

October 28, 2025

Aavas Financiers Limited: Rating upgraded 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)	Current rated amount (Rs. crore)	Rating action
Prime Home Loan Trust III	PTC Series A	144.57	113.48	93.11	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by home loan receivables originated by Aavas Financiers Limited {Aavas/Originator; rated [ICRA]AA (Stable)}. Aavas would be acting as the servicer for the transaction.

The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the amortisation and healthy pool performance. 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 2025 payout month.

Pool performance summary

Parameter	Prime Home Loan Trust III
Payout month	September 2025
Months post securitisation	25
Pool amortisation (as % of initial pool principal)	33.21%
3 months' average monthly collection efficiency ¹	99.44%
Cumulative collection efficiency ²	99.70%
Loss-cum-90+ dpd ³ (% of initial pool)	0.36%
Loss-cum-180+ dpd ⁴ (% of initial pool)	0.21%
Cumulative credit collateral utilisation	0.00%
Breakeven collection efficiency ⁵ for PTC Series A	68.76%
Cash collateral (CC; % of balance pool)	7.49%
Excess interest spread (EIS; % of balance pool) for PTC Series A ⁶	56.15%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (100% of the pool principal billed). 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 PTC Series A principal.

¹ Average of (Total current and overdue collections for the month as a % of Total billing for the month) for 3 months

² (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

³ Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

⁴ Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 180 days, as a % of Initial pool principal

⁵ (Balance cash flows payable to investor – CC available)/Balance pool cash flows

⁶ (Pool cash flows – Cash flows to PTC A)/Pool principal outstanding

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 2025 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) and 180+ dpd at 0.36% and 0.21%, respectively. The breakeven collection efficiency also declined to ~69%. Further, there have been no instances of cash collateral 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 cover with the cash collateral increasing to 7.49% of the balance pool from 5.00% at the time of securitisation. Internal credit support is also available through the scheduled EIS of ~56%.

Majority of 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

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

Risk associated with lending business – The pool’s performance would remain exposed to macroeconomic 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 1.25% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 8.0% to 24.0% 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:

Particulars	Prime Home Loan Trust III
Originator	Aavas Financiers Limited
Servicer	Aavas Financiers Limited
Trustee	Beacon Trusteeship Ltd
CC holding bank	DCB Bank
Collection and payout account bank	Federal Bank

Liquidity position: Superior

The liquidity for the PTC instrument is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement is 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 (>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 August 2025 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

Analytical approach	Comments
Applicable rating methodologies	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 13 states, with a network of 373 branches and assets under management of Rs. 19,238 crore as of December 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 commenced 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. The company’s shareholders, as on March 31, 2025, were: CVC Capital (22.5%), Kedaara Capital (16.0%), Partners Group (10.9%), foreign institutional investors (FIIs; 30.4%), domestic institutional investors (DIIs; 9.6%), the management team (1.7%) and others (8.9%).

In August 2024, the promoter group, i.e. Kedaara Capital and Partners Group, entered into share sale agreements (SSAs) to sell their entire stake to Aquilo House Pte. Ltd., which belongs to CVC Capital Partners Group (acquirer). Subsequently, through a public announcement dated August 10, 2024, the acquirer made an open offer for the acquisition of an additional stake of up to 26.00% from the public shareholders of Aavas. The aforesaid transaction would be subject to various regulatory and lender approvals. After the consummation of the SSAs and completion of the open offer, Aquilo House Pte. Ltd. shall acquire control and will be categorised as the new promoter of Aavas.

Key financial indicators

Aavas Financiers Limited	FY2024	FY2025	Q1 FY2026*
Profit after tax	491	574	139
Total income	2,020	2,358	628
Total managed assets	19,993	22,926	23,613
Gross stage 3	0.9%	1.1%	1.2%
CRAR	44.0%	44.5%	43.2%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust name	Current rating (FY2026)			Chronology of rating history for the past 3 years				
		Instrument	Initial amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023
					Oct 28, 2025	Oct 28, 2024	Oct 16, 2023	July 03, 2023	-
1	Prime Home Loan Trust III	PTC Series A	144.57	93.11	[ICRA]AA+(SO)	[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
Prime Home Loan Trust III	PTC Series A	August 09, 2023	7.00%	May 10, 2051	93.11	[ICRA]AA+(SO)

*Linked to RBI repo rate

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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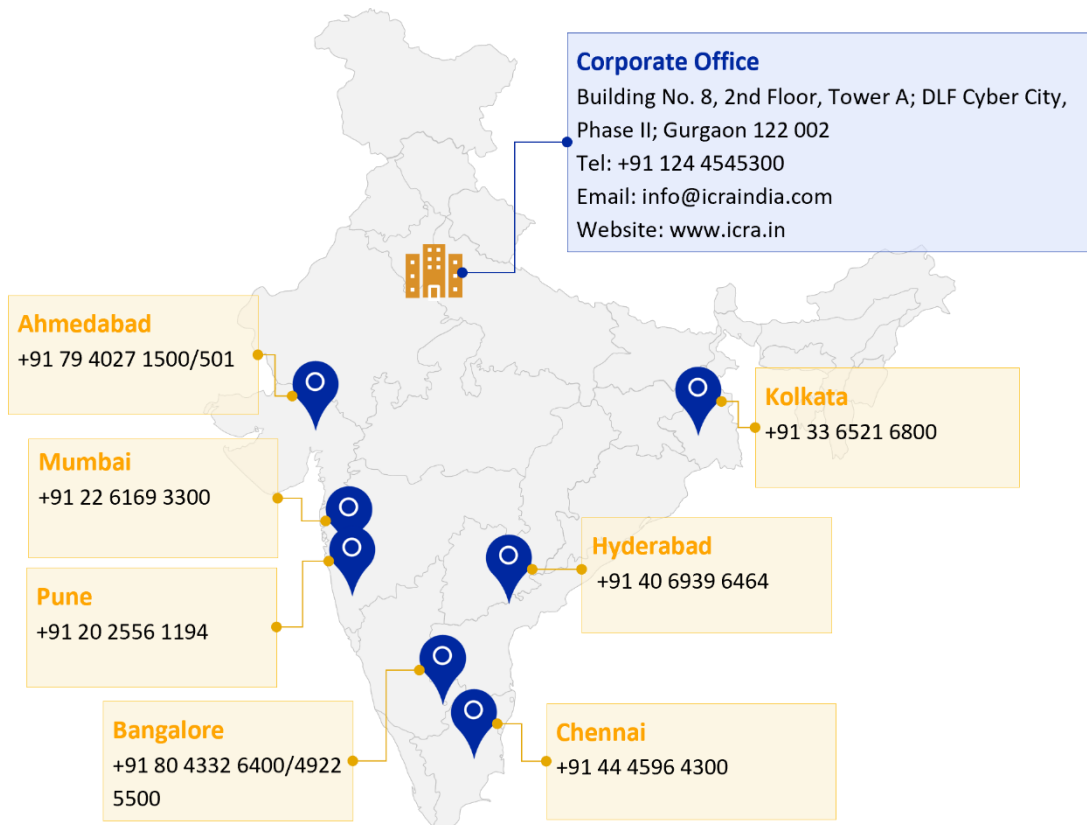
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