

March 11, 2025

Bajaj Finance Ltd.: Provisional [ICRA]AAA(SO) assigned to PTCs backed by new passenger vehicle loan receivables issued by Pharaoh PTC Mar 2025 Series I Trust

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Pharaoh PTC Mar 2025 Series I Trust	Series A1 PTC	1,748.90	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 pass-through certificates (PTCs) are backed by a pool of new passenger vehicle (PV) loan receivables originated by Bajaj Finance Ltd. {BFL/Originator} with an aggregate principal outstanding of Rs. 1,987.4 crore (pool receivables of Rs. 2,493.9 crore). BFL would also act as 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 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. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. 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 PTC principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 1.00% of the initial pool principal, amounting to Rs. 19.87 crore, to be provided by the originator, (ii) subordination of 12.00% of the initial pool principal for Series A1 PTC, and (iii) EIS of 9.90% of the initial pool principal for Series A1 PTC.

Key rating drivers and their description

Credit strengths

Strong market position and significant lending track record of BFL – The originator (BFL), which would be servicing the loans in the transaction, has an established track record in the lending business of over three decades with adequate underwriting policies and collection procedures. The company's stable and experienced senior management team has guided it through evolving technological disruptions and macro-economic challenges.

Granular pool supported by the presence of credit enhancement – The pool is granular in nature, with top 10 obligors forming only 1.69% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC 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. Also, ~95% of the contracts have never been overdue since origination, which is a credit positive.

Strong CIBIL score of underlying borrowers – Majority of the borrowers in the pool (~94 of the initial pool principal) have a CIBIL score of more than or equal to 700, which signifies a strong credit history of such borrowers.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the top 3 states, viz. Maharashtra, Uttar Pradesh and Delhi, contributing to 43% of 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.

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 the rating of securitisation transactions involves the simulation of potential losses, delinquencies and prepayment 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 2.75% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18.0% 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 PTC is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be greater than 6 times of 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 BFL’s new PV portfolio till January 2025, 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
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Applicable rating methodologies	Rating Methodology for Securitisation Transactions
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. KYC Chartered Accountant's 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 Rating available at www.icra.in.

About the originator

Bajaj Finance Ltd. is an NBFC-D-SI with a diversified loan portfolio and a pan-India presence. While the company was originally set up to finance purchasing of two-wheelers and three-wheelers manufactured by Bajaj Auto, it diversified into other segments over the years. Currently, it operates across seven broad categories – consumer lending, commercial lending, rural lending, SME lending, deposits, payments as well as partnerships and services. Under partnerships and services, the company offers products like health insurance, extended warranty, comprehensive asset care, co-branded credit cards and wallets. BFL offers a co-branded credit card with RBL Bank and DBS. BFL has two wholly-owned subsidiaries viz, Bajaj Housing Finance Limited (BHFL) and Bajaj Financial Securities Limited (BFSL). BHFL is registered with National Housing Bank as a housing finance company (HFC), while BFSL was incorporated to undertake share broking and to function as a depository participant.

Key financial indicators

Particulars	FY2023	FY2024	H1 FY2025
Total Income	40,301	54,983	43,611
Profit after tax	11,508	14,451	12,721
Total managed assets	2,84,705	3,85,101	2,93,370
Gross stage 3 assets	0.9%	0.8%	1.4%
CRAR	25.0%	22.5%	21.6%

Source: Company data, ICRA Research; 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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Instrument	Amount rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2023
					March 11, 2025			
1	Pharaoh PTC Mar 2025 Series I Trust	Series A1 PTC	1,748.90	1,748.90	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Series A1 PTC	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
Pharaoh PTC Mar 2025 Series I Trust	Series A1 PTC	March 18, 2025	7.75%	September 25, 2032	1,748.90	Provisional [ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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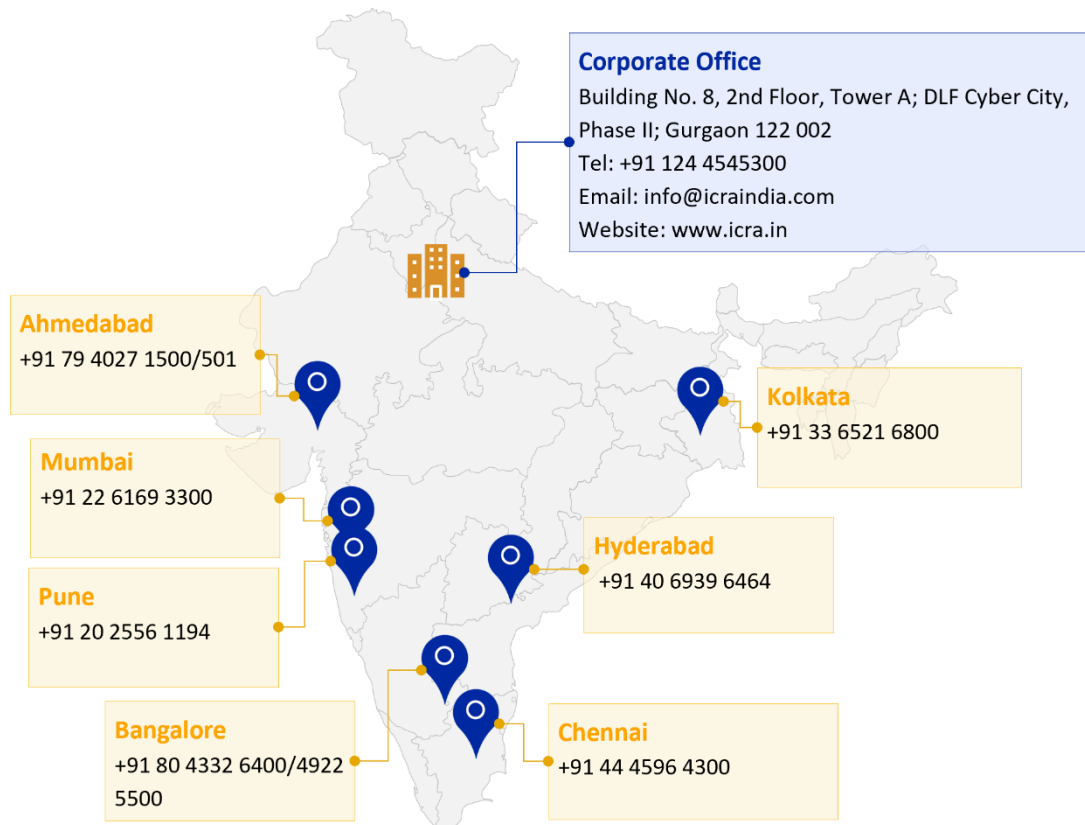
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