

May 21, 2021

## Aavas Financiers Limited: Ratings reaffirmed for pass through certificates (PTCs) issued under two mortgage loan securitisation transactions

### Summary of rating action

Trust Name	Instrument*	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	41.14	34.79	Reaffirmed at [ICRA]AAA(SO)
Prime Home Loan Trust II	PTC Series A	107.67	64.90	56.41	Reaffirmed at [ICRA]AA+(SO)

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has reaffirmed the ratings for the pass-through certificates (PTCs) under two mortgage loan securitisation transactions originated by Aavas Financiers Limited (Aavas), as tabulated above. Both the pools comprise of receivables from Home Loan (HL) contracts. The receivables for both the transactions have been transferred “at par” to a Special Purpose Vehicle (SPV) and the Trust had issued a single series of PTCs, backed by the same.

The ratings reaffirmation is on account of the moderate amortisation level in the transactions which has led to a moderate build-up of the credit enhancement cover over the future PTC payouts. The break-even collection efficiencies are also comfortable when compared to the actual collection levels observed in these pools.

A summary of the performance of the pools till the March 2021 collection month (April 2021 payout) has been tabulated below.

## Pool performance summary

Parameter	Prime Home Loan Trust	Prime Home Loan Trust
	I	II
Months post securitization	49	42
Pool Amortisation (as % of initial pool principal)	55.35%	46.61%
3 months Average Monthly Collection Efficiency <sup>1</sup>	99.08%	97.01%
Cumulative Collection Efficiency <sup>2</sup>	98.57%	99.13%
Loss cum 90+ dpd <sup>3</sup> (% of initial Pool)	1.82%	2.13%
Loss cum 180+ dpd <sup>4</sup> (% of initial Pool)	1.54%	1.32%
90+ dpd <sup>5</sup> (% of Balance Pool)	3.87%	3.88%
180+ dpd <sup>6</sup> (% of Balance Pool)	3.24%	2.37%
Cumulative Cash Collateral Utilization	0.00%	0.00%
Breakeven Collection Efficiency <sup>7</sup> for PTC A	50.06%	48.52%
Credit Collateral (% of Balance Pool)	3.52%	3.07%
Excess Interest Spread (% of Balance Pool) for PTC A8	64.44%	67.38%

## Key rating drivers

### Credit strengths

- Robust collection performance seen in both the pools as after March 2021 (collection month);
- No cash collateral utilization in any of the pools till date owing to strong collection performance and availability of EIS in both transactions;
- Adequate Cash Collateral (CC) cover available for the balance PTC payouts in both the transactions;
- Low level of delinquencies seen in the pools till April 2021 payouts;

### Credit challenges

- For Prime II pool, PTC yield is linked with Investor MCLR and pool has 65% contacts having floating rates. So transaction is exposed to interest rate risk, any adverse movement in benchmark yield rate will eliminate EIS and might lead to a cash collateral utilisation
- High geographical concentration for both pools with share of top 3 states (% of current pool) remaining above 80%;
- Pool performance will remain exposed to any fresh disruptions that may arise from the second wave of Covid-19 pandemic

<sup>1</sup> Average of (Total Current and Overdue collections for the month as a % of Total Billing for the month) for 3 months

<sup>2</sup> (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

<sup>3</sup> Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

<sup>4</sup> Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

<sup>5</sup> Inclusive of Unbilled Principal portion of contracts delinquent(Future POS) for more than 90 days, as a % of Balance Principal

<sup>6</sup> Inclusive of Unbilled Principal portion of contracts delinquent(Future POS) for more than 180 days, as a % of Balance Principal

<sup>7</sup> (Balance Cashflows payable to investor – Cash collateral available)/ Balance Pool Cashflows

<sup>8</sup> (Pool Cashflows – Cashflows to PTC A)/ Pool Principal outstanding

## Description of key rating drivers highlighted above

The performance of the pools has been strong with cumulative collection efficiency of around 99% as of March 2021 collection month. Consequently, the 90+ dpd and 180+dpd have remained below 2.2% level as of March 2021 collection month (or April 2021 payout month). Any shortfall in the collections has been absorbed by the EIS in the structure and there has not been CC utilisation in any of the transactions till date. In 'Prime Home Loan Trust I (Prime I pool)' the PTC yield is fixed while in 'Prime Home Loan Trust II (Prime II pool)', the PTC yield is linked to an external benchmark (investor's MCLR). Given that the Pool yield and the PTC yield are linked to different benchmarks, basis risk exists in latter transaction. Both the pools, Prime Home Loan Trust I and Prime Home Loan Trust II, have amortised in the range of 55% and 46%, respectively, after April 2021 payouts which has led to an adequate built up of CC (as % of balance PTC payouts) in the transactions.

Overall, the credit enhancement available for meeting balance payouts to the PTC investors is sufficient to reaffirm the ratings of both the transactions. ICRA will continue to monitor the performance of these transactions as it would remain exposed to the impact of fresh disruptions in collection activities caused by the second wave of the pandemic. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

## Key rating assumptions

ICRA's cash flow modelling for the surveillance of mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 performance and 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 contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 2.5% - 3.5% of the initial pool principal for both Prime Home Loan Trust I and Prime Home Loan Trust II transactions, with certain variability around it. The prepayment rate for the underlying pools is estimated to be in the range of 8.0% - 13.0% per annum.

## Liquidity position

### Prime Home Loan Trust I : Superior

The pool collections and the availability of credit collateral are expected to be highly comfortable to meet the investor payouts. There is credit collateral of around 20% available in the transactions for the balance payouts. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 62 months of PTC payouts in full for 'Prime Home Loan Trust I' transaction.

### Prime Home Loan Trust II : Strong

The pool collections and the availability of credit collateral are expected to be comfortable to meet the investor payouts. There is credit collateral of 15% available in the transactions for the balance payouts. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 47 months for 'Prime Home Loan Trust II' transaction

## Rating sensitivities

### For Prime Home Loan Trust I

**Positive factors** - NA

**Negative factors** - Pressure on the ratings could emerge in the event of consistently weak collection performance of the underlying pool, leading to higher-than expected delinquency levels and CE utilization levels.

### For Prime Home Loan Trust II

**Positive factors** - Sustained strong collection performance of the underlying pool contracts (>95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements.

**Negative factors** - Pressure on the ratings could emerge in the event of consistently weak collection performance of the underlying pool, leading to higher-than expected delinquency levels and CE utilization levels.

### Analytical approach

The rating actions are based on the performance of the pools till March 2021 (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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

### About the company

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 in north, west and central India with a network of 259 branches (as on September 30, 2020) and assets under management of Rs. 8,367 crore (on book portfolio of Rs. 6,687 crore) as on September 30, 2020.

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 shareholding as on September 30, 2020 stood as: Kedaara Capital (30%), Partners Group (21%), AuSFB (5%) and the management team (7%) with the rest being held by domestic institutional investors (DII; 7%), foreign institutional investor (FIIs; 28%) and others (around 3%).

Aavas reported a profit after tax of Rs. 249 crore in FY2020 on an asset base of Rs. 7,679 crore as on March 31, 2020 against Rs. 176 crore in FY2019 on an asset base of Rs. 5,640 crore as on March 31, 2019. Aavas’ gross and net NPAs stood at 0.46% (on book) and 0.34% (on book), respectively, as on March 31, 2020, against 0.47% (on book) and 0.37% (on book), respectively, as on March 31, 2019.

### Key financial indicators (audited)

<b>Aavas Financiers Limited</b>	<b>FY2020</b>	<b>H1 FY2021*</b>
Profit after Tax	249	116
Net Worth	2,098	2,221
Gross Loan Book	6,202	6,687
Assets under management (AUM)	7,796	8,367
Return on Average Assets (%)	3.7%	2.9%
Return on Average net worth (%)	12.7%	10.8%
Gearing (times)	2.6	2.7
CRAR (%)	55.9%	53.1%
Gross Stage 3 (%)	0.5%	0.5%
Net Stage 3 (%)	0.3%	0.3%
Net Worth	1.0%	1.0%

**Note:** Amounts in Rs. crore; **Source:** Company & ICRA research; **\*Provisional numbers**

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Trust Name	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019	
					May-21-2021	May-29-2020	Mar-20-2019	Apr-06-2018
1	Prime Home Loan Trust I	PTC Series A	79.62	34.79	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AA(SO)

	Trust Name	Current Rating (FY2022)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019	
					May-21-2021	May-29-2020	Mar-20-2019	Apr-06-2018
2	Prime Home Loan Trust II	PTC Series A	107.67	56.41	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)

## Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Prime Home Loan Trust I	PTC Series A	Simple
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-1: 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	34.79	[ICRA]AAA(SO)
Prime Home Loan Trust II	PTC Series A	March 2018	7.90%*	March 2037	56.41	[ICRA]AA+(SO)

# the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

\*linked to investor's MCLR

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Not Applicable

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