

December 31, 2024

## Piramal Capital & Housing Finance Limited: Provisional [ICRA]AAA(SO) assigned to Series A1 SN backed by home loan receivables issued by Nirvana Trust Dec 2024

### Summary of rating action

| Trust Name             | Instrument*  | Current Rated Amount (Rs. crore) | Rating Action                       |
|------------------------|--------------|----------------------------------|-------------------------------------|
| Nirvana Trust Dec 2024 | Series A1 SN | 554.87                           | 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 |
|--|--|

### 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. 567.64 crore (pool receivables of Rs. 1,145.90 crore). PCHFL would be the servicer for the transaction.

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 (97.75% of the pool principal billed) to Series A1 SN. The balance principal (2.25% of the pool principal billed) is expected to be paid on a monthly basis until the maturity of Series A1 SN. 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 SN principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 8.50% of the initial pool principal, to be provided by the Originator, (ii) subordination of 2.25% of the initial pool principal for Series A1 SN, and (iii) the EIS of 19.29% of the initial pool principal for Series A1 SN.

### Key rating drivers and their description

#### Credit strengths

**Granular pool supported by presence of credit enhancement** – The pool is granular, consisting of 4,749 contracts, with the top 10 contracts forming only ~2% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of subordination, CC and EIS would absorb a part of the losses 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 were no overdue contracts as on the cut-off date. Further, ~96% of the contracts in the pool have never been delinquent, which is a credit positive.

**Healthy bureau score of borrowers** – Around 72% of the borrowers (in terms of the principal amount outstanding on the cut-off date) in the pool have a CIBIL score of 750 and above, which reflects their relatively better credit profile.

**Contracts backed by self-occupied residential properties** – The pool is backed by self-occupied residential properties, wherein borrowers tend to prioritise repayments towards such loans even during periods of financial stress.

**Adequate servicing capability of the originator** – The company has an established track record in the lending business with adequate underwriting policies and collection procedures across a wide geography. It has adequate processes for the servicing of the loan accounts in the securitised pools.

### Credit challenges

**High geographical concentration** – The pool has high geographical concentration with the top 3 states, viz. Maharashtra, Telangana and Gujarat, contributing ~63% 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 SNs is linked to an external benchmark (investor's MCLR) while the interest rate on the underlying loans is floating (linked to PCHFL's benchmark rate), leading to basis risk in the structure.

**Risk 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 3.75%, 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 credit enhancement would be ~5.75 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 could also exert pressure on the rating.

## Analytical approach

The rating action is based on the analysis of the performance of PCHFL’s home loan portfolio till September 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 508 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 has applied to the Reserve Bank of India (RBI) for an NBFC-ICC licence and will continue to operate as an HFC in the interim.

### Key financial indicators (audited)

| PCHFL (standalone)      | FY2023 | FY2024 | H1 FY2025* |
|-------------------------|--------|--------|------------|
| Total income            | 6,650  | 6,712  | 3,501      |
| Profit after tax        | -7,425 | -1,911 | 83         |
| Assets under management | 50,427 | 53,696 | 61,066     |
| Gross NPA               | 3.50%  | 2.36%  | 3.43%      |
| Net NPA                 | 1.90%  | 1.00%  | 1.67%      |
| CRAR                    | 26.80% | 21.64% | 19.0%      |

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

\*Includes Rs. 136 crore of regulatory provisions for AIF made during the quarter; these are net of reversals and receipts

**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) | Date & Rating in FY2025   | Date & Rating in FY2024                           | Date & Rating in FY2023 | Date & Rating in FY2022 |
|                        |              |                          | Dec 31, 2024*             | -   | -                       | -                       |
| Nirvana Trust Dec 2024 | Series A1 SN | 554.87                   | Provisional [ICRA]AAA(SO) | -   | -                       | -                       |

\*Provisional rating assigned

### Complexity level of the rated instrument

| Instrument   | Complexity Indicator |
|--------------|----------------------|
| Series A1 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 (p.a.p.m.) | Maturity Date | Amount Rated (Rs. crore) | Current Rating            |
|-------------------------------|--------------|-----------------------------|------------------------|---------------|--------------------------|---------------------------|
| <b>Nirvana Trust Dec 2024</b> | Series A1 SN | December 27, 2024           | 9.00%^                 | May 18, 2049  | 554.87                   | Provisional [ICRA]AAA(SO) |

Source: Company

^ Floating, linked to I-MCLR-1Y (9.10%) minus a fixed spread of 10 bps; to be reset annually

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

Not applicable

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