

August 08, 2024

Aviom India Housing Finance Pvt Ltd: Provisional [ICRA]A+(SO) assigned to Series A1 PTC backed by home loan receivables issued by Argentum Trust 004

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Argentum Trust 004	Series A1 PTC	19.32	Provisional [ICRA]A+(SO); Assigned

*Instrument details are provided in Annexure I

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

The pass-through certificates (PTCs) are backed by a pool of home loan receivables originated by Aviom India Housing Finance Pvt Ltd {AIHFPL/Originator; rated [ICRA]BBB+ (Stable)} with an aggregate principal outstanding of Rs. 21.35 crore (pool receivables of Rs. 41.14 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be used for the redemption of Series A1 PTC principal. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 10.50% of the initial pool principal, amounting to Rs. 2.24 crore, to be provided by the Originator, (ii) subordination of 9.50% of the initial pool principal for Series A1 PTC, and (iii) the excess interest spread (EIS) of 70.71% of the initial pool principal for Series A1 PTC.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 908 contracts, with the top 10 borrowers forming less than 3% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of subordination, CC and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts with no overdues in the pool – The pool had amortised by almost 13% as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement. This reflects the relatively better credit profile of the borrowers.

Contracts backed by self-occupied residential properties – The pool is backed by self-occupied residential properties, wherein borrowers tend to prioritise repayments towards such loans even during periods of financial stress.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Madhya Pradesh, Uttar Pradesh and Rajasthan, contributing ~60% to the initial pool principal amount. The pool’s performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Exposed to interest rate risk – The transaction is exposed to interest rate risk since the underlying pool comprises fixed rate loans while the yield on the PTCs is floating and linked to an external benchmark.

Risks associated with lending business – The pool’s 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 pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50%, with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% 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 instrument.

Liquidity position: Superior

The liquidity for Series A1 PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 10 times the estimated loss in the pool.

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 the future PTC payouts from the credit enhancement.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation. Weakening in the credit profile of the servicer (AIHFPL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of AIHFPL’s home loan portfolio till June 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement 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 a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) 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

AIHFPL is a social impact focused affordable housing finance company catering to customers based in semi-urban areas. The company operates in the white space between traditional housing finance and microfinance and provides loans for sanitation, home extension, home improvement, and construction, along with loan against property (LAP), to low-income families from the informal sector with a strong focus on women as the main applicants, who do not have any formal income documentation.

Ms. Ilmi is the Founder, Managing Director and Chief Executive Officer of AIHFPL, holding a stake of 73.75% in the company. In 2016, she decided to start a home loan business focusing on the urban and semi-urban economy. In FY2024, the company reported a profit after tax (PAT) of Rs. 45 crore on a total asset base of Rs. 2,705 crore.

Key financial indicators (audited)

Aviom India Housing Finance Pvt Ltd	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	158.0	241.9	416.8
Profit after tax	12.2	16.1	45.9
Total managed assets	947.5	1,390.7	2,705.7
Gross stage 3	0.3%	0.6%	1.0%
CRAR	31.5%	40.6%	29.5%

Source: Company data, 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 (FY2025)			Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			August 08, 2024	-	-	-
Argentum Trust 004	Series A1 PTC	19.32	Provisional [ICRA]A+ (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	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Argentum Trust 004	Series A1 PTC	July 31, 2024	12.50%^	February 15, 2034	19.32	Provisional [ICRA]A+(SO)

Source: Company

^Linked to 3M SBI MCLR with 3 months reset; rate revision applicable from the date of change in MCLR

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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