August 30, 2023

# Aavas Financiers Limited: Provisional [ICRA]AA(SO) assigned to PTCs backed by home loan receivables issued by Prime Home Loan Trust IV

## Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Prime Home Loan Trust IV** | PTC Series A | 250.75 | 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. 250.75 crore (pool principal; receivables of Rs. 470.82 crore) of home loan (HL) receivables.

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) the excess interest spread (EIS) of 33.42% 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 CE in the form of EIS and CC
- Nil overdue contracts as on the pool cut-off date
- Average seasoning of the pool is ~20 months.
- High share of contracts in the pool having bureau score of more than 700 (~95%)

### Credit challenges

- High geographical concentration with top 3 states having ~73% share of the pool
- PTC yield for the pool is linked to an external benchmark, while interest rate on the underlying loans is linked to the 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

## Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding. The entire principal is promised on the final maturity date. During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to PTC Series A, will be used to make the expected principal payouts to PTC Series A (100% of principal billed). However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the

subsequent payout. The EIS, if any, shall flow back to the originator on every payout date after making all the payouts to PTC Series A as per the waterfall mechanism. The final maturity date for the PTCs is February 10, 2040.

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. 7.52 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 moderate at ~20 months as on the pool cut-off date. Hence, the pool has moderate seasoning. Furthermore, the underlying borrowers have displayed a strong repayment track record and 95% have not been delinquent since origination. The pool has high geographical concentration with the top 3 states (Rajasthan, Maharashtra and Madhya Pradesh) contributing ~73% to the initial pool principal amount. The performance of the pool would remain exposed to macroeconomic shocks/business disruptions.

**Past rated pools:** ICRA has ratings outstanding on three PTC transactions of Aavas. The performance of the pools, which have completed at least two payouts till July 2023, has been satisfactory with a cumulative collection efficiency of more than 98%, nil CC utilisation and loss-cum-90+ days past due (dpd) of less than 2.00%.

## 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 6.00-20.00% (with a mean of 16.00%) per annum.

## Liquidity position: Strong

For the transaction, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. Also, the cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC Series A investors.

## Rating sensitivities

**Positive factors –** The rating could be upgraded based on the sustained strong collection performance of the underlying pool of 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 CE.

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

## Analytical approach

The rating action is based on the analysis of the performance of Aavas' portfolio till June 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 | 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 rating is 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 rating 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 rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

## About the originator

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 Union Territories, with a network of 348 branches and assets under management of Rs. 14,650 crore as on June 30, 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 June 30, 2023, stood as: Kedaara Capital (23.61%), Partners Group (16.13%), and the management team (2.32%) with the rest being held by domestic institutional investors (DIIs; 13.72%), foreign institutional investors (FIIs; 35.01%) and others (9.19%).

### 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% |

*Source: Company & ICRA Research; 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 | 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 |
| | | | | | Aug 30, 2023 | - | - | - |
| 1 | **Prime Home Loan Trust IV** | PTC Series A | 250.75 | 250.75 | **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 IV** | PTC Series A | August 2023 | 8.10% | February 2040 | 250.75 | 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

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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.

For more information, visit www.icra.in

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