

September 22, 2023

Nido Home Finance Limited: Ratings reaffirmed for PTCs/securities issued under three 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 7	PTC Series A1	166.86	121.58	97.37	[ICRA]AAA(SO); reaffirmed
	PTC Series A2	3.41	3.41	3.41	[ICRA]AA+(SO); reaffirmed
HL Trust 16	Series A1 ABS	75.16	NA	52.58	[ICRA]AAA(SO); reaffirmed
HL Trust 17	Series A1 ABS	57.91	NA	44.39	[ICRA]AAA(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

All the trusts are backed only by home loan (HL) receivables. The underlying loan receivables are originated by Nido Home Finance Limited {Nido; rated [ICRA]A+ (Stable)} and have been assigned to the trusts at par. The ratings 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 July 2023 collection month (August 2023 payout) has been tabulated below.

Pool performance summary (till August 2023 payout month)

Particulars	HL Trust 7	HL Trust 16	HL Trust 17
Months post securitisation	24	14	14
Pool amortisation	40.81%	27.01%	21.01%
PTC/Securities amortisation	38.71%	32.16%	41.14%
PTC Series A1/Series A1 ABS	41.64%	30.04%	23.35%
PTC Series A2	0.00%	-	-
Cumulative collection efficiency ¹	99.46%	97.36%	97.98%
Breakeven collection efficiency ²	70.55%	55.11%	57.34%
Cumulative prepayment rate	38.08%	24.12%	17.60%
Loss-cum-90+ dpd ³ (% of initial pool)	0.39%	1.56%	0.65%
Loss-cum-180+ dpd ⁴ (% of initial pool)	0.29%	1.15%	0.20%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
CC (% of balance pool)	16.89%	11.65%	10.76%
Principal subordination (% of balance pool)	0.00%	13.74%	12.67%

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 7	HL Trust 16	HL Trust 17
Excess interest spread (EIS ⁵ ; % of balance pool)	53.18%	98.29%	86.00%

Reset of credit enhancement

At Nido's request for resetting the credit enhancement for one of the transactions backed by HL receivables, i.e. HL Trust 16, ICRA has analysed this transaction basis the cash collateral (CC) mentioned in the table below. Based on the pool's performance, the rating for this transaction will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the pass-through certificate (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 16
Current CC outstanding [A]	7.10
CC required as per ICRA for maintaining the present rating [B]	5.32
CC that can be released [C] = 60%*(A – B)	1.06
Revised CC limit [D] = (A – C)	6.03

Amount in Rs. crore

Credit strengths

- Build-up of credit enhancement cover available for the balance PTC/security payouts available in the structure with gradual amortisation of the pools
- Pools witness high collection efficiency, resulting in low delinquency levels in harder buckets

Credit challenges

- Exposure to interest rate risk as the pools have contracts with floating rate and fixed rate loans while the yield on the securities is fixed, except for HL Trust 7 for which the yield on the PTC is variable
- 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 97% till the July 2023 collection month. There has been a spike in the softer buckets {loss-cum-0+ days past due (dpd)}, though the loss-cum-90+ dpd has remained sub-2.0% in the last 12 months. Additionally, 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 HL Trust 7 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 ratings at the current levels 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 August 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 7	2.00-3.00%	6.00-20.00% p.a.
HL Trust 16	4.50-5.50%	6.00-20.00% p.a.
HL Trust 17	3.75-4.75%	6.00-20.00% p.a.

Liquidity position

For PTC Series A1 of HL Trust 7 and Series A1 ABS of HL Trust 16 and HL Trust 17: Superior

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 44-52 months.

For PTC Series A2 of HL Trust 7: Strong

PTC Series A2 is subordinated to PTC Series A1 and the entire principal amount is promised on the scheduled maturity date of the transaction. The cash collections and the credit enhancement available in the transaction are expected to be comfortable to meet the PTC Series A2 investor payouts.

Rating sensitivities

Positive factors – For PTC Series A1 of HL Trust 7 and Series A1 ABS of HL Trust 16 and HL Trust 17 – Not applicable

For PTC Series A2 of HL Trust 7 – The rating for PTC Series A2 could be upgraded on sustained strong collection performance, leading to low delinquency levels and further build-up of the credit enhancement cover.

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 the 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 profit after tax (PAT) of Rs. 2,388 crore in FY2023 compared to Rs. 1,373 crore and Rs. 933 crore, respectively, in FY2022. 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 Rs. 7,305 crore and Rs. 189 crore, respectively, in FY2022. With the fair valuation of the 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 the allotment of the 30% stake held in Nuvama to Edelweiss' shareholders, 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	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years				
		Instrument	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
					Sep 22, 2023	Nov 25, 2022	Nov 22, 2021	Aug 26, 2021	-
1	HL Trust 7	PTC Series A1	166.86	97.37	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		PTC Series A2	3.41	3.41	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-

Sr. No.	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	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
					Sep 22, 2023	Sep 26, 2022	Jun 20, 2022	-
2	HL Trust 16	Series A1 ABS	75.16	52.58	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Sr. No.	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	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
					Sep 22, 2023	Oct 31, 2022	Jul 14, 2022	-
3	HL Trust 17	Series A1 ABS	57.91	44.39	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
HL Trust 7	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
HL Trust 16	Series A1 ABS	Moderately Complex
HL Trust 17	Series A1 ABS	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
HL Trust 7	PTC Series A1	August 2021	8.43%	March 2050	97.37	[ICRA]AAA(SO)
	PTC Series A2		Residual	March 2050	3.41	[ICRA]AA+(SO)
HL Trust 16	Series A1 ABS	May 2022	8.50%	December 2056	52.58	[ICRA]AAA(SO)
HL Trust 17	Series A1 ABS	July 2022	8.50%	November 2051	44.39	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sumit Pramanik

+91 22 6114 3462

sumit.pramanik@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

Mr. 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

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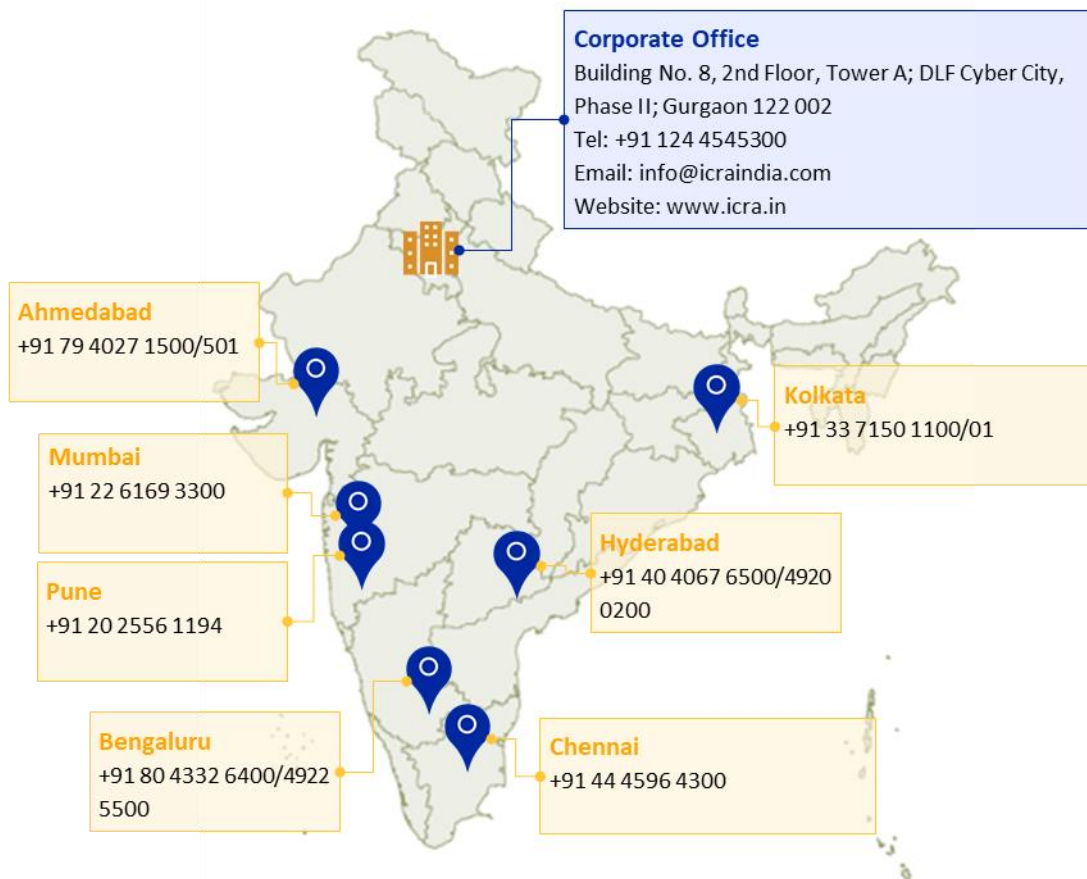
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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