

July 26, 2024

## Nido Home Finance Limited: Provisional [ICRA]AAA(SO) assigned to ABS backed by home loan receivables issued by HL Trust 26

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
HL Trust 26	Series A1 ABS	49.61	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 asset-backed securities (ABS) are backed by a pool of home loan (HL) receivables originated by Nido Home Finance Limited (Nido/Originator; rated [ICRA]A+; Rating Watch with Negative Implications) with an aggregate principal outstanding of Rs. 55.12 crore (pool receivables of Rs. 132.63 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 (90% of the pool principal billed). The balance principal (10% of the pool principal billed) is expected to be paid on a monthly basis until the maturity of Series A1 ABS. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, would be passed on as the expected yield to Series A2 ABS (subordinated tranche held by the Originator). Any prepayment in the pool would be used for the prepayment of Series A1 ABS principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 10.00% of the initial pool principal, amounting to Rs. 5.51 crore, to be provided by the Originator, (ii) subordination of 10.00% of the initial pool principal (Series A2 ABS held by Originator) for Series A1 ABS, and (iii) the EIS of 52.85% of the initial pool principal for Series A1 ABS.

### Key rating drivers and their description

#### Credit strengths

**Availability of credit enhancement** – The credit enhancement available in the form of the CC, subordination and EIS would absorb a part of the losses in the pool and provide support in meeting the ABS 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. However, ~9% of the contracts in the pool have been delinquent up to 30 days in the preceding 12 months post the cut-off date.

**Contracts backed by self-occupied residential properties** – A major part of the pool (97% of the contracts in terms of the principal amount outstanding on the cut-off date) is backed by self-occupied residential properties. This is expected to support

the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

**Healthy bureau score of borrowers** – In the pool, 81% of the borrowers (in terms of the principal amount outstanding on the cut-off date) have a CIBIL score of 700 and above, 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, Gujarat 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.

**Moderate obligor concentration** – The pool has moderate obligor concentration with loans outstanding to the top borrower accounting for ~4% of the pool principal as on the cut-off date and the top 10 borrowers accounting for ~21% of the initial pool principal. The pool's performance would thus be highly exposed to the repayment patterns of the top borrowers and the company's ability to limit the slippages of such borrowers.

**Exposed to interest rate risk** – The pool is exposed to interest rate risk as ~95% of the pool has floating rate loans while the yield on the ABS is fixed.

**Risks associated with lending business** – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

### 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 5.0% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6.0% to 20.0% 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: Superior

The liquidity for Series A1 ABS is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~9.5 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 credit enhancement utilisation levels, could result in a rating downgrade. Weakening in the credit profile of the servicer (Nido) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the analysis of the performance of Nido’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	Comments
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

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. 19 crore in FY2024 compared to Rs. 16 crore in FY2023. As of March 31, 2024, its capitalisation profile was characterised by a net worth of Rs. 815 crore, a gearing of 3.5 times and a capital adequacy ratio of 39.1%.

### 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 alternatives, asset management, wholesale and retail lending, home finance, distressed assets resolution, general insurance, and life insurance. On a consolidated basis, it posted a total income of Rs. 9,602 crore and a profit after tax (PAT) of Rs. 528 crore in FY2024 compared to Rs. 8,633 crore and Rs. 406 crore, respectively, in FY2023. As of March 31, 2024, the Group's capitalisation profile was characterised by a consolidated net worth of Rs. 6,049 crore and a gearing of 3.3 times compared to Rs. 7,846 crore and 2.8 times, respectively, as of March 31, 2023.

### Key financial indicators

Edelweiss Financial Services Limited (consolidated)	FY2022	FY2023	FY2024
<b>Total income</b>	7,305	8,633	9,602
<b>Profit after tax – Including minority interest</b>	212	406	528
<b>Loan assets</b>	20,098	17,354	14,804
<b>Gross NPA*</b>	8.46%	12.45%	12.7%
<b>Net NPA</b>	2.15%	3.15%	1.8%

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	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
	Instrument	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
			July 26, 2024	-	-	-	
HL Trust 26	Series A1 ABS	49.61	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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
HL Trust 26	Series A1 ABS	July 22, 2024	9.10%	December 20, 2053	49.61	Provisional [ICRA]AAA(SO)

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](http://www.icra.in)

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