May 30, 2023

Aavas Financiers Limited: Rating reaffirmed for PTCs issued under two mortgage loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Prime Home Loan Trust I	PTC Series A	79.62	28.26	22.25	[ICRA]AAA(SO); Reaffirmed
Prime Home Loan Trust II	PTC Series A	107.67	45.37	36.80	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure I*

The trusts have been referred to as Prime I and Prime II in this document

Rationale

ICRA has reaffirmed the rating for the pass-through certificates (PTCs) issued under two mortgage loan securitisation transactions originated by Aavas Financiers Limited (Aavas), as tabulated above. Both pools comprise receivables from home loan (HL) contracts. The receivables for both transactions have been transferred at par to a special purpose vehicle (SPV) and the trust had issued a single series of PTCs backed by the same.

The rating reaffirmation is on account of the high amortisation level in the transactions, which has led to significant build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiencies are also comfortable compared to the actual collection levels observed in the pools. A summary of the performance of the pools till the March 2023 collection month (April 2023 payout) has been tabulated below.

Pool performance summary

Parameter	Prime Home Loan Trust I	Prime Home Loan Trust II
Months post securitisation	73	66
Pool amortisation (as % of initial pool principal)	71.10%	64.83%
3 months average monthly collection efficiency[1]	103.91%	100.67%
Cumulative collection efficiency[2]	98.99%	98.88%
Loss-cum-90+ dpd[3] (% of initial pool)	1.21%	1.98%
Loss-cum-180+ dpd[4] (% of initial pool)	1.21%	1.82%
90+ dpd[5] (% of balance pool)	3.88%	5.13%
180+ dpd[6] (% of balance pool)	3.88%	4.67%
Cumulative cash collateral utilisation	0.00%	0.00%
Breakeven collection efficiency[7] for PTC A	55.10%	61.58%

[1] *Average of (Total Current and Overdue collections for the month as a % of Total Billing for the month) for 3 months*

[2] *(Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)*

[3] *Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal*

[4] *Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal*

[5] *Inclusive of Unbilled Principal portion of contracts delinquent (Future POS) for more than 90 days, as a % of Balance Principal*

[6] *Inclusive of Unbilled Principal portion of contracts delinquent (Future POS) for more than 180 days, as a % of Balance Principal*

[7] *(Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows*

Credit collateral (% of balance pool)	31.14%	22.74%
Excess interest spread (% of balance pool) for PTC A[8]	63.86%	55.20%

Key rating drivers

Credit strengths

- Strong collection performance in both pools till March 2023 (collection month)
- No cash collateral (CC) utilisation in any pool till date owing to strong collection performance and presence of excess interest spread (EIS) in both transactions
- Adequate CC cover available for balance PTC payouts in both transactions
- Low level of delinquencies seen in the pools till April 2023 payouts

Credit challenges

- Prime I is exposed to interest rate risk as the pool has contracts with floating rate and fixed rate loans, while the yield on securities is fixed
- Prime II is exposed to interest rate risk and basis risk as the pool has contracts with floating rate and fixed rate loans, while the yield on securities is floating
- Performance of the pools could remain exposed to macro-economic shocks/business disruptions, if any.

Description of key rating drivers highlighted above

The performance of the pools has been strong with a cumulative collection efficiency of around 99% as of the March 2023 collection month. Consequently, the 90+ days past due (dpd) and 180+dpd have remained below 1.9% as of the March 2023 collection month (or April 2023 payout month). Any shortfall in collections has been absorbed by the EIS in the structure and there has not been any CC utilisation in any of the transactions till date. The PTC yield is fixed for Prime I while it is linked to an external benchmark (investor's MCLR) for Prime II. As the pool yield and the PTC yield are linked to different benchmarks, basis risk exists for Prime II. Both pools have amortised to the extent of 71% and 65%, respectively, after the April 2023 payouts, which has led to adequate build-up of the CC (as a percentage of balance PTC payouts) in the transactions.

Overall, the CE available for meeting the balance payouts to the PTC investors is sufficient to reaffirm the rating of both transactions. ICRA will continue to monitor the performance of these transactions as it would remain exposed to macro-economic shocks/business disruptions, if any Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

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 the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as 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 mean shortfall in principal collection during the tenure of the pools is estimated at 1.5-2.5% of the initial pool principal for both transactions, with certain variability around it. The prepayment rate for the underlying pools is estimated at 8.0-13.0% per annum.

[8] *(Pool Cash flows – Cash flows to PTC A) / Pool Principal outstanding*

Liquidity position

Prime Home Loan Trust I : Superior

The pool collections and the availability of credit collateral are expected to be highly comfortable to meet the investor payouts. There is credit collateral of around 31% available in the transactions for the balance payouts. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 102 months of PTC payouts in full for 'Prime Home Loan Trust I' transaction.

Prime Home Loan Trust II : Superior

The pool collections and the availability of credit collateral are expected to be highly comfortable to meet the investor payouts. There is credit collateral of around 23% available in the transactions for the balance payouts. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 52 months of PTC payouts in full for 'Prime Home Loan Trust II' transaction.

Rating sensitivities

Positive factors – NA

Negative factors – Pressure on the rating could emerge in the event of consistently weak collection performance of the underlying pools, leading to higher-than expected delinquency levels and CE utiliation levels.

Analytical approach

The rating action is based on the performance of the pools till March 2023 (collection month), the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of these pools.

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

About the company

Aavas Financiers Limited (Aavas) is a Jaipur (Rajasthan) headquartered housing finance company, which primarily provides housing loans in rural and semi-urban areas. It is present in 11 states and 2 UT, with a network of 346 branches and assets under management of Rs. 14,167 crore as on March 31, 2023.

Aavas was incorporated as a subsidiary of Au Financiers (India) Limited (now Au Small Finance Bank Limited (AuSFB)) in February 2011, and it formally began its operations in March 2012. Later, in June 2016, AuSFB sold its stake in Aavas to private equity (PE) investors – Kedaara Capital and Partners Group – to meet the Reserve Bank of India's (RBI) criteria for conversion to a small finance bank. Thereafter, Aavas came out with an initial public offering (IPO) in FY2019 and its equity shares got listed on the stock exchanges on October 8, 2018. The total issue size was Rs. 1,734 crore, of which ~Rs. 360 crore was raised for business operations while the rest was utilised to pay off the existing shareholders. The company's current shareholding stands as: Kedaara Capital (24%), Partners Group (16%), and the management team (4%) with the rest being held by domestic institutional investors (DIIs; 12%), foreign institutional investor (FIIs; 39%) and others (6%) as on March 31, 2023.

Key financial indicators (audited)

Aavas Financiers Limited	FY2021	FY2022	FY2023
Profit after Tax	289	357	430
Net Worth	2,401	2809	3270
Assets under Management (AUM)	9,454	11350	14167
Gross Stage 3 (%)	1.0%	1.0%	0.9%
Net Stage 3 (%)	0.7%	0.7%	0.7%

Note: *Amount in Rs. crore;* ***Source:*** *Company & ICRA Research;*

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
					May-30-2023	May-26-2022	May-21-2021	May-29-2020
1	**Prime Home Loan Trust I**	PTC Series A	79.62	22.25	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(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
					May-30-2023	May-26-2022	May-21-2021	May-29-2020
2	**Prime Home Loan Trust II**	PTC Series A	107.67	36.80	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AA+(SO)**	**[ICRA]AA+(SO)**

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Prime Home Loan Trust I	PTC Series A	Moderately Complex
Prime Home Loan Trust II	PTC Series A	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
Prime Home Loan Trust I	PTC Series A	September 2017	7.50%	September 2040	22.25	[ICRA]AAA(SO)
Prime Home Loan Trust II	PTC Series A	March 2018	7.80%#	March 2037	36.80	[ICRA]AAA(SO)

 # The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation
**Linked to investor's 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.

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