March 19, 2025

IDFC FIRST Bank Limited: Provisional ratings assigned to PTCs backed by two-wheeler loan receivables issued by Bharat 2025 Series I

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Bharat 2025 Series I	Series A1 PTC	531.26	Provisional [ICRA]AAA(SO); assigned
	Series A2 PTC	29.51	Provisional [ICRA]AA+(SO); assigned
	Series A3 PTC	29.51	Provisional [ICRA]A(SO); assigned

**Instrument details are provided in Annexure I*

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

Rationale

The pass-through certificates (PTCs) are backed by a pool of two-wheeler loan receivables originated by IDFC FIRST Bank Limited {IDFC FIRST/Originator; rated [ICRA]AA+ (Stable)} with an aggregate principal outstanding of Rs. 590.29 crore (pool receivables of Rs. 702.67 crore). IDFC FIRST will also be servicer of the rated transaction.

The provisional ratings are 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 ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

The transaction has a three-tranche structure, wherein Series A1, A2 and A3 PTCs will be equivalent to 90%, 5% and 5% of the initial pool principal, respectively. Payouts to Series A3 PTC will be subordinated to Series A2 PTC while payouts to Series A2 PTC will be subordinated to Series A1 PTC.

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout firstly to Series A1, followed by A2 and then A3 PTCs. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) to Series A1 PTC, followed by Series A2 PTC (after Series A1 PTCs are fully paid off) and lastly Series A3 PTC (after Series A2 PTCs are fully paid off). Further, the cash collateral (CC) can be utilised in case of a shortfall in any month for the payment of the promised interest payout to Series A1, A2 and A3 PTCs and for the expected principal payout to Series A1 PTC (up to 90% of the billed principal). The principal is promised on the final maturity date for all three tranches. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal, followed by Series A2 PTC (after Series A1 PTCs are fully paid off) and lastly Series A3 PTC (after Series A2 PTCs are fully paid off).

In case the 90+ days past due (dpd) exceeds 5.00% of the initial pool principal or rating of Originator falls to or below AA-, then the EIS shall be utilised to make principal payments to the Series A1 Investors followed by Series A2 PTC (after Series A1 PTCs are fully paid off) and lastly Series A3 PTC (after Series A2 PTCs are fully paid off). The EIS shall flow back to the Originator if the Originator's rating is upgraded to AA or higher and 90+ dpd reduces and stays below 5.00% of the initial pool principal, for three consecutive calendar months.

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The credit enhancement available in the structure is in the form of (i) a CC of 5.00% of the initial pool principal, amounting to Rs. 29.51 crore, provided by the Originator, (ii) subordination of 10.00% of the initial pool principal for Series A1 PTCs and subordination of 5.00% of the initial pool principal for Series A2 PTCs, and (iii) the EIS of 12.07%, 11.18% and 9.97% of the initial pool principal for Series A1, A2 and A3 PTCs, respectively.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The current pool is granular with 77,237 contracts and the top 10 contracts forming only 0.03% of the total pool principal, thereby reducing the exposure to any single contract. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool had no overdue contracts as on the pool cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive. In addition, the weighted average amortisation of the pool is ~27%.

Servicing capability of IDFC FIRST – IDFC FIRST has adequate processes for servicing the loan accounts in the securitised pool. It has a long track record of regular collections and recoveries across a wide geography and multiple economic cycles.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Uttar Pradesh, West Bengal and Maharashtra, contributing ~39% to the initial pool principal amount. Its performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

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 3.25% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 2.4% to 9% 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 ratings for the instruments.

Liquidity position

Series A1 PTC: 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 ~6.50 times the estimated loss in the pool.

Series A2 PTC: Strong

The liquidity for Series A2 PTC is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4.75 times the estimated loss in the pool.

Series A3 PTC: Adequate

The liquidity for Series A3 PTC is adequate after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~3.00 times the estimated loss in the pool.

Rating sensitivities

Positive factors for Series A1 PTC – Not applicable

Positive factors for Series A2 and A3 PTCs – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

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 credit enhancement 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 analysis of the performance of IDFC FIRST's portfolio till December 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	Comments
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 ratings are provisional and would be converted into final 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

IDFC Bank Limited was set up after IDFC Limited received a banking licence from the Reserve Bank of India (RBI) in 2014. IDFC Limited's infrastructure assets and liabilities were demerged into IDFC Bank Limited. Apart from the Government of India (GoI), the leading shareholders of IDFC Limited included foreign financial institutions involved in global infrastructure development. IDFC Limited was classified as an infrastructure finance company by the RBI in June 2010. It was granted in-principle approval by the RBI in April 2014 for undertaking banking business in India. IDFC Bank Limited started operations on October 1, 2015, after receiving the final licence from the RBI in July 2015.

Capital FIRST Limited, a non-deposit taking, systemically important, non-banking financial company (NBFC-ND-SI) registered with the RBI, was founded in 2012 by Mr. Vaidyanathan through a management buyout of an existing listed NBFC. The company specialised in providing finance to Indian consumers in the form of home loans and other consumption loans and to small businesses for working capital, business expansion, plant and machinery purchase, office automation and other such purposes. Following the receipt of approval from the National Company Law Tribunal (NCLT) for the merger of Capital FIRST Limited and its two subsidiaries with IDFC Bank Limited, which became effective on December 18, 2018, the merged entity was named IDFC FIRST Bank Limited.

Key financial indicators

IDFC FIRST Bank Limited	FY2023	FY2024	9M FY2025
Total income	16,777	22,245	19,359
Profit after tax	2,437	2,957	1,221
Total assets (Rs. lakh crore)	2.4	3.0	3.4
Gross NPAs	2.5%	1.9%	1.9%
CRAR	16.8%	16.1%	16.1%*

*Source: IDFC FIRST Bank Limited, ICRA Research; *includes profits for the interim period*
Total income = Net interest income + Non-interest income; Amount in Rs. crore unless mentioned otherwise

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
				March 19, 2025	-	-	-
Bharat 2025 Series I	Series A1 PTC	531.26	531.26	**Provisional [ICRA]AAA(SO)**	-	-	-
	Series A2 PTC	29.51	29.51	**Provisional [ICRA]AA+(SO)**	-	-	-
	Series A3 PTC	29.51	29.51	**Provisional [ICRA]A(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Series A1 PTC	Moderately complex
Series A2 PTC	Moderately complex
Series A3 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/ sanction	Coupon rate (p.a.p.m.)	Maturity date	Current rated amount (Rs. crore)	Current rating
Bharat 2025 Series I	Series A1 PTC	March 25, 2025	8.20%	March 15, 2029	531.26	Provisional [ICRA]AAA(SO)
	Series A2 PTC		8.75%		29.51	Provisional [ICRA]AA+(SO)
	Series A3 PTC		9.25%		29.51	Provisional [ICRA]A(SO)

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.

For more information, visit www.icra.in

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