCs, cash collateral will be utilized only on the last payout date for making principal payouts. Prepayments during a month will be paid to Series A PTCs. Excess cash flows after payment to the investors will flow back to the residual beneficiary. IIFL will act as the servicer to the transaction.

**Key Trigger Events**

A trigger event shall occur if:

1. IIFL does not have sufficient eligible receivables for sale during the replenishment period;
2. There is a material breach of obligations by the Servicer;

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

3. IIFL informs the trustee in writing at the expiry of 12 (twelve) months from the allotment date, that it does not wish to sell any further loan assets;
4. The Investors holding majority interest inform the trustee in writing that the SPV should not acquire any further loan assets from the Originator;
5. The Utilisation of cash reserve is more than 40%;
6. The issuer rating falls below "A+" or PTC rating is downgraded;
7. The principal value of the loans (which are not overdue beyond 90 days) held by the SPV (together with cash realised by the SPV from the said loans and held in the SPV's bank account), is less than 1.1 times of the principal value of the PTCs.
8. If more than 8% of the contracts are over 0 DPD, or 5% of the contracts are over 60 dpd or more than 1% of the contracts are over 90 DPD

In case Trigger Event has occurred the tenure of the PTCs shall stand reduced to the balance tenure of the loan receivables held by the SPV, plus an additional period of 1 (one) month.

The assigned pool consists of 36,643 contracts aggregating to a principal outstanding of Rs. 330.02 Cr given as gold loans as on cut-off date November 12, 2020. Top three states account for 45.95% of the total principal of the pool with the top state, Gujarat accounting for 28.19%. All the contracts are current on payment.

#### Key Rating Strengths:

1. Available Credit Enhancement comprising of Over Collateral of Rs. 30.02 Cr (9.10% of POS), Credit Collateral of Rs. 16.50 Cr (5.00% of POS), and subordination of EIS.
2. There are no overdue contracts in the pool.

#### Key Rating Weaknesses:

1. Susceptibility to fluctuation in gold prices.

#### Analytical approach & Applicable Criteria

[CARE's methodology for Asset / Mortgage Backed Securitization](#)

#### Liquidity Position

The inherent liquidity in the structure is strong. The interest payouts for Series A PTCs are promised on monthly basis, while the Series A principal is promised on an ultimate basis. In case of any delinquency, the payouts are expected to be supported by Over Collateral, Excess Interest Spread and Cash Collateral (in the form of Fixed Deposit / Bank Guarantee).

#### Key Rating Assumptions

CARE has analyzed the transaction to assess whether the credit cum liquidity enhancement is sufficient to cover shortfalls. Since the transaction is sensitive to credit quality of the underlying pool, CARE has analyzed the overall gold loan portfolio performance of the originator. Further, CARE has also taken into account the rapid portfolio growth of IIFL, its credit portfolio and track record in the gold loan business. Considering the borrower profile, nature of loan, pool characteristics, portfolio performance and credit profile of originator, CARE has assumed the shortfall between 3.00% – 4.00% of principal outstanding. The base case shortfalls were stressed along with other key factors such as the timing of shortfalls, the recovery assumptions and the time to recovery.

#### About the Company

IIFL Finance Limited (Erstwhile "IIFL Holdings Limited") (Bloomberg Code: IIFL IN, NSE: IIFL, BSE: IIFL) is one of the leading players in the Indian financial services space. Prior to the Composite Scheme of Arrangement (effective May 13, 2019), IIFL Finance Limited was engaged in the business of financing, asset and wealth management, retail and institutional broking, financial products distribution and investment banking through its various subsidiaries. As on March 31, 2020 majority shareholding of IIFL Finance Limited was held by Fairfax group at 22.37%, Promoters (24.94%), Foreign Investors (20.08%), CDC Group PLC (15.46%), Public & Others (11.1%), NRI (7.2%) and Domestic Institution (1.6%).

The Company reported AUM of Rs.37,951 crore as on March 31, 2020. (Rs.34,903 crore as on March 31, 2019). The Portfolio consisting of Home Loans (33%), Construction and Real Estate Finance (12%), Gold Loans (24%), Capital Market Finance (1%), Business Loans (21%) and Microfinance (9%).

IIFL Currently enjoys rating of 'CARE AA (Negative)' for its long term bank facilities.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	3,921	5,016
PAT	465	729 <sup>#</sup>
Total Assets*	31,649	32,859
Net NPA (%)	0.64	0.63
ROTA (%)	1.96	2.26

\*as per IND AS. A: Audited; #: Including profit from sale of CV business; \*: Net of Intangibles and Deferred Tax Assets (DTA). All ratios are as per CARE's calculations

#### Status of non-cooperation with previous CRA:

Not Applicable

Rating History for last three years: Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Series A Pass Through Certificates	-	-	November 2023	300.00	Provisional CARE AA (SO)

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Series A Pass Through Certificates	LT	300.00	Provisional CARE AA (SO)	-	-	-	-

#### Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Pass through Certificates	Highly Complex

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**