

October 28, 2024

## Aavas Financiers Limited: Rating reaffirmed for PTCs issued under home loan securitisation transaction

### Summary of rating action

| Trust Name                | Instrument*  | Initial Rated Amount (Rs. crore) | Amount O/s after Last Surveillance (Rs. crore) | Amount O/s after Sep-24 Payout (Rs. crore) | Rating Action            |
|---------------------------|--------------|----------------------------------|--|--|--------------------------|
| Prime Home Loan Trust III | PTC Series A | 144.57                           | NA   | 113.48                                     | [ICRA]AA(SO); Reaffirmed |

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) are backed by a pool of home loan receivables originated by Aavas Financiers Limited {Aavas/Originator; rated [ICRA]AA (Stable)}.

The rating reaffirmation factors in the healthy pool performance and the build-up of the credit enhancement cover over the future PTC payouts on account of the amortisation of the pool. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the September 2024 payout month.

### Pool performance summary

| Parameter   | Prime Home Loan Trust III |
|---|---------------------------|
| Payout month  | September 2024            |
| Months post securitisation  | 13                        |
| Pool amortisation   | 18.60%                    |
| PTC amortisation  | 18.60%                    |
| Cumulative collection efficiency <sup>1</sup>                                     | 99.66%                    |
| Loss-cum-90+ (% of initial pool principal) <sup>2</sup>                           | 0.32%                     |
| Loss-cum-180+ (% of initial pool principal) <sup>3</sup>                          | 0.18%                     |
| Breakeven collection efficiency <sup>4</sup>                                      | 73.31%                    |
| Cumulative cash collateral (CC) utilisation (% of initial CC)                     | 0.0%                      |
| CC available (as % of balance pool principal)                                     | 6.14%                     |
| Excess interest spread (EIS) over balance tenure (as % of balance pool principal) | 48.39%                    |
| Cumulative prepayment rate <sup>5</sup>   | 11.94%                    |

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdue

<sup>2</sup> POS on contracts aged 90+ dpd + Overdue / Initial POS on the pool

<sup>3</sup> POS on contracts aged 180+ dpd + Overdue / Initial POS on the pool

<sup>4</sup> It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Credit collateral available) / Balance pool cash flows

<sup>5</sup> POS at the time of prepayment of contracts prepaid till date / Initial pool principal

## Transaction structure

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 excess interest spread (EIS) after making the payments to Series A PTCs will flow back to the Originator on a monthly basis. The cash collateral (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.

## Key rating drivers and their description

### Credit strengths

**Healthy pool performance** – The pool’s performance has been healthy with a cumulative collection efficiency of ~99% till the September 2024 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) and 180+ dpd at 0.32% and 0.18%, respectively. The breakeven collection efficiency has also declined to ~73%. Further, there have been no instances of CC utilisation till date owing to the strong collection performance and the presence of EIS in the transaction.

**Build-up in credit enhancement** – The rating factors in the build-up in the credit enhancement with the CC increasing to ~6% of the balance pool from ~5% at the time of securitisation. Internal credit support is also available through the scheduled EIS of ~48%.

**Contracts backed by residential properties** – All the contracts in the pool are backed by residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

### Credit challenges

**High geographical concentration** – The pool has higher geographical concentration with the top 3 states comprising ~73% of the balance pool principal amount.

**Exposed to basis risk and interest risk** – The yield for the PTC is linked to the Reserve Bank of India (RBI) repo rate while the underlying pool has a combination of contracts with fixed and floating interest rates. Hence, it is exposed to both risks.

**Risk 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 pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 2.50% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6% to 20% 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.

## Details of key counterparties

The key counterparties in the rated transaction are as follows:

| Transaction Name                   | Prime Home Loan Trust III  |
|------------------------------------|----------------------------|
| Originator                         | Aavas Financiers Limited   |
| Servicer                           | Aavas Financiers Limited   |
| Trustee                            | Beacon Trusteeship Limited |
| CC holding bank                    | DCB Bank                   |
| Collection and payout account bank | Federal Bank               |

## Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement for the transaction would exceed 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 (>95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement.

**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 credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (Aavas) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the performance of the pool till the September 2024 payout month (August 2024 collection month), the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Rating Methodology for Securitisation Transactions (June 2023)</a> |
| 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 13 states, with a network of 367 branches and assets under management of Rs. 17,313 crore as on March 31, 2024.

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 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. Aavas launched 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.

### Key financial indicators

| Aavas Financiers Limited | FY2022 | FY2023 | FY2024 |
|--------------------------|--------|--------|--------|
| Profit after tax         | 357    | 430    | 491    |
| Total Income             | 1,306  | 1,610  | 2,020  |
| Total managed assets     | 13,420 | 16,182 | 19,933 |
| Gross stage 3            | 1.0%   | 0.9%   | 0.9%   |
| CRAR                     | 51.9%  | 47.0%  | 44.0%  |

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              | Initial Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024                           |                          | Date & Rating in FY2023 | Date & Rating in FY2022 |
|                           |                         |                                  |                                  | Oct 28, 2024            | Oct 16, 2023                                      | Jul 03, 2023             | -                       | -                       |
| Prime Home Loan Trust III | PTC Series A            | 144.57                           | 113.48                           | [ICRA]AA(SO)            | [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* (p.a.p.m.) | Maturity Date | Amount Rated (Rs. crore) | Current Rating |
|----------------------------------|--------------|-----------------------------|-------------------------|---------------|--------------------------|----------------|
| <b>Prime Home Loan Trust III</b> | PTC Series A | August 09, 2023             | 8.00%                   | May 10, 2051  | 113.48                   | [ICRA]AA(SO)   |

\*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:

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