

January 25, 2023

## Navi Finserv Limited: Rating confirmed as final for PTCs issued under a personal loan securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Nimbus 2022 PL Heaton	Series A PTC	75.00	[ICRA]AA(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

In November 2022, ICRA had assigned a Provisional [ICRA]AA(SO) rating to Series A pass through certificates (PTCs) issued by Nimbus 2022 PL Heaton. The pass-through certificates (PTCs) are backed by a pool of Rs. 84.11-crore (pool principal; receivables of Rs. 102.01 crore) of personal loan receivables originated by Navi Finserv Limited (NFL). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the December 2022 payout is shown in the table below.

Parameter	Nimbus 2022 PL Heaton
Months post securitisation	1
Pool amortisation	9.95%
Amortisation of Series A PTC	11.53%
Cumulative collection efficiency (including advance collections)	98.84%
Cumulative prepayment rate	5.78%
Loss-cum-0+ days past due (dpd)	0.00%
Loss-cum-30+ dpd	0.00%
Loss-cum-90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

### 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 of ~17% as on the cut-off date
- 99% of the initial pool has contracts with a CIBIL score of at least 700 and ~74% has contracts with a CIBIL score of 750 and above

#### Credit challenges

- Limited track record of operations of the servicer with major book building happening over the past one year
- Exposed to inherent credit risk associated with unsecured nature of the asset class; performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

## 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 10.83% of the initial pool principal. Additionally, the EIS of 13.27% 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 6.1 months and pre-assignment amortisation of 17.0% as on the cut-off date. While 99.0% of the initial pool has contracts with a CIBIL score of at least 700, 73.7% has contracts with a CIBIL score of 750 and above. The top 3 states, i.e., Maharashtra, Karnataka and Telangana, comprise 40.7% 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 macro-economic shocks/business disruptions, if any.

**Past rated pools:** This is the first PTC transaction backed by personal loan receivables originated by NFL rated by ICRA. Other than this transaction, ICRA has rated one PTC transactions in December 2020 which is yet to complete first payout.

## 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 the short track record of NFL in the personal loan business, ICRA has also taken into account the credit quality experience of other more established players and ICRA's 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 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, overdue, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 4.5-5.5%, with certain variability around it. The annual prepayment rate in the pool is estimated to be 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

## 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
					January 25, 2023	November 03, 2022			
1	Nimbus 2022 PL Heaton	Series A PTC	75.00	75.00	[ICRA]AA(SO)	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 Heaton</b>	Series A PTC	October 2022	9.75%	April 2028	75.00	[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

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Samriddhi Chowdhary**

+91 22 6114 3400

[samriddhi.chowdhary@icraindia.com](mailto:samriddhi.chowdhary@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Himanshi Doshi**

+91 22 6114 3410

[himanshi.doshi@icraindia.com](mailto:himanshi.doshi@icraindia.com)

**Diptajyoti Banik**

+91 22 6114 3412

[diptajyoti.banik@icraindia.com](mailto:diptajyoti.banik@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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