

August 30, 2023

Nido Home Finance Limited: Rating reaffirmed for PTCs issued under five mortgage loan securitisation transactions

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 |
|-------------|----------------|----------------------------------|--|----------------------------------|---------------------------|
| HL Trust 12 | Series A1 ABS | 65.05 | 54.16 | 39.87 | [ICRA]AAA(SO); reaffirmed |
| HL Trust 14 | Series A1 ABS | 44.77 | 36.79 | 30.37 | [ICRA]AAA(SO); reaffirmed |
| HL Trust 15 | Series A1 ABS | 56.19 | NA | 33.07 | [ICRA]AAA(SO); reaffirmed |
| HL Trust 18 | Series A1 ABS | 31.09 | NA | 20.79 | [ICRA]AAA(SO); reaffirmed |
| ML Trust 5 | Series A Notes | 243.56 | NA | 157.93 | [ICRA]AAA(SO); reaffirmed |

*Instrument details are provided in Annexure I

Rationale

The securities with respect to ML Trust 5 are backed by housing loan (HL) and loan against property (LAP) receivables, while the asset-backed securities (ABS) for the four other trusts (HL Trusts) are backed only by HL receivables. The underlying loan receivables are originated by Nido Home Finance Limited {Nido; rated [ICRA]A+ (Stable)}. The receivables have been assigned to the trusts at par. The rating reaffirmation is on account of the average amortisation of the pools, which has led to the build-up of the credit enhancement cover available in the structure. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools.

A summary of the performance of the pools till the June 2023 collection month (July 2023 payout) has been tabulated below.

Pool performance summary (till July 2023 payout month)

| Particulars | HL Trust 12 | HL Trust 14 | HL Trust 15 | HL Trust 18 | ML Trust 5 |
|--|-------------|-------------|-------------|-------------|------------|
| Months post securitisation | 16 | 16 | 15 | 13 | 15 |
| Pool amortisation | 34.61% | 29.29% | 37.80% | 29.81% | 34.68% |
| Series A1 ABS amortisation | 38.71% | 32.16% | 41.14% | 33.13% | 35.16% |
| Cumulative collection efficiency ¹ | 96.32% | 99.58% | 96.55% | 97.38% | 98.89% |
| Breakeven collection efficiency ² | 51.53% | 54.64% | 52.46% | 54.45% | 66.56% |
| Cumulative prepayment rate | 33.05% | 25.73% | 34.54% | 28.31% | 32.74% |
| Loss-cum-90+ dpd ³ (% of initial pool) | 5.11% | 0.00% | 1.98% | 1.19% | 0.73% |
| Loss-cum-180+ dpd ⁴ (% of initial pool) | 4.80% | 0.00% | 1.08% | 0.56% | 0.56% |
| Cumulative cash collateral (CC) utilisation | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| CC (% of balance pool) | 13.00% | 14.14% | 16.88% | 12.11% | 19.14% |
| Principal subordination (% of balance pool) | 15.64% | 11.73% | 12.95% | 14.25% | 0.00% |

¹ (Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)

² (Balance Cash flows payable to investor – CC available)/Balance Pool Cash flows

³ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 90 days, as a % of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of Delinquent contracts overdue by more than 180 days, as a % of Initial Pool Principal

| Particulars | HL Trust 12 | HL Trust 14 | HL Trust 15 | HL Trust 18 | ML Trust 5 |
|---|-------------|-------------|-------------|-------------|------------|
| Excess interest spread (EIS) ⁵ (% of balance pool) | 125.95% | 94.75% | 99.89% | 107.48% | 61.25% |

Reset of credit enhancement

At Nido's request for resetting the credit enhancement for three of the transactions backed by HL receivables, viz. HL Trust 14, HL Trust 15 and HL Trust 18, ICRA has analysed these transactions basis the CC mentioned as per the table provided below. Based on the pools' performance, the rating for these transactions will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

| Particulars | HL Trust 14 | HL Trust 15 | HL Trust 18 |
|--|-------------|-------------|-------------|
| Current CC outstanding [A] | 4.87 | 6.41 | 2.94 |
| CC Required as per ICRA for maintaining the present rating [B] | 3.41 | 4.49 | 2.06 |
| CC that can be released [C] = 60%*(A - B) | 0.88 | 1.15 | 0.53 |
| Revised CC Limit [D] = (A - C) | 3.99 | 5.26 | 2.41 |

Amount in Rs. crore

Credit strengths

- Build-up of credit enhancement cover available for the balance securities payouts available in the structure with gradual amortisation of the pools
- High collection efficiency, resulting in low delinquency levels in harder buckets of all the pools except HL Trust 12

Credit challenges

- Exposure to interest rate risk and basis risk as the pools have contracts with floating rate and fixed rate loans, while the yield on securities is fixed, except for ML Trust 5 for which the yield on securities is floating
- Moderate share of self-employed borrowers in the pools
- Performance of the pools would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The performance of the pools has been healthy with a cumulative collection efficiency of more than 96% till the June 2023 collection month. The loss-cum-90+ days past due (dpd) has remained sub-2.5% in the last 12 months except for HL Trust 12. Delinquencies have remained relatively high for HL Trust 12 on account of the slippage of one large account into the delinquency bucket. However, ICRA takes comfort from the collateral available for the account. Furthermore, there has been no instance of CC utilisation in any of the pools.

The pools have fixed and floating rate contracts, while the yield on the securities is fixed (except for ML Trust 5 for which the yield on the PTC is floating), thereby creating interest risk and basis risk in the structure. Any downward movement in the benchmark yield will reduce the excess interest spread (EIS) available in the transactions. A major portion of the balance pools constitutes self-employed borrowers, which is a segment with a relatively weaker performance. Also, the performance of the pools would remain exposed to macro-economic shocks/business disruptions.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level in the transactions. ICRA will continue to monitor the performance of the pools. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Past rated pools' performance: ICRA has outstanding ratings on 10 securitisation transactions backed by mortgage loan receivables. The pools have reported adequate collection efficiency with nil CC utilisation till the July 2023 payouts.

⁵ (Pool Cash flows – Cash flows to PTC investors – Originator's residual share)/Pool Principal outstanding

Key rating assumptions

ICRA's cash flow modelling for mortgage-backed securitisation (MBS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and the coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected loss and prepayments during the balance tenure of the pool is given in the following table.

| Transaction Name | Expected Loss (% of initial pool principal) | Prepayment |
|------------------|--|------------|
| HL Trust 12 | 5.25-6.25% | 6-20% p.a. |
| HL Trust 14 | 3.25-4.25% | 6-20% p.a. |
| HL Trust 15 | 3.75-4.75% | 6-20% p.a. |
| HL Trust 18 | 4.50-5.50% | 6-20% p.a. |
| ML Trust 5 | 2.75-3.75% | 6-20% p.a. |

Liquidity position: Superior

HL Trusts, except ML Trust 5:

The cash collections and the credit collateral available in the transactions are expected to be highly comfortable to meet the investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool of contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the investor payouts for 4-10 years.

ML Trust 5:

As per the transaction structure, only the interest amount is promised to the Series A Notes investor 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 credit enhancement are expected to be comfortable to meet the promised payouts to the Series A Notes investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the performance of the pools till June 2023 (collection month), the present delinquency profile of the pools, the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Rating Methodology for Securitisation Transactions |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Not Applicable |

About the originator

Nido Home Finance Limited (Nido) is a housing finance company registered with National Housing Bank. It was incorporated in FY2011 following the Group's strategy of creating a footprint in the affordable housing space. As a part of the Group's positioning exercise, the company was rechristened Nido Home Finance Limited (Formerly Edelweiss Housing Finance Limited) in May 2023. In recent years, the company has realigned its strategy to focus on low ticket-sized home loans.

Nido reported a net profit of Rs. 16.1 crore on total income of Rs. 444.7 crore in FY2023 compared to Rs. 13.8 crore and Rs. 513.9 crore, respectively, in FY2022. As of March 31, 2023, its capitalisation profile was characterised by a net worth of Rs. 794.5 crore, a gearing of 2.33 times and a capital adequacy ratio of 32.1%.

Edelweiss Financial Services Limited (parent)

Edelweiss Financial Services Limited (Edelweiss), the holding company of the Edelweiss Group of companies, was incorporated in 1995 to offer investment banking services primarily to technology companies. At present, the Group is engaged in wholesale and retail lending, home finance, distressed assets resolution, general insurance, life insurance, alternatives and asset management. On a standalone basis, Edelweiss posted a total income of Rs. 3,089 crore and a PAT of Rs. 2,388 crore in FY2023 compared to total income of Rs. 1,373 crore and PAT of Rs. 933 crore in FY2022. While on a consolidated basis, Edelweiss posted a total income of Rs. 8,633 crore and a PAT of Rs. 344 crore in FY2023 compared to total income of Rs. 7,305 crore and PAT of Rs. 189 crore in FY2022. With fair valuations of stake held in Nuvama in FY2023, the Group had a consolidated net worth of Rs. 7,846 crore as of March 31, 2023. However, with allotment of 30% stake held in Nuvama to shareholders of Edelweiss, the consolidated net worth is expected to decline by ~Rs. 2,352 crore.

Key financial indicators (audited)

| Edelweiss Financial Services Limited (consolidated) | FY2021 | FY2022 | FY2023 |
|---|--------|--------|--------|
| Net interest income | 200 | 61 | 371 |
| Total income | 10,849 | 7,305 | 8,633 |
| Profit after tax (Edelweiss' share) | 265 | 189 | 344 |
| Profit after tax - Including MI | 254 | 212 | 406 |
| Net worth | 7,677 | 7,592 | 7,846 |
| Loan assets | 22,455 | 20,098 | 17,354 |
| Total assets | 46,350 | 43,280 | 44,064 |
| Return on assets (%) | 0.50% | 0.47% | 0.93% |
| Return on equity (%) | 3.41% | 2.78% | 5.25% |
| Gross NPA ¹ (%) | 8.53% | 8.46% | 12.45% |
| NNPA/Gross loan book ¹ (%) | 4.52% | 1.92% | 2.73% |
| Net NPA (%) | 4.96% | 2.15% | 3.15% |
| Net NPA/Net worth (%) | 8.17% | 2.65% | 2.64% |
| Gross gearing (times) | 3.70 | 2.99 | 2.77 |
| CRAR (%) | 21.0% | 30.0% | 33.9% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; ¹ Excluding credit substitutes

| Edelweiss Financial Services Limited (consolidated-ex insurance; ICRA's estimates) | FY2021 | FY2022 | FY2023 |
|--|--------|--------|--------|
| PAT (post MI) | 462 | 405 | 610 |
| Net worth (ex-MI) | 5,922 | 5,783 | 5,892 |
| Borrowing ¹ | 26,681 | 21,315 | 19,185 |
| Gearing (times) | 4.80 | 3.93 | 3.69 |
| Return on equity (ex-MI) | 7.8% | 7.0% | 10.4% |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

¹ Excluding borrowings through triparty repo and compulsorily convertible debentures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|-------------|------------------|----------------------------------|--------------------------------|---|-------------------------|---------------|------------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Aug 30, 2023 | Nov 25, 2022 | Jul 21, 2022 | Mar 28, 2022 | - |
| 1 | HL Trust 12 | Series A1 ABS | 65.05 | 39.87 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - |

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|-------------|------------------|----------------------------------|--------------------------------|---|-------------------------|---------------|------------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Aug 30, 2023 | Nov 25, 2022 | Jul 21, 2022 | Apr 05, 2022 | - |
| 2 | HL Trust 14 | Series A1 ABS | 44.77 | 30.37 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - |

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|-------------|------------------|----------------------------------|--------------------------------|---|-------------------------|------------------------------|-------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Aug 30, 2023 | Aug 05, 2022 | Apr 22, 2022 | - | - |
| 3 | HL Trust 15 | Series A1 ABS | 56.19 | 33.07 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - | - |

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|-------------|------------------|----------------------------------|--------------------------------|---|-------------------------|------------------------------|-------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Aug 30, 2023 | Nov 10, 2022 | Aug 22, 2022 | - | - |
| 4 | HL Trust 18 | Series A1 ABS | 31.09 | 20.79 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - | - |

| Sr. No. | Trust Name | Instrument | Current Rating (FY2024) | | Chronology of Rating History for the Past 3 Years | | | | |
|---------|------------|-------------------|----------------------------------|--------------------------------|---|-------------------------|------------------------------|-------------------------|-------------------------|
| | | | Initial Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | Aug 30, 2023 | Aug 12, 2022 | May 17, 2022 | - | - |
| 5 | ML Trust 5 | Series A Notes | 243.56 | 157.93 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - | - |

Complexity level of the rated instrument

| Trust Name | Instrument | Complexity Indicator |
|-------------|----------------|----------------------|
| HL Trust 12 | Series A1 ABS | Moderately Complex |
| HL Trust 14 | Series A1 ABS | Moderately Complex |
| HL Trust 15 | Series A1 ABS | Moderately Complex |
| HL Trust 18 | Series A1 ABS | Moderately Complex |
| ML Trust 5 | Series A Notes | 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 | Maturity Date* | Amount Rated (Rs. crore) | Current Rating |
|-------------|----------------|-----------------------------|---------------------------------|----------------|--------------------------|----------------|
| HL Trust 12 | Series A1 ABS | March 2022 | 7.75% | October 2063 | 39.87 | [ICRA]AAA(SO) |
| HL Trust 14 | Series A1 ABS | March 2022 | 7.75% | July 2055 | 30.37 | [ICRA]AAA(SO) |
| HL Trust 15 | Series A1 ABS | April 2022 | 7.85% | September 2058 | 33.07 | [ICRA]AAA(SO) |
| HL Trust 18 | Series A1 ABS | August 2022 | 8.50% | April 2050 | 20.79 | [ICRA]AAA(SO) |
| ML Trust 5 | Series A Notes | May 2022 | 10.11% (repo + spread of 3.61%) | March 2042 | 157.93 | [ICRA]AAA(SO) |

* Scheduled PTC 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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