

July 26, 2023

Aptus Finance India Private Limited: Provisional [ICRA]AA-(SO) assigned to Series A1 PTC issued by NIMBUS 2023 Orakei, backed by a loan against property (SME loans) pool

Summary of rating action

| Trust Name | Instrument* | Rated Amount (Rs. crore) | Rating Action |
|--------------------|---------------|--------------------------|-------------------------------------|
| NIMBUS 2023 Orakei | Series A1 PTC | 95.62 | Provisional [ICRA]AA-(SO); Assigned |

*Instrument details are provided in Annexure I

| | |
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| Rating in the absence of pending actions/documents | No rating would have been assigned as it would not be meaningful |
|--|--|

Rationale

ICRA has assigned a Provisional [ICRA]AA-(SO) rating to the Series A1 pass-through certificates (PTCs) issued under a securitisation transaction originated by Aptus Finance India Private Limited {AFIPL; rated [ICRA]AA- (Stable)}. The PTCs are backed by receivables from a Rs. 173.33-crore (pool principal amount of Rs. 101.72 crore) loan against property (LAP; small and medium-sized enterprise (SME) loans) pool.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a corporate guarantee (CG) of 8.00% of the pool principal to be provided by the originator, (ii) over-collateral (OC)/subordination of 6.00% of the pool principal, and (iii) excess interest spread (EIS) of 48.84% in the structure. The provisional rating is also based on the integrity of the legal structure. The provisional rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of OC, EIS and CG
- Nil overdue contracts as on the pool cut off date
- High share of contracts (~74%) in the pool having equifax score more than 700

Credit challenges

- High geographical concentration with share of top two states (Andhra Pradesh and Tamil Nadu) comprising ~80% of the pool principal
- The pool has contracts with fixed rate, while the PTC yield is floating linked to the investor's external benchmark yield. Hence, the transaction is exposed to interest rate risk and any adverse movement in the benchmark yield is likely to reduce the EIS available in the transaction
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. As per the waterfall mechanism for the transaction, the monthly cash flow schedule comprises the promised interest payment to Series A1 PTC at the predetermined interest rate on the principal outstanding. The principal repayment to Series A1 PTC is promised on the last payout date.

The first line of support for Series A1 in the transaction is in the form of an OC/subordination of 6.00% of the pool principal. The EIS available in the structure will provide further CE support to the transaction. The EIS (48.84% of the pool principal

initially, based on the indicated PTC yield, for Series A1 PTC) will be utilised towards accelerated principal amortisation (to the extent of 38% of EIS) after paying the promised and scheduled payouts to the PTCs while the balance (62% of the EIS) will flow back to the originator. All prepayment amounts would be passed on to Series A1 PTC (till Series A1 PTC principal is not fully amortised) every month and future payouts will be revised accordingly. While the loans in the underlying pool are all fixed rate loans, the yield for Series A1 PTC is floating and linked to an external benchmark rate, thereby exposing the transaction to interest rate risk.

Additional support for Series A1 PTC in the transaction is available through an unconditional and irrevocable CG from AFIP, equivalent to 8.00% of the initial pool principal. The CG shall be in the form of an unfunded CE facility provided through a CG deed. In the event of a shortfall in meeting the PTC payouts at the time of the final maturity date, the Trustee will invoke the guarantee to meet the same.

The pool consists of only LAP (SME loan) contracts that are given for business purposes and have been disbursed at a fixed rate. The pool is characterised by a weighted average seasoning of ~21 months, pre-securitisation amortisation of ~14% and does not have any overdue contracts as on the cut-off date. It has an average loan-to-value (LTV) of ~38%. The geographical concentration of the loan contracts in the current pool is high with the top 2 states constituting ~80% of the pool principal. The pool's performance would remain exposed to macro-economic shocks/business disruptions, if any

Performance of past rated pools: ICRA has rated one pool originated by AFIP. The performance of the live pool has been healthy till date with the cumulative collection efficiency in the range of 95-99% for the transaction. There has been no CC utilisation till the June 2023 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) 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 taking into account the performance of the originator's portfolio 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 4.00-5.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 6.0-18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised on a monthly basis to the Series A1 PTC while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available CE are expected to be comfortable to meet the promised payouts to the PTC investors. The available CG would meet the promised interest payouts for the PTCs for a period of nine months.

Rating sensitivities

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

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels. The rating could also be downgraded due to a deterioration in the credit profile of AFIP.

Analytical approach

The rating action is based on the analysis of the performance of AFIPL's portfolio till March 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor's certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Chennai-based Aptus Value Housing Finance India Limited (Aptus), a housing finance company (HFC), was incorporated in December 2009. The company got listed on the stock exchange on August 24, 2021. Its target borrowers are from the low to middle-income segments, with an average ticket size of about Rs. 7-8 lakh. Its current geographies are the southern states, with a focus on rural and semi-urban areas. Aptus is primarily focused on self-employed customers with limited or no documentary evidence of their income and with limited access to funding from banks and larger HFCs.

Aptus' wholly owned subsidiary, Aptus Finance India Private Limited, extends mortgage loans to small and medium enterprises. On a standalone basis, Aptus Finance's AUM was about Rs. 978 crore as on March 31, 2023.

In FY2022, AFIPL reported a net profit of Rs. 62.4 crore on a total managed asset base of Rs. 698 crore compared with a net profit of Rs. 49.5 crore on a total managed asset base of Rs. 602 crore in FY2021. In FY2023, the net profit stood at Rs. 79 crore.

Key financial indicators (standalone; audited)

| | FY2021 | FY2022 | FY2023 |
|-----------------------|--------|--------|--------|
| Total income | 112.2 | 143.5 | 167.2 |
| Profit after tax | 49.5 | 62.4 | 79.0 |
| Net worth | 239.5 | 301.9 | 381.0 |
| Gross gearing (times) | 1.5 | 1.3 | 1.6 |
| Gross stage 3 | 0.5% | 1.6% | 1.7% |
| Net stage 3 | 0.4% | 1.2% | 1.3% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| S. No. | 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 |
| | | | | | | | | |
| | | | | | July 26, 2023 | - | - | - |
| 1 | NIMBUS 2023 Orakei | Series A1 PTC | 95.62 | 95.62 | Provisional [ICRA]AA-(SO) | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---------------|----------------------|
| Series A1 PTC | 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 Name | Date of Issuance / Sanction | Coupon Rate* | Maturity Date** | Amount Rated (Rs. crore) | Current Rating |
|---------------------------|-----------------|-----------------------------|----------------|-----------------|--------------------------|------------------------------|
| NIMBUS 2023 Orakei | Series A1 PTC | July 2023 | 8.90% p.a.p.m. | November 2032 | 95.62 | Provisional [ICRA]AA-(SO) |

Source: Company

*Floating yield linked to a benchmark rate

**Based on scheduled maturity of the pool of contracts; may change on account of prepayment

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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