

October 16, 2023

Aavas Financiers Limited: Ratings confirmed as final for PTCs issued under a mortgage loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Prime Home Loan Trust III	PTC Series A	144.57	139.40	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In July 2023, ICRA had assigned Provisional [ICRA]AA(SO) rating to Pass-Through Certificates (PTCs) Series A issued by Prime Home Loan Trust III. The securities are backed by a pool of Rs. 283.59-crore (underlying pool principal of Rs. 139.40 crore) of home loan (HL) receivables originated by Aavas Financiers Limited (Aavas/Originator) (rated [ICRA]AA(Stable)/[ICRA]A1+). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool performance after the September 2023 payouts is shown in the table below:

Parameter	Prime Home Loan Trust III
Months post securitisation	1
Pool amortisation	1.78%
PTC Series A amortisation	1.78%
Cumulative collection efficiency (including advance collections)	99.85%
Loss-cum 0+ days past due (dpd)	0.16%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%
Cumulative Prepayment rate	1.25%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS) and credit collateral (CC)
- Nil overdue contracts as on the pool cut-off date
- Average seasoning for the pool is ~43 months
- High share of contracts in pool having bureau score of more than 700 (~95%)

Credit challenges

- High geographical concentration with top-three states having ~75% share in the pool
- PTC yield for the pool is linked to an external benchmark, while interest rate on the underlying loans is linked to Originator's lending rate — which leads to a basis risk in the structure
- Performance of the pool would remain exposed to macroeconomic shocks/business disruptions, if any

Description of key rating drivers highlighted above

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 EIS after making the payments to Series A PTCs will flow back to the originator on a monthly basis. The 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. The final maturity date for the PTCs is May 10, 2051

The first line of support for meeting the scheduled PTC payouts is the EIS in the structure. Further credit support is available through a CC of 5.00% of the initial pool principal amount (Rs. 6.97 crore). In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdue in the pool as on the cut-off date. The weighted average seasoning of the pool is high at ~43 months as on the pool cut-off date. The pool has high geographical concentration with the top-three states (Rajasthan, Gujarat and Maharashtra) contributing ~75% to the initial pool principal amount. The performance of the pool would remain exposed to macroeconomic shocks/business disruptions.

Past rated pools: ICRA has ratings outstanding on four PTC transactions of Aavas. The live pools, which have completed at least three payouts have shown healthy collection efficiency, low delinquencies and nil CC utilisation as of the September 2023 payout.

Key rating assumptions

ICRA's cash flow modelling for rating mortgage -backed securitisation (MBS) 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 considering the past performance of the Originator's portfolio and rated pools 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 2.50-3.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 6-20.0% (with a mean of 16.0%) per annum.

Liquidity position

For PTC Series A: Strong

As per the transaction structure, both interest and principal are promised to PTC investors on a monthly basis. The cash collections and credit collateral available are expected to be comfortable to meet the promised payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the PTC payouts for fourteen months.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

Negative factors – Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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 11 states and two UTs, with a network of 348 branches and assets under management of Rs. 14,650 crore as on June 30, 2023.

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. 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 March 31, 2023, stood as: Kedaara Capital (24%), Partners Group (16%), and the management team (2%) with the rest being held by domestic institutional investors (DIIs; 14%), foreign institutional investors (FIIs; 35%) and others (9%).

Key financial indicators (audited)

Aavas Financiers Limited	FY2022	FY2023	Q1FY2024
Profit after tax	357	430	110
Net worth	2,809	3,270	3,389
Assets under management (AUM)	11,350	14,167	14,650
Gross stage 3 (%)	1.0%	0.9%	1.0%
Net stage 3 (%)	0.7%	0.7%	0.7%

Note: Amount in Rs. crore; **Source:** Company & ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	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
					Oct 16, 2023	Jul 03, 2023		
1	Prime Home Loan Trust III	PTC Series A	144.57	139.40	[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**	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Prime Home Loan Trust III	PTC Series A	August 2023	8.00%	May 2051	139.40	[ICRA]AA(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

**linked to RBI policy Repo rate

Source: Company

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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