May 28, 2024

# 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 | 22.25 | 18.06 | [ICRA]AAA(SO); Reaffirmed |
| **Prime Home Loan Trust II** | PTC Series A | 107.67 | 36.80 | 29.38 | [ICRA]AAA(SO); Reaffirmed |

**Instrument details are provided in Annexure I*

## Rationale

The pass-through certificates (PTCs) are backed by home loan receivables originated by Aavas Financiers Limited {Aavas/Originator; rated [ICRA]AA (Stable)}. The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pools till the April 2024 payout month.

### Pool performance summary

| Parameter | Prime Home Loan Trust I | Prime Home Loan Trust II |
|---|---|---|
| **Payout month** | April 2024 | April 2024 |
| **Months post securitisation** | 85 | 78 |
| **Pool amortisation (as % of initial pool principal)** | 76.36% | 71.72% |
| **3 months' average monthly collection efficiency[1]** | 100.95% | 100.78% |
| **Cumulative collection efficiency[2]** | 98.93% | 99.00% |
| **Loss-cum-90+ dpd[3] (% of initial pool)** | 1.20% | 1.54% |
| **Loss-cum-180+ dpd[4] (% of initial pool)** | 1.04% | 1.45% |
| **Cumulative credit collateral utilisation** | 0.00% | 0.00% |
| **Breakeven collection efficiency[5] for PTC Series A** | 49.83% | 59.77% |
| **Credit collateral (CC; % of balance pool)** | 38.06% | 28.29% |
| **Excess interest spread (EIS; % of balance pool) for PTC Series A[6]** | 73.57% | 56.47% |

## Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (100% of the pool principal billed). Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pools would be used for the prepayment of PTC Series A principal.

[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] *(Balance cash flows payable to investor – CC available) / Balance pool cash flows*
[6] *(Pool cash flows – Cash flows to PTC A) / Pool principal outstanding*

### Reset of credit enhancement

At the Originator's request for resetting the credit enhancement, ICRA has analysed the pools, basis the credit collateral (CC) mentioned in the table provided below. Based on the pools' performance, the rating for the PTCs will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the PTC investors. However, as per regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

| Transaction Name | Current CC Outstanding [A] | CC Required as per ICRA for Maintaining Present Rating [B] | CC that can be Released [C]= 60%*(A - B) | Revised CC Limit [D] = (A - C) |
|---|---|---|---|---|
| **Prime Home Loan Trust I** | 7.17 | 1.43 | 3.44 | 3.73 |
| **Prime Home Loan Trust II** | 8.61 | 1.72 | 4.13 | 4.48 |

*Amount in Rs. crore*

## Key rating drivers and their description

### Credit strengths

**Substantial credit enhancement available in the structure** – The rating factors in the build-up in the credit enhancement with the cash collateral increasing to 38% and 28% of the balance pool principal for Prime Home Loan Trust I and Prime Home Loan Trust II, respectively, from 9.0% and 8.0%, respectively, at the time of securitisation. Internal credit support is also available through the scheduled EIS of 73.6% and 56.5% for Prime Home Loan Trust I and Prime Home Loan Trust II, respectively.

**Healthy pool performance** – The performance of both pools has been strong with a cumulative collection efficiency of ~99% till the April 2024 payout month. This has resulted in low delinquencies in the pools with the 90+ days past due (dpd) and 180+ dpd between 1.0% and 1.5%. The breakeven collection efficiency has also declined to 50% and 60% for Prime Home Loan Trust I and Prime Home Loan Trust II, respectively. Further, there have been no instances of cash collateral utilisation in any of the pools till date owing to the strong collection performance and the presence of EIS in both transactions.

### Credit challenges

**Exposed to interest rate risk** – Both transactions are exposed to interest rate risk as the underlying pools have a mix of fixed and floating rate loans, while the yield on the PTCs is fixed for Prime Home Loan Trust I and floating for Prime Home Loan Trust II. Prime Home Loan Trust II is also exposed to basis risk as the yield on ~57% of the pool's contracts are floating (linked to Aavas' benchmark rate) whereas the yield on the PTCs is linked to an external benchmark (investor's MCLR).

**Risks associated with lending business** – The pools' performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to repay their loans on a timely basis.

## Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pools, ICRA has estimated the shortfall in the pool principal collection during its tenure at 1.50% and 1.75% for Prime Home Loan Trust I and Prime Home Loan Trust II, respectively. The average prepayment rate for both underlying pools is modelled in the range of 6.0% to 18.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

## Liquidity position: Superior

The liquidity for PTC Series A is superior for both trusts after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be in the range of 9 to 12 times the estimated loss in the pools.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – Pressure on the rating could emerge in the event of the consistently weak collection performance of the underlying pools, leading to higher-than expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

## Analytical approach

The rating action is based on the performance of the pools till March 2024 (collection month), the present delinquency levels and the credit enhancement 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 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 13 states, with a network of 367 branches and assets under management of Rs. 17,313 crore as on March 31, 2024. Aavas was incorporated as a subsidiary of AU Financiers (India) Limited {now AU Small Finance Bank Limited (AU SFB)} in February 2011, and it formally commenced operations in March 2012. In June 2016, AU SFB sold its stake in Aavas to private equity investors – Kedaara Capital and Partners Group – to meet the Reserve Bank of India's (RBI) criteria for conversion to a small finance bank. 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.

### Key financial indicators

| Aavas Financiers Limited | FY2022 | FY2023 | FY2024 |
|---|---|---|---|
| **Profit after tax** | 357 | 430 | 491 |
| **Net worth** | 2,809 | 3,270 | 3,773 |
| **Asset under management (AUM)** | 11,350 | 14,167 | 17,313 |
| **Gross stage 3** | 1.0% | 0.9% | 0.9% |
| **CRAR** | 51.9% | 47.0% | 44.0% |

*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 (FY2025) | | | | Chronology of Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Instrument | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | May 28, 2024 | May 30, 2023 | May 26, 2022 | May 21, 2021 |
| 1 | Prime Home Loan Trust I | PTC Series A | 79.62 | 18.06 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | [ICRA]AAA(SO) | [ICRA]AAA(SO) |

| | Trust Name | Current Rating (FY2025) | | | | Chronology of Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Instrument | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | May 28, 2024 | May 30, 2023 | May 26, 2022 | May 21, 2021 |
| 2 | Prime Home Loan Trust II | PTC Series A | 107.67 | 29.38 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | [ICRA]AAA(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 | 18.06 | [ICRA]AAA(SO) |
| **Prime Home Loan Trust II** | PTC Series A | March 2018 | 7.80%# | March 2037 | 29.38 | [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:

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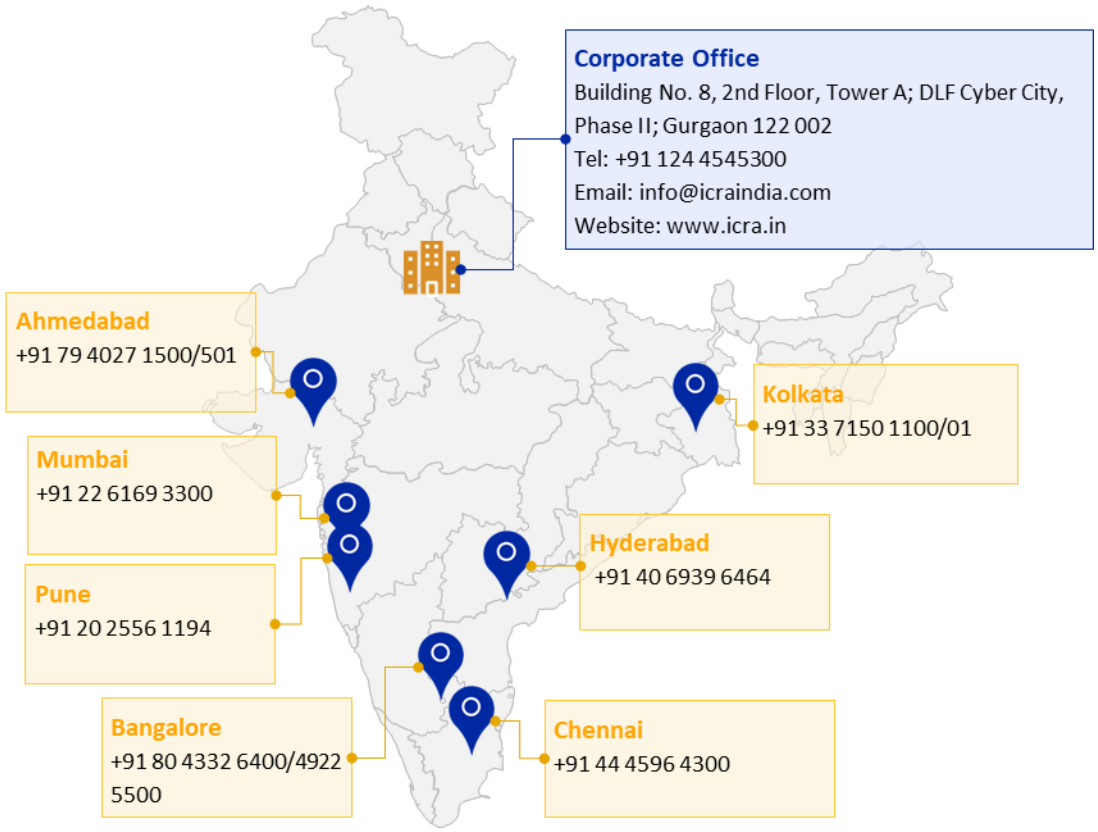


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