

January 22, 2024

Nido Home Finance Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 ABS backed by home loan receivables issued by HL Trust 24

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL Trust 24	Series A1 ABS	39.39	Provisional [ICRA]AAA(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of the 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 the securities issued under a securitisation transaction originated by Nido Home Finance Limited {Nido; rated [ICRA]A+; placed on Rating Watch with Negative Implications}. The securities are backed by a pool of Rs. 43.77-crore (pool principal; receivables of Rs. 108.92 crore) home loan (HL) receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 10.0% of the initial pool principal to be provided by Nido (originator), (ii) subordination of 10.0% of the initial pool principal for Series A1 asset-backed securities (ABS; in the form of principal payable to Series A2 ABS), (iii) the entire excess interest spread (EIS) in the structure (40.0% of pool principal), as well as the integrity of the legal structure. The rating 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

- Availability of CE in the form of subordination for Series A1 ABS, EIS and CC
- No overdue contracts in the pool as on the cut-off date
- High share of contracts in the initial pool with a CIBIL score of more than 750 (~74%)

Credit challenges

- Moderate geographical concentration with the share of the top 3 states at ~56% in the initial pool
- Exposure to interest rate risk as the pool has contracts with floating rate and fixed rate loans while the yield on securities is fixed
- Performance of the pool would remain exposed to any macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The first line of support for Series A1 ABS in the transaction is in the form of a subordination of 10.0% of the initial pool principal, which will be in the form of an equity tranche (Series A2 ABS). The EIS available after meeting the promised and expected payouts (as per the waterfall mechanism) to Series A1 ABS will be passed on as the expected yield to Series A2 ABS. Series A2 ABS payouts are completely subordinated to Series A1 ABS and the EIS will be available as support for principal payment to Series A2 ABS only after Series A1 ABS has been fully paid. A CC of 10.0% of the initial pool principal (Rs. 4.38

crore), to be provided by Nido, would act as further CE in the transaction. In the event of a shortfall in meeting the promised ABS payouts during any month, the trustee will utilise the CC to meet the same.

As per the transaction structure, the monthly promised cash flows for Series A1 ABS will comprise the scheduled principal amount (which is 90% of the billed pool principal) and the interest payment to Series A1 ABS at the predetermined interest rate on the principal outstanding. The surplus, in relation to the principal portion of the pool receivables along with any prepayment amount, would be used for the payment of Series A1 ABS for faster amortisation. Following the payment of Series A1 ABS in full, the principal for Series A2 ABS is to be paid monthly on expected basis (to the extent of billing). Further, the yield on Series A2 ABS is in the form of the EIS in the structure. The surplus EIS available, after meeting the promised and expected payouts to Series A1 ABS, will be passed on as the expected yield to Series A2 ABS.

The pool comprises 226 HL contracts with future receivables of Rs. 108.92 crore (underlying principal of Rs. 43.77 crore). The weighted average seasoning of the pool was average at ~10 months as on the pool cut-off date (December 31, 2023). All the contracts were current as on the cut-off date. Further, the adequate borrower profile provides comfort with a substantial share of the loan contracts (~74%) having a CIBIL score of more than 750. The pool, however, has high geographical concentration with the top 3 states (Maharashtra, Tamil Nadu and Karnataka) contributing ~56% to the initial pool principal amount. Moreover, the pool comprises floating rate (96% of the pool) and fixed rate (4% of the pool) loans, while the ABS yield is fixed. Hence, the transaction is exposed to interest rate basis risk, which means any downward movement in the benchmark yield will reduce the EIS available in the transaction. Also, the pool's performance would remain exposed to any macro-economic shocks/business disruptions.

Past rated pools: ICRA has live ratings on nine securitisation transactions backed by HL receivables for the Edelweiss Group. The pools have reported adequate collections with nil CC utilisation until the December 2023 payouts.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the past performance of the originator's portfolio and the rated pools as well as the 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 mean shortfall in principal collection during the tenure of the pool is estimated at 4.00-5.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated at 6.0-20.0% per annum.

Liquidity position: Superior

The liquidity for Series A1 ABS is superior after factoring in the CE available to meet the promised payouts to the investor. The total CE would be 8.75 times the estimated loss in the pool.

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 CE utilisation levels, could result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of the Edelweiss Group's HL portfolio till September 2023, 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	Rating Methodology for Securitisation Transactions
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.

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 Edelweiss 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, it 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, following the allotment of the 30% stake held in Nuvama to the shareholders of Edelweiss, the consolidated net worth is expected to decline by ~Rs. 2,352 crore.

Key financial indicators

Edelweiss Financial Services Limited (consolidated)	FY2021	FY2022	FY2023
Total income	10,849	7,305	8,633
Profit after tax – Including minority interest	254	212	406
Loan assets	22,455	20,098	17,354
Gross NPA*	8.53%	8.46%	12.45%
Net NPA	4.96%	2.15%	3.15%

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

* Excluding credit substitutes

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Jan 22, 2024	-	-	-
HL Trust 24	Series A1 ABS	39.39	39.39	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 24	Series A1 ABS	January 2024	9.00%	March 2072	39.39	Provisional [ICRA]AAA(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

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