

January 30, 2024

Nido Home Finance Limited: Rating reaffirmed for securities issued under a mortgage loan securitisation transaction

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 20	Series A1 ABS	24.94	NA	15.58	[ICRA]AAA(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

The securities tabulated above are backed by home loan (HL) receivables originated by Nido Home Finance Limited {Nido; rated [ICRA]A+; placed on Rating Watch with Negative Implications} and are assigned to the trust at par. The rating reaffirmation is on account of the moderate amortisation of the pool, 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 pool.

A summary of the performance of the pool till the November 2023 collection month (December 2023 payout) has been tabulated below.

Pool performance summary

Particulars	HL Trust 20
Months post securitisation	14
Pool amortisation	33.81%
Series A1 ABS amortisation	37.53%
Cumulative collection efficiency ¹	98.61%
Breakeven collection efficiency ²	52.06%
Cumulative prepayment rate	31.25%
Loss-cum-90+ dpd ³ (% of initial pool)	0.47%
Loss-cum-180+ dpd ⁴ (% of initial pool)	0.11%
Cumulative cash collateral (CC) utilisation	0.00%
CC (% of balance pool)	15.11%
Principal subordination (% of balance pool)	17.73%

Credit strengths

- Build-up of credit enhancement cover available for the balance security payouts available in the structure with the gradual amortisation of the pool
- High collection efficiency, resulting in low delinquency levels in harder buckets

Credit challenges

- High obligor concentration with top 3 obligors accounting for ~17% of the initial pool principal

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

- 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 macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The performance of the pool has been healthy with a cumulative collection efficiency of more than 98% till the November 2023 collection month. Delinquencies in the softer buckets {loss-cum-0+ days past due (dpd)} have spiked, though the loss-cum-90+ dpd has remained sub-1.0% since securitisation. Additionally, ICRA takes comfort from the collateral available for the account. Further, there has been no instance of CC utilisation in the pool.

The pool has fixed and floating rate contracts while the yield on the securities is fixed, creating interest risk in the structure. Any downward movement in the benchmark yield will reduce the excess interest spread (EIS) available in the transaction. A major portion of the balance pool constitutes self-employed borrowers, which is a segment with a relatively weaker performance. Also, the performance of the pool 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 transaction. ICRA will continue to monitor the performance of the pool. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

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

Key rating assumptions

Post the December 2023 payout, the pool comprised 135 HL contracts, aggregating Rs. 18.34 crore. Nearly 87% of the contracts in the pool were current after the December 2023 payout. The pool has high geographical concentration with the share of the top 3 states (Maharashtra, Gujarat and Tamil Nadu) at ~72% of the balance pool. The obligor concentration in the pool is also high (top 3 obligors accounting for 17% of the balance pool). Thus, the pool's performance is likely to get influenced by the performance of a few large obligors.

The variability of loss in case of a concentrated pool would be much higher than that of a regular granular pool. All loans pertaining to any borrower have been clubbed as one because if an entity defaults, it would most likely default on all its loans to a lender. ICRA's rating/credit assessment of the entities along with the balance tenure of the loans given to these entities has been taken into account to estimate the default probability for each loan. ICRA has also built in the assumptions on the quantum and timing of recovery post default. Further, a certain loss given default (LGD) has been assumed by factoring in the repossession and sale of the underlying assets. ICRA has assumed that the recovery, post the default by a borrower, would happen with a lag. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured.

Further, for the granular portion of the pool (83% of the balance pool), the portfolio loss has been adjusted for the pool's composition like seasoning and overdues. 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 the 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.

Upon modelling the cash flows, after considering the various above-mentioned factors, ICRA estimates the shortfall in the pool principal collection within the pool’s tenure at 4.00-5.00%, with certain variability around it. The prepayment rate in the pool is assumed to be 6.0-20.0% p.a. (with a mean of 16.0%).

Liquidity position: Superior

The liquidity for Series A1 ABS is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be greater than 10 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, would 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 performance of the pool till the November 2023 collection month, the present delinquency profile of the pool, the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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 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

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
					Jan 30, 2024	Jan 27, 2023	Nov 03, 2022	-	-
1	HL Trust 20	Series A1 ABS	24.94	15.58	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
HL Trust 20	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 20	Series A1 ABS	October 2022	8.75%	February 2066	15.58	[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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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.

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