Aavas Financiers Limited

March 20, 2019

Summary of rated instruments

Sr.No.	Issue Name	Instrument*	Initial Amount (Rs. Crore)	Amount after previous rating exercise (Rs. Crore)	Amount after Feb-19 payout (Rs. crore)	Rating action
1.	Prime Home Loan Trust I	PTC Series A	79.62	63.89	50.20	Rating upgraded to [ICRA]AAA(SO) from [ICRA]AA(SO)
2.	Prime Home Loan Trust II	PTC Series A	107.67	99.92	78.75	Rating upgraded to [ICRA]AA+(SO) from [ICRA]AA(SO)

**Instrument details are provided in Annexure I*

Rating action

ICRA has upgraded the ratings on PTCs under two mortgage loan securitisation transactions originated by Aavas Financiers Limited (Aavas), as tabulated above.

Rationale

Both the pools comprise of receivables from Home Loan (HL) contracts. The receivables for both the transactions have been transferred "at par" to a Special Purpose Vehicle (SPV) and the Trust had issued a single series of PTCs, backed by the same. In 'Prime Home Loan Trust I' the PTC yield is fixed while in 'Prime Home Loan Trust II', the PTC yield is linked to an external benchmark (investor's MCLR). Given that the Pool yield and the PTC yield are linked to different benchmarks, basis risk exists in latter transaction.

The rating upgrade in both the pools is driven by robust collection performance with cumulative collection efficiency standing above 99% after February 2019 payouts. Consequently, the 90+dpd and 180+dpd have remained low at sub 1% levels. Owing to strong collection performance, there has been no instance of CC utilisation in any of the pools.

Pool Performance Summary

A summary of the performance of the pools till February 2019 payouts has been tabulated below.

Parameter	Prime Home Loan Trust I	Prime Home Loan Trust II
Months post securitisation	23	16
Pool Amortisation	36.95%	26.86%
3 months Average Monthly Collection Efficiency[1]	98.44%	98.72%
Cumulative Collection Efficiency[2]	99.06%	99.55%
Loss cum 90+ dpd[3] (% of initial Pool)	0.99%	0.18%
Loss cum 180+ dpd[4] (% of initial Pool)	0.63%	0.10%
90+ dpd[5] (% of Balance Pool)	1.53%	0.25%
180+ dpd[6] (% of Balance Pool)	0.97%	0.14%
Cumulative Cash Collateral Utilization	0.00%	0.00%
Breakeven Collection Efficiency[7] for PTC A	68.38%	72.55%
Credit Collateral (% of Balance Pool)	14.27%	10.94%
Excess Interest Spread (% of Balance Pool) for PTC A[8]	54.90%	47.21%

Key rating drivers

Credit Strengths

- Robust collection performance seen in both the pools as after January 2019 (collection month);
- No cash collateral utilization in any of the pools till date owing to strong collection performance and availability of EIS in both transactions;
- Adequate Cash Collateral (CC) cover available for the balance PTC payouts in both the transactions;
- Low level of delinquencies seen in the pools till February 2019 payouts;

[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] *Inclusive of Unbilled Principal portion of contracts delinquent(Future POS) for more than 90 days, as a % of Balance Principal*

[6] *Inclusive of Unbilled Principal portion of contracts delinquent(Future POS) for more than 180 days, as a % of Balance Principal*

[7] *(Balance Cashflows payable to investor– Cash collateral available)/ Balance Pool Cashflows*

[8] *(Pool Cashflows – Cashflows to PTC A)/ Pool Principal outstanding*

Credit Weakness

- High geographical concentration for both pools with share of top 3 states (% of current pool) remaining above 80%

Description of key rating drivers highlighted above:

The performance of the pools has been strong with cumulative collection efficiency of around 99% as of January 2019 collection month. Consequently, the 90+ dpd and 180+dpd have remained below 1% level. Any shortfall in the collections has been absorbed by the EIS in the structure and there has not been CC utilisation in any of the transactions till date. The pools have amortised in the range of 27% -37% after February 2019 payouts which has led to an adequate built up of CC (as % of balance PTC payouts) in the transactions.

Overall, the credit enhancement available for meeting balance payouts to the PTC investors is sufficient to upgrade the ratings from the current rating level in all the transactions. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA’s expectations.

Key rating assumptions

ICRA’s cash flow modeling for surveillance of MBS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator’s portfolio and rated pools, and also the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 2.5% - 3.5% of the initial pool principal for both Prime Home Loan Trust I and Prime Home Loan Trust II transactions, with certain variability around it. The prepayment rate for the underlying pools is estimated to be in the range of 12.0% - 18.0% per annum.

Liquidity Position

There is credit collateral available in the transactions ranging between 10%-15% of the balance pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 128 months of PTC payouts in full for ‘Prime Home Loan Trust I’ transaction while 36 months for ‘Prime Home Loan Trust II’ transaction.

Analytical approach

The rating actions are based on the performance of the pools till January 2019 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Securitisation Transactions]()
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the Company:

Aavas Financiers Limited (erstwhile Au Housing Finance Limited) was incorporated as a subsidiary of Au Financiers (India) Limited (now Au Small Finance Bank (AuSFB)) in February 2011 for providing housing finance in rural and semi-urban areas. The company formally started its operations in March 2012 and is headquartered in Jaipur, Rajasthan. AuSFB sold its stake in Aavas to private equity investors – Kedaara Capital and Partners Group –in June 2016 to fulfill the Reserve Bank of India's criteria for conversion to a small finance bank. The company raised Rs. 360 crore through an Initial Public offering in October 2018. The company's current shareholding stands as: Kedaara Capital (34%), Partners Group (24%), AU Small Finance Bank (7%), Directors and employees (8%), Domestic Institutional investors (12%), Foreign Institutional investors (12%) and Others (2%) as on Dec-18. Aavas primarily provides home loans to customers in the semi-urban and rural areas. The company is focussed on the low cost and affordable housing segment, targeting self-employed and salaried customers in the informal segment, who otherwise have limited access to formal lending channels in the absence of proper income documents and/or limited credit history. The company currently operates in ten states (Rajasthan, Maharashtra, Madhya Pradesh, Gujarat, Chhattisgarh, Haryana, Delhi, Uttar Pradesh, Uttarakhand and Punjab) and had assets under management of Rs. 5,283 crore, as on December 31, 2018.

The company has reported a PAT of Rs. 121.62 crore on a net interest income base of Rs. 304.11 crore in 9M FY2019 compared to a PAT of Rs. 73.13 crore on a net interest income base of Rs. 194.87 crore in 9M FY2018. Aavas' gross and net NPAs stood at 0.58% and 0.49% respectively, as on December 31, 2018.

The long-term bank lines and various NCD programmes of Aavas are rated at [ICRA]A+ (Positive) rating while the Commercial Paper programme of Aavas is rated [ICRA]A1+.

Key Financial Indicators (Audited)

Amounts in Rs. Crore	FY 2016	FY 2017	FY2018
PAT	32	58	93
Net Worth	203	566	1098
Assets under management	1,680	2,694	4,073
Total Assets	1,713	2,451	3,817
Total Managed Assets	1,939	3,011	4,713
Return on Average Assets	2.49%	2.78%	2.97%
Return on Average Equity	21.05%	15.04%	11.16%
Gearing (times)	7.3	3.2	2.4
CRAR	27.52%	46.72%	61.55%
Gross NPA %	0.55%	0.79%	0.34%
Net NPAs%	0.42%	0.60%	0.26%
Net NPA/Net worth %	3.04%	2.30%	0.75%

Source: Aavas Financiers Limited, ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

S.No	Name of Instrument	Current Rating (FY 2019) Type	Rated amount (Rs. Crore)	Amount Outstanding (Rs. crore)	Month-year & Rating March 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 April 2018	Date & Rating in FY2018 July 2017$	Date & Rating in FY2018 April 2017*	Date & Rating in FY2017 FY2017
1	Prime Home Loan Trust I	PTC Series A	79.62	50.20	[ICRA]AAA (SO)	[ICRA]AA (SO)	[ICRA]AA (SO)	Provisional [ICRA]AA (SO)	-

**Initial ratings assigned*

$Rating converted from provisional to final

S.No	Name of Instrument	Current Rating (FY 2019) Type	Rated amount (Rs. Crore)	Amount Outstanding (Rs. crore)	Month-year & Rating March 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 April 2018	Date & Rating in FY2018 January 2018$	Date & Rating in FY2018 October 2017*	Date & Rating in FY2017 FY2017
2	Prime Home Loan Trust II	PTC Series A	107.67	78.75	[ICRA]AA+ (SO)	[ICRA]AA (SO)	[ICRA]AA (SO)	Provisional [ICRA]AA (SO)	-

**Initial ratings assigned*

$Rating converted from provisional to final

Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure I

Details of Instruments

Sl.	Trust Name	Instrument name	Date of Issuance	Coupon Rate	Scheduled Maturity Date#	Amount after Feb-19 payout (Rs. crore)[9]	Current Rating
1	Prime Home Loan Trust I	PTC Series A	March 2017	7.50%	September 2040	50.20	[ICRA]AAA(SO)
2	Prime Home Loan Trust II	PTC Series A	September 2017	7.90%*	March 2037	78.75	[ICRA]AA+(SO)

 # the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

**linked to investor's MCLR*

[9] *100 lakh = 1 crore = 10 million*

ANALYST CONTACTS

Vibhor Mittal
+91 22-6114 3440
vibhorm@icraindia.com

Rahul Panigrahi
+91 22-6114 3436
rahul.panigrahi@icraindia.com

Abhijeet Ajinkya
(+91) 22-6114 3434
abhijeet.ajinkya@icraindia.com

Apurva Sharma
+91 22-6114 3452
apurva.sharma@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
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.

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999