

January 30, 2024

Navi Finserv Limited: Rating upgraded for PTCs issued under personal loan securitisation transaction

Summary of rating action

| Trust Name | Instrument* | Initial Amount (Rs. crore) | Amount after Previous Rating Exercise (Rs. crore) | Amount after Dec-23 Payout (Rs. crore) | Rating Action |
|-----------------------|--------------|----------------------------|---|--|--|
| Nimbus 2022 PL Heaton | Series A PTC | 75.00 | 75.00 | 13.58 | [ICRA]AA+(SO) ; Upgraded from [ICRA]AA(SO) |

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) tabulated above are backed by pool of personal loan receivables originated by Navi Finserv Limited (Navi). The rating upgrade is on account of build-up of the credit enhancement (CE) cover over the future PTC payouts due to the high amortisation in the transaction. Though the delinquencies in the harder buckets of 90+ dpd¹ have increased in the recent months, the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pools.

Pool performance summary

A summary of the performance of the pool till the November 2023 collection month (December 2023 payout) is tabulated below.

| Parameter | Nimbus 2022 PL Heaton |
|---|-----------------------|
| Months post securitisation | 13 |
| Pool amortisation | 68.8% |
| PTC Series A amortisation | 76.4% |
| Cumulative collection efficiency (%) ² | 96.3% |
| Cumulative prepayment rate | 31.5% |
| Loss-cum-30+ dpd (% of initial pool principal) ³ | 4.1% |
| Loss-cum-90+ dpd (% of initial pool principal) ⁴ | 3.2% |
| Cumulative CC utilisation | 0.0% |
| CC available (as % of balance pool) | 32.1% |
| EIS over balance tenure (as % of balance pool) | 13.3% |
| Principal subordination (% of balance pool) PTC A | 48.2% |
| Breakeven collection efficiency (%) ⁵ | 18.9% |

¹ Days past due

² Cumulative collections till date / Cumulative billings till date + Opening overdues

³ POS on contracts aged 30+ dpd + overdues / Initial POS on the pool

⁴ POS on contracts aged 90+ dpd + overdues / Initial POS on the pool

⁵ It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Cash collateral available – Trapped EIS) / Balance pool cash flows

Key rating drivers

Credit strengths

- Build-up in credit enhancement cover for future PTC payouts due to high amortisation of the PTCs.

Credit challenges

- Rise in delinquencies seen in harder buckets in recent months.
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; Performance of the pools could remain exposed to macro-economic shocks / business disruptions, if any.

Description of key rating drivers highlighted above

The cumulative collection efficiency of the underlying pool has been ~96% as on November 2023 collection month. ICRA takes note of the high loss-cum-90+ dpd reported in the recent months for the pool, although it is lower as compared to mean loss assumed during the initial rating exercise. Any shortfall in the collections in the past has been absorbed by the subordination and/or excess interest spread available in the structure. Hence, there has been no CC utilisation till date in the transaction. Despite higher delinquencies, ICRA draws comfort from the considerable build-up in the CE coverage for the balance tenure of the PTC payouts due to the high amortisation of the PTC/pool. Nonetheless, the performance of the pools would remain exposed to macro-economic shocks/business disruptions, if any. ICRA will continue to closely monitor the performance of this transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated five securitisation transactions backed by PLs originated by NFL. The transactions that have completed at least 3 payouts post securitisation have reported cumulative collection efficiency above 90% with nil CC utilisation as of the December 2023 payout month.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) 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 of contracts.

After making these adjustments, the expected loss (percentage of initial pool principal) and prepayments during the balance tenure of the pool are expected to be in the range of 2.50%-3.50% and 3.2-12.0%, respectively.

Liquidity position - Superior

The liquidity is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement for the transactions would be ~9.9 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded if the available cash collateral fully covers the balance PTC payouts.

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 CE utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pools till December 2023 (collection month), the present delinquency profile of the pool, the CE available in the transaction, and the performance expected over the balance tenure of the pools.

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

About the company

Navi Finserv Limited-NPL (NFL / formerly Known as Navi Finserv Private Limited) was incorporated on February 14, 2012, as a Private Limited Company. In April 2022, NFL was converted into a Public limited company. NFL is a wholly- owned subsidiary of the Navi Group (main holding company is Navi Technologies Limited- NTPL) and has been in operations since 2009. NFL is primarily involved in the business of sourcing, underwriting and carrying on the business of lending to individuals and entities and provides credit related services as an NBFC, including intermediation services for financial services agents and money transfer agents; credit linkage services; acting as a banking correspondent and generally carrying out all activities permissible to be carried out as an NBFC. NFL, on a standalone basis, had a gross portfolio of Rs. 9,631 crore as of Sep 2023.

Key financial indicators

| Consolidated | FY2022 | FY2023 | H1 FY2024* |
|----------------------|---------|---------|------------|
| Total income | 459.9 | 1586.9 | 973.3 |
| Profit after tax | (66.9) | 159.2 | 36.9 |
| Total managed assets | 4,298.0 | 6,370.0 | 8,707.0 |
| Gross NPA | 4.4% | 1.7% | 2.7% |
| Net NPA | 0.2% | 0.3% | 0.3% |

Source: Company data, ICRA Research; Amount in Rs. crore; *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Sr. No. | Trust Name | Current Rating (FY2024) | | | | Chronology of Rating History for the Past 3 Years | | | |
|---------|-----------------------|-------------------------|----------------------------------|--------------------------------|------------------|---|--------------------------|-------------------------|-------------------------|
| | | Instrument | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | January 30, 2024 | January 25, 2023 | November 3, 2022 | - | - |
| 1 | Nimbus 2022 PL Heaton | Series A PTC | 75.00 | 13.58 | [ICRA]AA+(SO) | [ICRA]AA(SO) | Provisional [ICRA]AA(SO) | - | - |

Complexity level of the rated instrument

| Trust Name | Instrument | Complexity Indicator |
|-----------------------|--------------|----------------------|
| Nimbus 2022 PL Heaton | Series A 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 Type | Date of Issuance | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Rating |
|-----------------------|-----------------|------------------|-------------|----------------|--------------------------|---------------|
| Nimbus 2022 PL Heaton | Series A PTC | October2022 | 9.75% | April 2028 | 13.58 | [ICRA]AA+(SO) |

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

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

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar

+91 22 6169 3304

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.

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ICRA Limited



Registered Office

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



Branches



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