December 11, 2023

Aavas Financiers Limited: Rating confirmed as final for PTCs issued under a mortgage loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Prime Home Loan Trust IV	PTC Series A	250.75	[ICRA]AA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In August 2023, ICRA had assigned Provisional [ICRA]AA(SO) rating to Pass-Through Certificates (PTCs) Series A issued by Prime Home Loan Trust IV. The securities are backed by a pool of Rs. 250.75 crore (pool principal; receivables of Rs. 470.82 crore) of home loan (HL) receivables originated by Aavas Financiers Limited (Aavas/Originator) (rated [ICRA]AA(Stable)/[ICRA]A1+). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the November 2023 payouts is shown in the table below:

Parameter	Prime Home Loan Trust IV
Months post securitisation	3
Pool amortisation	3.56%
PTC Series A amortisation	3.56%
Monthly collection efficiency (including overdue collections)	99.80%
Loss-cum 0+ days past due (dpd)	0.53%
Loss cum 30+ dpd	0.03%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%
Cumulative Prepayment rate	1.85%

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 overdue 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 October 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 considering 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 on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

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

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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

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 in11 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 (5%) as on March 31, 2023.

Key financial indicators (audited)

Aavas Financiers Limited	FY2022	FY2023	H1FY2024
Profit after tax	357	430	231.4
Net worth	2,809	3,270	3,513.6
Assets under management (AUM)	11,350	14,167	15,319.5
Gross stage 3 (%)	1.0%	0.9%	1.04%
Net stage 3 (%)	0.7%	0.7%	0.76%

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
					December 11, 2023	Aug 30, 2023	-	-	-
1	Prime Home Loan Trust IV	PTC Series A	250.75	250.75	[ICRA]AA(SO)	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	[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.

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