July 03, 2023

Aavas Financiers Limited: Provisional rating assigned to PTCs backed by home loan receivables issued by Prime Home Loan Trust III

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Prime Home Loan Trust III	PTC Series A	144.57	Provisional [ICRA]AA(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Aavas Financiers Limited (Aavas). The PTCs are backed by a pool of Rs. 296.17-crore home loan receivables (underlying pool principal of Rs. 144.57 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 3.00% of the initial pool principal to be provided by AAVAS, (ii) excess interest spread (EIS) of 33.77% of the initial pool principal in the structure, and the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS) and credit collateral (CC)
- Nil overdue contracts as on the pool cut-off date
- Average seasoning for the pool is ~42 months
- High share of contracts in pool having bureau score of more than 700 (~94%)

Credit challenges

- High geographical concentration with top-three states having ~74% share in the pool
- PTC yield for the pool 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 pool would remain exposed to macroeconomic shocks/business disruptions, if any.

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding and the promised principal (100% of the pool principal billed). Any surplus EIS after making the payments to Series A PTCs will flow back to the Originator on a monthly basis. The CC will be used for any shortfall in the interest payment in any month and for any shortfall in the payment of the promised principal. The final maturity date for the PTCs is May 10, 2051.

The first line of support for meeting the scheduled PTC payouts is the EIS in the structure. Further credit support is available through a CC of 3.00% of the initial pool principal amount (Rs. 4.34 crore). In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is high at ~42 months as on the pool cut-off date. The pool has high geographical concentration with the top-three states (Rajasthan, Gujarat and Maharashtra) contributing ~74% to the initial pool principal amount. The performance of the pool would remain exposed to macroeconomic shocks/business disruptions, if any

Past rated pools: ICRA has ratings outstanding on two PTC transactions of Aavas. The performance of both the pools, which have completed at least three payouts till May 2023, has been satisfactory with a cumulative collection efficiency of more than 98% with nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage -backed securitisation (MBS) 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 taking into account the past performance of the Originator's portfolio and 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 2.50-3.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 6-20.0% (with a mean of 16.0%) per annum.

Liquidity position

Strong for PTC Series A

As per the transaction structure, both interest and principal are promised to PTC investors on a monthly basis. The cash collections and credit collateral available are expected to be comfortable to meet the promised payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the PTC payouts for nine months.

Rating sensitivities

Positive factors – The rating could be upgraded based on sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future PTC payouts from the credit enhancement.

Negative factors – The rating could be downgraded based on sustained weak collection performance of the underlying pool (monthly collection efficiency <90%) leading to higher-than-expected delinquency levels and credit enhancement utilisation level.

Analytical approach

The rating action is based on the analysis of the performance of Aavas's portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional ratings would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the ratings, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

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 two UTs, 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. 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 shareholding, as on March 31, 2023, stood 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 investors (FIIs; 39%) and others (5%).

Key financial indicators (audited)

Aavas Financiers Limited	FY2021	FY2022	FY2023
Profit after tax	289	357	430
Net worth	2,401	2,809	3,270
Assets under management (AUM)	9,454	11,350	14,167
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
					Jul 03, 2023	-	-	-
1	**Prime Home Loan Trust III**	PTC Series A	144.57	144.57	**Provisional [ICRA]AA(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 III	PTC Series A	June 2023	8.00%	April 2051	144.57	Provisional [ICRA]AA(SO)

**Scheduled maturity date at transaction initiation; may change on account of prepayments*
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Anubhav Agarwal
+91 22 6114 3439
anubhav.agarwal@icraindia.com

Ritu Rita
+91 22 6114 3409
ritu.rita@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Palak Bhatt
+91 22 6114 3456
palak.bhatt@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.