December 31, 2024

Aavas Financiers Limited: Rating reaffirmed for PTCs issued under home loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Nov-24 Payout (Rs. crore)	Rating Action
Prime Home Loan Trust IV	PTC Series A	250.75	NA	201.71	[ICRA]AA(SO); Reaffirmed

**Instrument details are provided in Annexure I*

Rationale

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

Pool performance summary

Parameter	Prime Home Loan Trust IV
Payout month	November 2024
Months post securitisation	15
Pool amortisation	19.56%
PTC amortisation	19.56%
Cumulative collection efficiency[1]	99.72%
Loss-cum-90+ (% of initial pool principal)[2]	0.17%
Loss-cum-180+ (% of initial pool principal)[3]	0.11%
Breakeven collection efficiency[4]	78.66%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.0%
CC available (as % of balance pool principal)	3.73%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal)	35.27%
Cumulative prepayment rate[5]	16.44%

[1] Cumulative collections till date / Cumulative billings till date + Opening overdue

[2] POS on contracts aged 90+ dpd + Overdue / Initial POS on the pool

[3] POS on contracts aged 180+ dpd + Overdue / Initial POS on the pool

[4] It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows

[5] POS at the time of prepayment of contracts prepaid till date / Initial pool principal

Transaction structure

As per the transaction structure, the monthly promised cash flows for PTC Series A comprises the 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 excess interest spread (EIS) after making the payments to Series A PTCs will flow back to the Originator on a monthly basis. The cash collateral (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.

Key rating drivers and their description

Credit strengths

Healthy pool performance – Performance of the pool has been healthy with cumulative collection efficiency of ~99% till November 2024 payout month which has resulted in low delinquencies in the pools with the 90+ days past due (dpd) and 180+ dpd at 0.17% and 0.11% respectively. The break-even collection efficiency has also declined to ~78%. Further, there have been no instances of cash collateral utilisation till date owing to strong collection performance and presence of EIS in the transaction.

Build-up in credit enhancement – The rating factors in the build-up in the credit enhancement with cash collateral increasing to ~4% of the balance pool compared to around 3% at the time of securitisation. Internal credit support is also available through scheduled EIS of ~35%.

Contracts backed by residential properties – 100% contracts in the pool are backed by residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Established track record of the Originator – The Originator, which would also be servicing the loans in the transaction, has an established track record in the lending business of more than 10 years and has adequate underwriting policies and collection procedures. The company has adequate processes for servicing of the loan accounts in the securitised pool.

Credit challenges

High geographical concentration – The pool has higher geographical concentration with the top 3 states, viz. Rajasthan, Maharashtra, and Madhya Pradesh comprising ~73% of the balance pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposed to basis risk and interest risk– Yield for PTC is linked to the RBI repo rate whereas the underlying pool has combination of fixed and floating interest rate. Hence, is exposed to both the risks.

Risk 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 make timely repayments of their loans

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 pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 2.75% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of

6% to 20% 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.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Prime Home Loan Trust III
Originator	Aavas Financiers Limited
Servicer	Aavas Financiers Limited
Trustee	Beacon Trusteeship Limited
CC holding bank	DBS Bank
Collection and payout account bank	DBS Bank

Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement for the transaction would exceed 6 times the estimated loss in the pool.

Rating sensitivities

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

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (Aavas) could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pool till the November 2024 payout month (October 2024 collection month), the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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 (AuSFB)} in February 2011 and it formally began 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. Aavas launched 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.

Key financial indicators

Aavas Financiers Limited	FY2023	FY2024	H1 FY2025
Profit after tax	430	491	274
Total Income	1,610	2,020	1,123
Total managed assets	14,167	17,313	18,396
Gross stage 3	0.9%	0.9%	1.1%
CRAR	47.0%	44.0%	46.5%

Source: Company data & 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	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
				Dec 31, 2024	Dec 11, 2023	Aug 30, 2023	-	-
Prime Home Loan Trust IV	PTC Series A	250.75	201.71	**[ICRA]AA(SO)**	**[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* (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Prime Home Loan Trust IV	PTC Series A	August 30, 2023	8.10%	February 10, 2040	201.71	[ICRA]AA(SO)

**Linked to RBI policy repo rate*
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 Agrawal
+91 22 6114 3439
anubhav.agrawal@icraindia.com

Ekta Baheti
+91 22 6114 3423
ekta.baheti@icraindia.com

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

Sheetal Nayak
+91 22 6114 3411
sheetal.nayak@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
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.

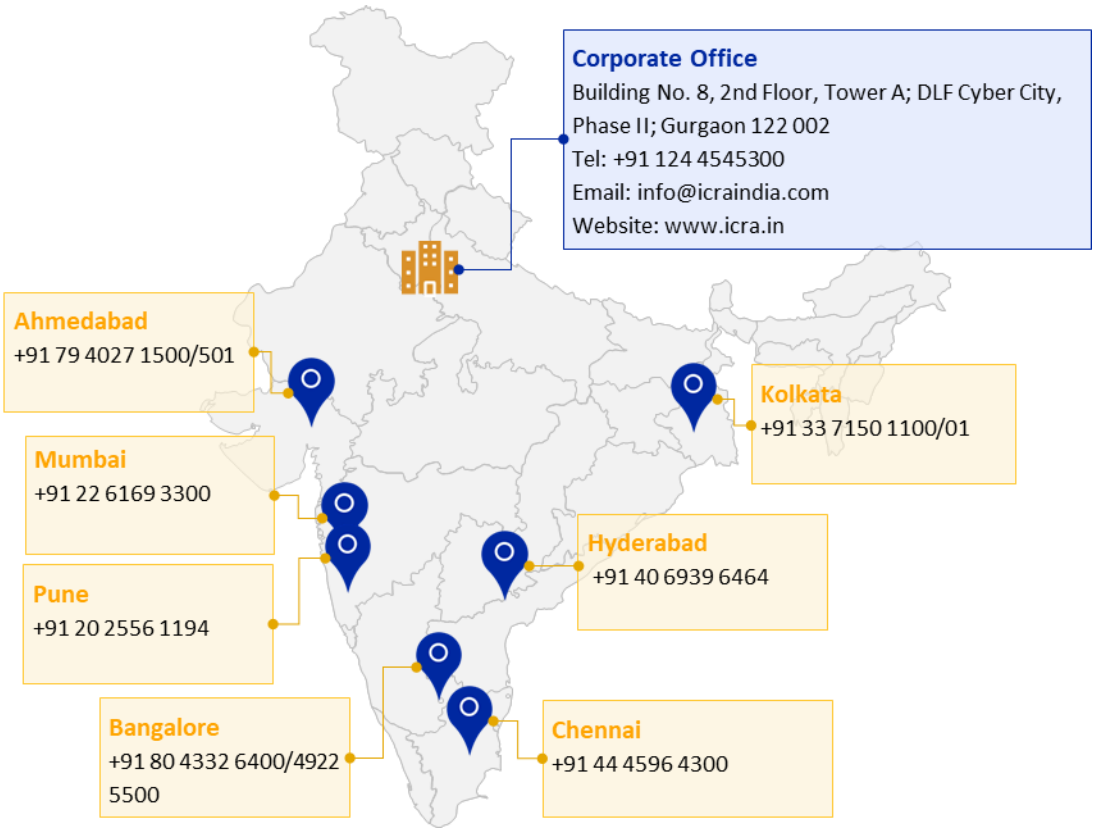
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



© Copyright, 2024 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.