May 21, 2025

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	18.06	14.86	[ICRA]AAA(SO); Reaffirmed
Prime Home Loan Trust II	PTC Series A	107.67	29.38	24.35	[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 2025 payout month.

Pool performance summary

Parameter	Prime Home Loan Trust I	Prime Home Loan Trust II
Payout month	April 2025	April 2025
Months post securitisation	97	90
Pool amortisation (as % of initial pool principal)	80.4%	76.4%
3 months' average monthly collection efficiency[1]	96.6%	100.2%
Cumulative collection efficiency[2]	98.7%	98.9%
Loss-cum-90+ dpd[3] (% of initial pool)	1.4%	1.2%
Loss-cum-180+ dpd[4] (% of initial pool)	1.3%	1.2%
Cumulative credit collateral utilisation	0.0%	0.0%
Breakeven collection efficiency[5] for PTC Series A	45.2%	57.7%
Credit collateral (CC; % of balance pool)	45.9%	33.9%
Excess interest spread (EIS; % of balance pool) for PTC Series A[6]	70.5%	50.9%

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

Adequate servicing capability of Aavas – The Originator, which would also be servicing the loans in the transactions, has an established track record of more than 10 years in the lending business and has adequate underwriting policies and collection procedures. Aavas has sufficient processes for servicing the loan accounts in the securitised pools.

Healthy pool performance – The performance of the pools has been healthy with a cumulative collection efficiency of ~99% till the April 2025 payout month. This has resulted in low delinquencies in the pools with the 90+ days past due (dpd) for Prime Home Loan Trust I and Prime Home Loan Trust II at 1.35% and 1.20%, respectively. The 180+ dpd also remains moderate at 1.25% for Prime Home Loan Trust I and 1.17% for Prime Home Loan Trust II. Further, there have been no instances of cash collateral utilisation till date owing to the strong collection performance and the presence of EIS in the transactions.

Build-up in credit enhancement – The rating factor in the build-up in the substantial credit enhancement with cash collateral increasing to over 45% and 34% of the balance pool compared to 9.00% and 8.00% at the time of securitisation in case of Prime Home Loan Trust I and Prime Home Loan Trust II respectively. Internal credit support is also available through scheduled EIS of ~70% in case of Prime Home Loan Trust I and ~51% in case of Prime Home Loan Trust II.

Credit challenges

Exposed to basis risk and interest rate risk– The transaction Prime Home Loan Trust I is exposed to interest rate risk as the pool has contracts with floating rate and fixed rate loans, while the yield on securities is fixed. While the transaction Prime Home Loan Trust II is exposed to interest rate risk and basis risk as the pool has contracts with floating rate (linked to investor's MCLR) and fixed rate loans, while the yield on securities is floating(linked to Aavas benchmark rate).

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 current pools, ICRA has estimated the shortfall in the pool principal collection during their tenure at 1.25% 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 instruments.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

	Prime Home Loan Trust I	Prime Home Loan Trust II
Originator	Aavas Financiers Limited	Aavas Financiers Limited
Servicer	Aavas Financiers Limited	Aavas Financiers Limited
Trustee	IDBI Trusteeship Services Limited	IDBI Trusteeship Services Limited
CC holding bank	IDFC First Bank	IDFC First Bank
Collection and payout account bank	IDFC First Bank	IDFC First Bank

Liquidity position: Superior

The liquidity for both instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement is more than 10 times the estimated losses in the respective pools.

Rating sensitivities

Positive factors – NA

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 could also exert pressure on the rating.

Analytical approach

The rating action is based on the performance of the pools till March 2025 (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	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 14 states with a network of 397 branches and assets under management of Rs. 20,420 crore as of March 2025.

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. 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 crores, 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 December 31, 2024,was: Kedaara Capital (16%), Partners Group (11%), foreign institutional investor (FIIs; 35%), domestic institutional investors (DIIs; 24%), the management team (2%)and others (around 12%).In August 2024, the promoter group i.e. Kedaara Capital and Partners Group entered into a Share Sale Agreement (SPAs) to sell their entire stake to Aquilo House Pte. Ltd., which belongs to CVC Capital Partners group (Acquirer). Subsequently, the Acquirer announced through its public announcement dated August 10, 2024 an open offer for acquisition of additional stake up to 26.00% from the public shareholders of Aavas. The aforesaid transaction would be subject to various regulatory and lender approvals. Post the consummation of the SPAs and completion of the open offer, Aquilo House Pte. Ltd. shall acquire control and shall be categorized as the new promoters of Aavas.

Key financial indicators

Aavas Financiers Limited	FY2023	FY2024	FY2025
Profit after tax	430	491	574
Total Income	1,610	2,020	2,358
Total Managed Assets	16,182	19,993	22,985
Asset under management	14,167	17,313	20,420
Gross stage 3 (%)	0.9%	0.9%	1.1%

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 (FY2026)				Chronology of rating history for the past 3 years		
		Instrument	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
					May 21, 2025	May 28, 2024	May 30, 2023	May 26, 2022
1	**Prime Home Loan Trust I**	PTC Series A	79.62	14.86	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**

	Trust name	Current rating (FY2026)				Chronology of rating history for the past 3 years		
		Instrument	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
					May 21, 2025	May 28, 2024	May 30, 2023	May 26, 2022
2	**Prime Home Loan Trust II**	PTC Series A	107.67	24.35	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(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 (p.a.p.m.)	Maturity date	Amount rated (Rs. crore)	Current rating
Prime Home Loan Trust I	PTC Series A	March 10, 2017	7.50%	October 15, 2044	14.86	[ICRA]AAA(SO)
Prime Home Loan Trust II	PTC Series A	September 28, 2017	9.15%#	March 15, 2045	24.35	[ICRA]AAA(SO)

#Linked to investor's MCLR
Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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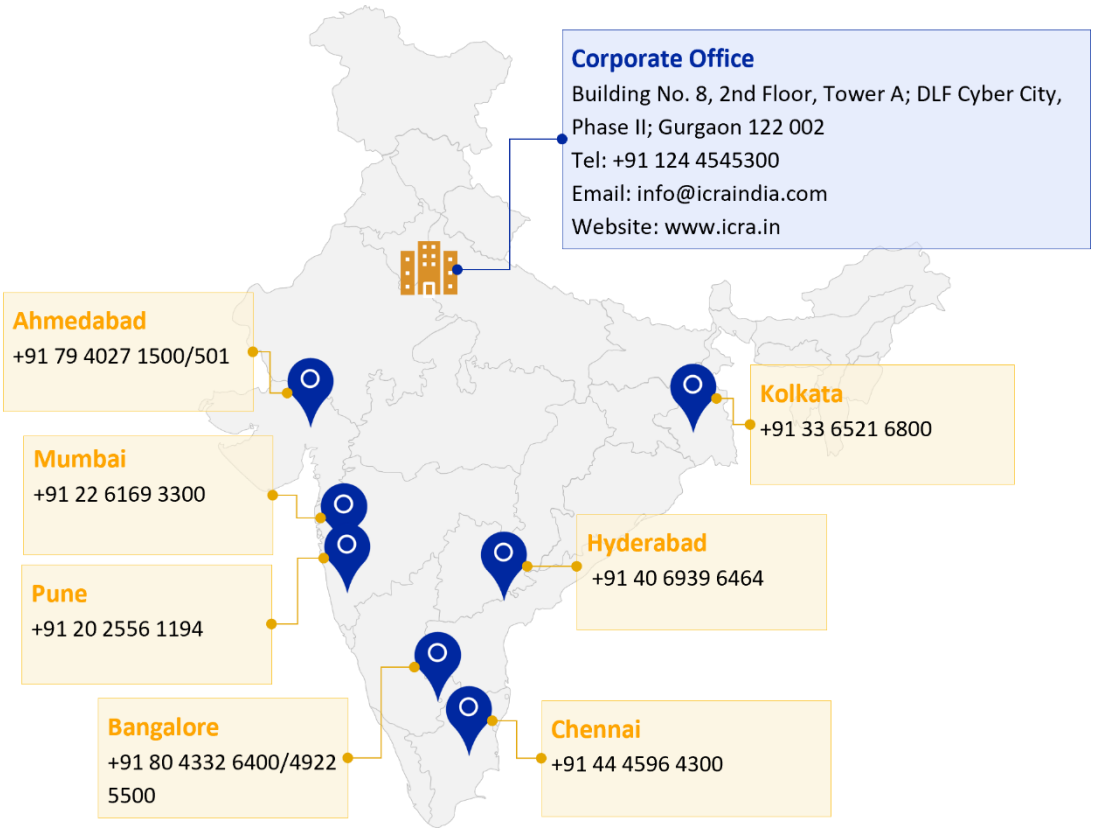

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