

December 30, 2022

## Navi Finserv Limited: Provisional [ICRA]AA(SO) assigned to PTCs backed by personal loan receivables issued by Nimbus 2022 PL Dora

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Nimbus 2022 PL Dora	Series A PTC	50.00	Provisional [ICRA]AA(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
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### Rationale

ICRA has assigned a provisional rating to Series A PTC issued under a securitisation transaction originated by Navi Finserv Limited (NFL/originator). The pass-through certificates (PTCs) are backed by a pool of Rs. 55.56 crore (pool principal; receivables of Rs. 68.88 crore) of personal loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 10.00% of the initial pool principal to be provided by the originator, (ii) over-collateralisation of 10.01% of the initial pool principal for Series A PTC, and (iii) the entire excess interest spread (EIS) of 16.10% of the initial pool principal in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- No overdues in the pool as on the cut-off date
- Average seasoning of the pool at ~6 months and pre-assignment amortisation at ~16% as on cut-off date
- All the contracts in the pool have a CIBIL score of at least 700 and ~64% of the pool has contracts with a CIBIL score of 750 and above

#### Credit challenges

- Share of contracts with IRR) greater than 20%, at ~58% is higher
- Limited track record of operations of the servicer with major book building over the past one year
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; pool's performance would remain exposed to macro-economic shocks/business disruptions

### Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A PTC at the predetermined interest rate on the principal outstanding. The entire principal is promised on the final maturity date. During the tenure of Series A PTC, the collections from the pool, after making the promised interest payouts to Series A PTC, will be used to make the expected principal payouts to Series A PTC (100% of principal billed). However, this principal payout is not promised and any shortfall in making the expected principal payment to Series A PTC would be carried forward to the

subsequent payout. The surplus EIS available after meeting the promised and expected payouts to the PTCs will be used to accelerate the principal repayments to the PTC holders.

The first line of support for Series A PTC in the transaction is in the form of over-collateralisation of 10.01% of the initial pool principal. Additionally, the EIS of 16.10% of the initial pool principal available in the structure provides CE support. A CC of 10.00% of the initial pool principal provided by NFL acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The pool has average seasoning of 5.8 months and pre-assignment amortisation of 15.9% as on the cut-off date. All the contracts in the initial pool had a CIBIL score of at least 700 while 62.4% has a CIBIL score of 750 and above. The top 3 states, i.e. Maharashtra, Karnataka and Telangana, comprise 37.2% of the initial pool principal. NFL's personal loan portfolio has a limited track record of operations with major book building happening over the past one year. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class. Also, its performance would remain exposed to any macro-economic shocks/business disruptions.

**Past rated pools:** ICRA has rated one personal loan pool of NFL under a PTC rating exercise in October 2022, which has completed one payout, post securitisation. It has reported a collection efficiency of ~99%, delinquency of less than 1% in the 0+ days past due (dpd) bucket and nil CC utilisation post the December 2022 payout month.

### Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) 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 mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of NFL's loan portfolio. Given NFL's short track record in the personal loan business, ICRA has also considered the credit quality experience of other more established players and its expectation of the credit quality of personal loans. The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor(s) as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after taking into account the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 5.0-6.0%, with certain variability around it. The average annual prepayment rate in the pool is estimated at 8.0% p.a.

### Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the Series A PTC holder(s) on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be comfortable to meet the promised payouts to the Series A PTC investor(s).

### Rating sensitivities

**Positive Factors** – The rating could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the CE cover for the remaining payouts.

**Negative Factors** - Pressure on the rating could emerge on the sustained weak collection performance (monthly collection efficiency <90%) of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

## Analytical approach

The rating action is based on the analysis of the performance of NFL's portfolio till September 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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](http://www.icra.in).

## About the company

Navi Finserv Limited (NFL/formerly known as Navi Finserv Private Limited) was incorporated on February 14, 2012 as a private limited company. In April 2022, it was converted into a public limited company. NFL, a wholly-owned subsidiary of the Navi Group (main holding company is Navi Technologies Limited), holds a 100% stake in Chaitanya India Fin Credit Private Limited, which has been in operations since 2009. On a standalone basis, NFL had a gross portfolio of Rs. 5,941 crore as on September 30, 2022 (Rs. 4,437 crore as on June 30, 2022).

## Key financial indicators

Particulars	FY2021	FY2022	H1 FY2023*
Total income	337	460	607
Profit after tax	98	(67)	58
Assets under management	3,418	4,298	5,941
Gross non-performing assets (NPA)	-	4.43%	0.71%
Net NPA	0.79%	0.20%	0.10%

Source: Company data, ICRA Research; Amount in Rs. crore; \*Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 30, 2022			
1	Nimbus 2022 PL Dora	Series A PTC	50.00	50.00	Provisional [ICRA]AA(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A 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 II: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Nimbus 2022 PL Dora</b>	Series A PTC	December 2022	9.80%	July 2025	50.00	Provisional [ICRA]AA(SO)

\* Scheduled maturity date at transaction initiation; may change on account of prepayments

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](http://www.icra.in)

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