

September 12, 2024

Nido Home Finance Limited: Ratings reaffirmed for instruments issued under three mortgage loan securitisation transactions

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 7	PTC Series A1	166.86	97.37	81.08	[ICRA]AAA(SO); reaffirmed
	PTC Series A2	3.41	3.41	3.41	[ICRA]AA+(SO); reaffirmed
HL Trust 16	Series A1 ABS	75.16	52.58	35.24	[ICRA]AAA(SO); reaffirmed
HL Trust 17	Series A1 ABS	57.91	44.39	37.55	[ICRA]AAA(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

For all the trusts, the pass-through certificates (PTCs)/asset-backed securities (ABS) are backed by home loan (HL) receivables originated by Nido Home Finance Limited {Nido; rated [ICRA]A+; Rating Watch with Negative Implications/Originator}.

The ratings reaffirmation factors in the build-up of the credit enhancement cover over the future investor payouts on account of high amortisation and healthy pool performance. The ratings also draw comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in all the pools till the August 2024 payout month.

Pool performance summary

Particulars	HL Trust 7	HL Trust 16	HL Trust 17
Payout month	August 2024	August 2024	August 2024
Months post securitisation	36	26	26
Pool amortisation	50.38%	47.77%	31.62%
PTC Series A1 amortisation	51.41%	53.12%	35.16%
PTC Series A2 amortisation	0.00%	-	-
Cumulative collection efficiency ¹	99.42%	96.79%	98.36%
Breakeven collection efficiency ²	72.06%	52.58%	57.62%
Cumulative prepayment rate	48.51%	42.63%	25.40%
Loss-cum-90+ dpd ³ (% of initial pool)	0.36%	3.27%	1.70%
Loss-cum-180+ dpd ⁴ (% of initial pool)	0.32%	2.76%	1.30%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%	0.00%
CC (% of balance pool)	20.15%	13.83%	12.43%
Principal subordination – PTC Series A (% of balance pool)	4.03%	19.21%	14.66%
Excess interest spread – PTC Series A (EIS ⁵ ; % of balance pool)	34.67%	77.96%	69.95%

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

⁵ (Pool cash flows – Cash flows to ABS/PTC investors – Originator's residual share)/Pool principal outstanding

Transaction structure

For HL Trust 16 and HL Trust 17, the monthly cash flow schedule comprises the promised interest payout and principal payout (90% of the pool principal billed). The balance principal (10%) 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 payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 ABS principal.

For HL Trust 7, the monthly cash flow schedule comprises the promised interest payout and principal payout (98% of the pool principal billed). The balance principal (2% of the pool principal billed) is expected to be paid on a monthly basis until the maturity of PTC Series A1. The additional EIS available after meeting the promised and expected payouts to PTC Series A1 is passed on as expected yield to PTC Series A2 (i.e. yield to PTC Series A2 is not promised). Following the payment of PTC Series A1 in full, the principal for PTC Series A2 will be paid on expected basis (to the extent of billed pool principal) on a monthly basis, but is promised on the final maturity date. Any prepayment in the pool would be used for the prepayment of PTC Series A1 principal till complete redemption and will then be passed on to PTC Series A2 principal.

Reset of credit enhancement

At Nido's request for resetting the credit enhancement, ICRA has analysed HL Trust 7 and HL Trust 17, basis the cash collateral (CC) mentioned in the table provided below.

Transaction Name	Current CC Outstanding [A]	CC Required as per ICRA for Maintaining Present Rating [B]	CC that can be Released [C]= 60%*(A - B)	Revised CC Limit [D] = (A - C)
HL Trust 7	17.03	8.51	5.11	11.92
HL Trust 17	5.47	3.83	0.98	4.48

Amount in Rs. crore

Based on the pools' performance, the ratings for the PTCs/ABS will remain unchanged even after the CC amount is reset. However, as per regulatory guidelines, the maximum amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA. The CC reset shall be subject to the approval of the respective investors.

Key rating drivers and their description

Credit strengths

Substantial credit enhancement available – The ratings factor in the build-up of the credit enhancement for all the trusts with the CC build-up in the range of 12-21% of the balance pool principal after the August 2024 payout month, up from 8-10% at the time of securitisation. For all the trusts, internal credit support is also available through subordination and EIS.

Healthy pool performance – The performance of the pools has been healthy with the cumulative collection efficiency of all the trusts surpassing 94% till the August 2024 payout month while the breakeven collection efficiency is below the monthly collection efficiency of the pools. The pools have reported low to moderate delinquencies with 90+ days past due (dpd), though better pool filtering has led to stronger performance of HL Trust 7 compared with the other two transactions. Further, there have been no instances of CC utilisation in any of the pools till date owing to the strong collection performance and presence of EIS.

Contracts backed by self-occupied residential properties – The pools are entirely backed by self-occupied residential properties. This is expected to support the quality of the pools as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Credit challenges

Exposed to interest rate risk – The pools are exposed to interest rate risk as they all have contracts with floating rate and fixed rate loans, while the yield on the securities is fixed, except for HL Trust 7 (yield on PTC Series A1 is floating).

Risks associated with lending business – The pools’ 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 pools, ICRA has estimated the shortfall in the pool principal collection during its tenure as per the table below. The average prepayment rate for the underlying pools is also given in the table. 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 ratings for the instruments.

Transaction Name	Expected Loss* (% of initial pool principal)	Prepayment
HL Trust 7	2.00%	6% - 20% p.a.
HL Trust 16	4.25%	6% - 20% p.a.
HL Trust 17	4.25%	6% - 20% p.a.

* With certain variability around it

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	HL Trust 7	HL Trust 16	HL Trust 17
Originator		Nido Home Finance Limited	
Servicer		Nido Home Finance Limited	
Trustee	IDBI Trusteeship Services Limited	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited
CC holding bank		ICICI Bank Limited	
Collection and payout account bank		ICICI Bank Limited	

Liquidity position:

PTC Series A1 of HL Trust 7 and Series A1 ABS of HL Trust 16 and HL Trust 17: Superior

The liquidity for the instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be greater than 8 times the estimated loss in the pools.

PTC Series A2 of HL Trust 7: Strong

The liquidity for the instrument is strong after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be ~4.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable for PTC Series A1 of HL Trust 7 and Series A1 ABS of HL Trust 16 and HL Trust 17

For PTC Series A2 of HL Trust 7, the rating could be upgraded on sustained strong collection performance, leading to low delinquency levels and further build-up of the credit enhancement cover.

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 ratings.

Analytical approach

The rating action is based on the performance of the pools till June 2024 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

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 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, it 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
Total income	7,305	8,633	9,602
Profit after tax – Including minority interest	212	406	528
Loan assets	20,098	17,354	14,804
Gross NPA*	8.46%	12.45%	12.7%
Net NPA	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				
			Initial Amount Rated (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Sep 12, 2024	Sep 22, 2023	Nov 25, 2022	Nov 22, 2021	Aug 26, 2021
1	HL Trust 7	PTC Series A1	166.86	81.08	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)
		PTC Series A2	3.41	3.41	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					Sep 12, 2024	Sep 22, 2023	Sep 26, 2022	Jun 20, 2022	-
2	HL Trust 16	Series A1 ABS	75.16	35.24	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
					Sep 12, 2024	Sep 22, 2023	Oct 31, 2022	Jul 14, 2022	-
3	HL Trust 17	Series A1 ABS	57.91	37.55	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
HL Trust 7	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
HL Trust 16	Series A1 ABS	Moderately Complex
HL Trust 17	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
HL Trust 7	PTC Series A1	August 31, 2021	9.38%*	March 20, 2050	81.08	[ICRA]AAA(SO)
	PTC Series A2		Residual	March 20, 2050	3.41	[ICRA]AA+(SO)
HL Trust 16	Series A1 ABS	May 30, 2022	8.50%	December 20, 2056	35.24	[ICRA]AAA(SO)
HL Trust 17	Series A1 ABS	July 20, 2022	8.50%	November 20, 2051	37.55	[ICRA]AAA(SO)

*Linked to 1-year ICICI Bank MCLR + 0.43%

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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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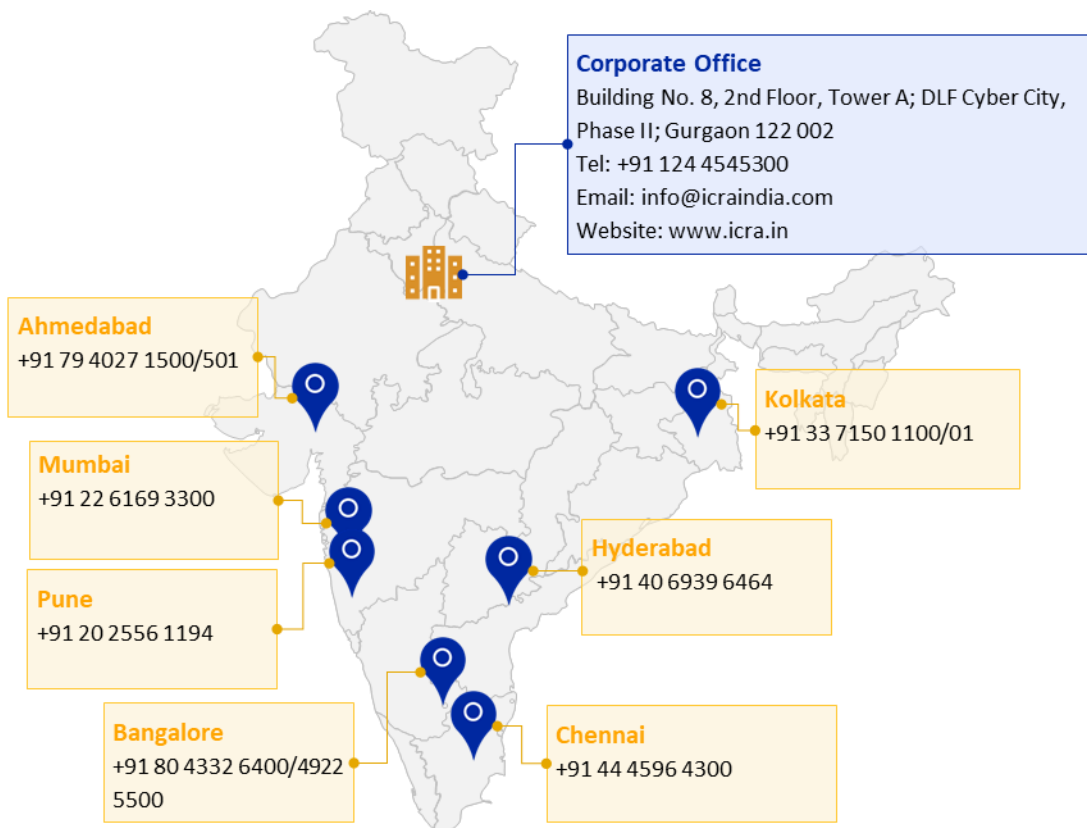
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