

May 29, 2024

## Piramal Capital & Housing Finance Limited: Provisional [ICRA]AAA(SO) assigned to Series A SN backed by home loan receivables issued by Nirvana Trust May 2024

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Nirvana Trust May 2024	Series A SN	329.79	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

The securitisation notes (SNs) are backed by a pool of home loan receivables originated by Piramal Capital & Housing Finance Limited {PCHFL/Originator; rated [ICRA]AA (Stable)} with an aggregate principal outstanding of Rs. 329.79 crore (pool receivables of Rs. 703.45 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (100% of the pool principal billed). Any surplus excess interest spread (EIS), after meeting the promised payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A SN principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 10.75% of the initial pool principal, amounting to Rs. 35.45 crore, to be provided by the Originator, and (ii) the EIS of 22.63% of the initial pool principal for Series A SN.

### Key rating drivers and their description

#### Credit strengths

**Availability of credit enhancement** – The credit enhancement available in the form of the CC and EIS would absorb some amount of the losses, if any, in the pool and provide support in meeting the SN payouts.

**No overdue contracts in the pool** – The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

**Healthy bureau score of borrowers** – In the pool, ~67% of the borrowers (in terms of the principal amount outstanding on the cut-off date) had a CIBIL score of at least 750, which reflects their relatively better credit profile.

## Credit challenges

**High geographical concentration** – The pool has high geographical concentration with the top 3 states, viz. Maharashtra, Telangana and Karnataka, contributing ~64% to the initial pool principal amount. The pool’s performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

**Exposed to basis risk** – The yield for the SN is linked to an external benchmark while the interest rate on the underlying loans is floating, leading to basis risk in the structure.

**Risks associated with lending business** – The pool’s performance would remain exposed to macro-economic shocks/business disruptions.

## Key rating assumptions

ICRA’s cash flow modelling for rating securitisation 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 assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.0%, with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

## Liquidity position: Strong

The liquidity for the SNs is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total CE would be 5.5 times the estimated loss in the pool.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. 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 PCHFL’s HL portfolio till March 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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](http://www.icra.in).

### About the originator

Piramal Capital & Housing Finance Limited (PCHFL), a wholly-owned subsidiary of Piramal Enterprises Limited (PEL), was incorporated in February 2017 and received a housing finance licence from National Housing Bank (NHB) in September 2017. PCHFL provides real estate loans, housing finance, corporate loans, and emerging corporate loans across sectors. It has 343 branches spread across 25 states. In January 2021, PCHFL had emerged as the successful resolution applicant for Dewan Housing Finance Corporation Limited (DHFL), which was undergoing insolvency and bankruptcy proceedings. As per the resolution plan approved by the National Company Law Tribunal (NCLT), DHFL's existing liabilities were discharged by PCHFL and a consideration of Rs. 34,250 crore (comprising upfront cash of Rs. 14,700 crore and issuance of debt instruments of Rs. 19,550 crore) was paid to DHFL's creditors. PCHFL was reverse merged with DHFL with effect from September 30, 2021, and the amalgamated entity was rechristened Piramal Capital & Housing Finance Limited.

On May 8, 2024, PEL announced that its board of directors (BoD) has approved a composite scheme of arrangement, whereby it would be reverse merged with its wholly-owned subsidiary, PCHFL. The merged entity would be renamed Piramal Finance Limited (PFL). Further, PCHFL's BoD approved the conversion of the entity to a non-banking financial company - investment and credit company (NBFC-ICC) from a housing finance company (HFC). Accordingly, PCHFL will apply to the Reserve Bank of India (RBI) for an NBFC-ICC licence and continue to operate as an HFC in the interim.

### Key financial indicators (audited)

PCHFL (standalone)	FY2022	FY2023	FY2024
Total income	6,187	6,650	6,712
Profit after tax	526	-7,425	-1,911
Assets under management	52,044	50,427	53,696
Gross NPA	2.3%	3.5%	2.4%
Net NPA	1.2%	1.9%	1.0%
CRAR	22.0%	26.8%	21.6%

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

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				May 29, 2024*	-	-	-
<b>Nirvana Trust May 2024</b>	Series A SN	329.79	329.79	<b>Provisional [ICRA]AAA(SO)</b>	-	-	-

\*Provisional rating assigned

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A SN	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
<b>Nirvana Trust May 2024</b>	Series A SN	May 2024	8.90%^	October 2048	329.79	Provisional [ICRA]AAA(SO)

\* Scheduled maturity date at transaction initiation; may change on account of prepayments

^ Floating, linked to 6M-I-MCLR (9.00%) plus a fixed spread of 10 bps, to be reset semi-annually

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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## About ICRA Limited:

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