

August 12, 2024

## Nido Home Finance Limited: Rating reaffirmed for securities issued under home 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	15.58	13.21	[ICRA]AAA(SO); reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

The securities are backed by home loan (HL) receivables originated by Nido Home Finance Limited (Nido/Originator; rated [ICRA]A+; Rating Watch with Negative Implications).

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future asset-backed security (ABS) payouts on account of high amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pool till the June 2024 payout month.

A summary of the performance of the pool till the June 2024 payout month has been tabulated below.

### Pool performance summary

Particulars	HL Trust 20
Payout month	June 2024
Months post securitisation	20
Pool amortisation	42.3%
Series A1 ABS amortisation	47.1%
Cumulative collection efficiency <sup>1</sup>	98.9%
Breakeven collection efficiency <sup>2</sup>	53.2%
Cumulative prepayment rate	38.8%
Loss-cum-30+ dpd <sup>3</sup> (% of initial pool)	6.2%
Loss-cum-90+ dpd <sup>4</sup> (% of initial pool)	1.6%
Cumulative cash collateral (CC) utilisation	0.0%
CC (% of balance pool)	17.3%
Principal subordination (% of balance pool)	21.0%

<sup>1</sup> (Cumulative current and overdue collections till date)/(Cumulative billing till date + Opening overdues at the start of the transaction)

<sup>2</sup> (Balance cash flows payable to investor – CC available)/Balance pool cash flows

<sup>3</sup> Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 30 days, as a % of initial pool principal

<sup>4</sup> Inclusive of unbilled and overdue principal portion of delinquent contracts overdue by more than 90 days, as a % of initial pool principal

## 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 the Series A1 ABS principal.

## Key rating drivers and their description

### Credit strengths

**Substantial credit enhancement available in the structure** – The rating factors in the build-up of credit enhancement with the cash collateral (CC) increasing to 17.3% of the balance pool principal from 10% at the time of securitisation. Internal credit support is also available through the subordination of 21.0% and the EIS.

**Healthy pool performance** – The pool's performance has been strong with a cumulative collection efficiency of ~99% till the June 2024 payout month, which has resulted in low delinquencies with 90+ days past due (dpd) of 1.6%. The breakeven collection efficiency is also lower than the monthly collection efficiency seen in the pool. Further, there have been no instances of CC utilisation for the pool till date owing to the strong collection performance and the presence of EIS in the transaction.

### Credit challenges

**High obligor concentration** – The pool has high obligor concentration with loans outstanding to the top 3 borrowers accounting for ~18% of the pool principal after the June 2024 payout month. 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. ICRA notes that these three borrowers continue to repay their obligations in a timely manner, which is a credit positive.

**Exposed to interest rate risk** – The pool is exposed to interest rate risk as it has contracts with floating rate and fixed rate loans while the yield on the securities 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 noted the high obligor concentration in the pool after the June 2024 payout month. 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.

For the granular portion of the pool (~82% of the balance pool principal), ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.25% 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 for the granular portion. The cash flows of the granular as well as the concentrated portion are combined 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 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 credit enhancement utilisation levels, would 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 performance of the pool till the June 2024 payout 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 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 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

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				Date & Rating in FY2022
			Initial Amount Rated (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2023		
					Aug 12, 2024	Jan 30, 2024	Jan 27, 2023	Nov 03, 2022	
1	HL Trust 20	Series A1 ABS	24.94	13.21	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	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	Current Rated Amount (Rs. crore)	Current Rating
<b>HL Trust 20</b>	Series A1 ABS	October 27, 2022	8.75%	February 20, 2066	13.21	[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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