2024 PL Diana
Originator: Navi Finserv Ltd.

India Ratings Assigns 2024 PL Diana Final Rating

Ind-Ra-Mumbai-xx March 2024: India Ratings and Research (Ind-Ra) has assigned 2024 PL Diana (an asset-backed securitisation transaction) Final ratings as follows:

Instrument Type	ISIN#	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Series A1 pass-through certificates (PTCs)	INE0TWW15018	29 February 2024	9.80% *	18 April 2028	INR819.52	IND AA(SO)/Stable	Assigned
Equity tranche PTCs	INE0TWW15026	29 February 2024	-	18 April 2028	INR36.42	IND A+(SO)/Stable	Assigned

*per annum payable monthly
#Source: NSDL

The final rating has been assigned following the receipt of the executed transaction documentation, conforming to the information already received by Ind-Ra.

ANALYTICAL APPROACH
As part of its analysis, the agency has considered historical data of the Originator's portfolio to determine the base values of key variables that would influence the level of expected losses in this transaction. Ind-Ra has also studied the performance of market peers operating in similar segment. The base values of the default rate, recovery rate, time to recovery, collection efficiency, prepayment rate and pool yield were stressed to assess whether the level of Credit Enhancement (CE) was sufficient for the current rating levels.

Ind-Ra stressed the above variables for the rating level as per its Asset-Backed Securitisations Rating Criteria. Based on the rating level, the agency also has made an adjustment for the borrowers carrying the highest interest rate loans, assuming they will either prepay or default. Basis the above assumptions, Ind-Ra has built a pool cash flow model also considering the transaction structure.

DETAILED RATIONALE OF THE RATING ACTION
The pool of personal loans (PLs) assigned to the trust has been originated by Navi Finserv Limited (NFL, formerly Navi Finserv Private Limited; the originator or seller, non-convertible debentures rated at 'IND A'/Stable).
The Rating factors the originators servicing and collection capabilities, the transaction structure and the availability of credit enhancement.

Transaction Structure: The transaction has a par structure, where the loan pool is assigned to the trust for a purchase consideration equal to 94% of the principal outstanding (POS) of the pool as on cut-off date. The rating of the series A1 PTCs addresses the timely payment of the interest and the ultimate payment of the principal to the series A1 PTCs investors in accordance with the transaction documentation. The rating of the equity tranche PTCs addresses the ultimate payment of the principal to the equity tranche PTC investors in accordance with the transaction documentation.

The equity tranche PTCs are junior to series A1 PTCs and payment to the equity tranche PTC investors will be made after the full redemption of the series A1 PTCs. The transaction also has a trigger-based turbo amoritsation, wherein any residual cashflows would be utilised to make prepayments to the PTC investors until the PTCs are fully extinguished if the portfolio at risk is greater than 60 days in the outstanding pool exceeds 5% of the initial POS.

Key Pool Characteristics: As per the details provided by the originator to Ind-Ra, the collateral pool assigned to the trust at par had an aggregate outstanding principal balance of INR910.6million as on the pool cut-off date of 12 February

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2024. As on the cut-off date, the 3,936-loan pool had a weighted average (WA) seasoning of 6.9 months and a WA amortisation of 16.5%, implying an adequate repayment track record of underlying borrowers. Also, the WA credit score of the pool was 757.5, with an average outstanding loan balance of INR2,31,347 and a WA internal rate of return of 21.6%. Around 82% of the pool consists of salaried class of borrowers. As per the originator, all loans were current as on the cut-off date.

LIST OF KEY RATING DRIVERS:
Strengths

- Acceptable Originator's Servicing, Underwriting and Collection Capabilities
- Adequate Credit Support for current level of rating
- Reasonable repayment track records of the borrowers in the pool

Weakness
Geographical Concertation in the pool with unsecured nature of underlying assets

KEY RATING DRIVERS

Acceptable Originator's Servicing, Underwriting and Collection Capabilities: The rating is based on the origination, servicing, collection and recovery capabilities of NFL, the legal and financial structure of the transaction, pool characteristics as on the cut-off date, and the credit enhancement (CE) provided in the transaction. The agency is of the opinion that the issuer's origination and servicing capabilities are of acceptable standards. Digital PL is NFL's first and leading offering in the financial services space. Through the Navi app, users can avail PLs completely digitally without any paperwork or physical interactions. NFL revised the product parameters in June 2021, supported by the experience earned in launching the product in mid-2020. The underwriting for all PLs is done digitally and the end-to-end process is automated and supported by machine learning models. Electronic payment is mandatory for all loans and is NFL's primary collection channel. Apart from e-mandates, users can pay through the Navi app. Cases in the 30+days past due (dpd) bucket are allocated for field visits and recovery.

Availability of Credit Support: The transaction benefits from the available internal and external CE. For Series A1 PTCs, the internal CE arises in the form of overcollateralisation of 6% of the POS, the subordination of the equity tranche PTCs of 4% of the POS, and an excess interest spread of 18.9% of the POS as on the cut-off date. For the equity tranche PTCs, an internal CE is available in the form of the overcollateralisation of 6% of the POS and the excess interest spread of 18.9% of the POS.

The total available external CE in the transaction is 6.0% of the initial POS. The CE is provided in the form of fixed deposits held in the name of the originator, with lien marked to the trustee, and it is held with DCB Bank. CE is available for utiilisation in case the collections are insufficient to meet the promised interest payments to Series A1 PTCs on each payout date and principal payments on the maturity date. After the full redemption of the series A1 PTC, the CE to the extent available would be utilised to meet shortfalls in collections, if any, to make principal payments to the equity tranche PTCs on the maturity date.

Reasonable repayment track records of the borrowers in the pool: The pool has WA seasoning of 6.9 months implying reasonable track records of repayment of borrowers in the pool. Also, all the loans were current as of cut-off date.

Geographical Concertation in the pool with unsecured nature of underlying assets: Top three states contribute around 41% of the total pool. Further underlying loans are unsecured in nature. Asset Quality in this segment are more vulnerable to economic downturns.

KEY ASSUMPTIONS

Ind-Ra has derived a base case gross default rate of 5%-6%. The agency has analysed the characteristics of the pool and established its base case assumptions through the four key performance variables that collectively affect the credit risk in a transaction - default rate, recovery rate, recovery timeline and prepayment rate. Ind-Ra considers the long-term historical average of the key performance variables of the old static pools and the performance of the latest static pools from the

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originator and the market peers, which include the COVID-19 pandemic period performance. Thus, the impact of the pandemic is part of the static pool delinquency data that was analysed by the agency.

Ind-Ra has assumed base case recovery of 15%-20% from underlying loans for this transaction. The pool cash flow has been further adjusted for prepayments of underlying loans, assuming a base case monthly prepayment rate of 2%-4%.

As represented by the originator, Ind-Ra understands that the pool assigned is as per the selection criteria applicable to the transaction.

LIQUIDITY

Superior: For the current transaction, external and internal CEs add liquidity comfort. Assuming a base case default scenario, there is a liquidity cover of more than 3.0x of the scheduled monthly obligations for Series A1 PTCs. There is no monthly obligation for the equity tranche PTCs. However, based on the expected payouts, the external and internal CEs provide a cover of more than 3x of the ultimate obligation for the equity tranche PTCs.

RATING SENSITIVITIES
Positive
An improvement in the CE coverage driven by robust transaction performance, along with an improvement in the servicer credit profile would collectively lead to a positive rating action for the series A1 PTCs and the equity tranche PTCs.

Negative:

Ind-Ra also conducted rating sensitivity tests. If the assumptions of base case default rate and recovery rates are worsened by 20%, the model-implied rating sensitivity suggests that the ratings of both the series A1 PTCs and the equity tranche PTCs will be downgraded by two notches.

In case the rating of the servicer falls below 'IND A', if the servicer is not replaced with the eligible entity having rating of 'IND A' or better, the ratings of the series A1 PTCs and the equity tranche PTCs would be partially linked to the rating of servicer to reflect the increased commingling and servicer risk.

The external CE is in the form of a fixed deposit provided by the originator, lien marked to the trust. In case the rating of the originator falls from current levels, the fixed deposit would be placed in the name of the trust. If this is not done, then the ratings of the series A1 PTCs and the equity tranche PTCs would be partially linked to the rating of the CE provider.

The CE is provided in the form of fixed deposits. In case the long-term rating of the account banks falls below one notch, and if the account bank is not replaced with a bank having rating of 'AA', the ratings of the series A1 PTCs and the equity tranche PTCs would be partially linked to the rating of the account bank.

ANY OTHER INFORMATION
Not Applicable

ABOUT THE ORIGINATOR

NFL is a wholly-owned subsidiary of the Navi group (main holding company is 100%-owned by Navi Technologies Limited), and has been operating since 2009. Navi Technologies has forayed into the financial services business with a focus on the middle-income group using technology.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total assets (INR million)	84,495	40,933
Total equity (INR million)	21,965	11,382
Net profit (INR million)	1,720	-669
Capital adequacy ratio (%)	28.4	28.0

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Source: Company data, Ind-Ra's analysis

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on 2024 PL Diana, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

RATING CRITERIA

'Rating Criteria for Indian Asset-Backed Securitisations' and 'Structured Finance Rating Criteria', dated 26 November 2021, respectively, 'The Rating Process' published on August 2023, 'Policy on Provisional Rating' dated March 2023 and 'Evaluating Corporate Governance' dated January 2023 are available at www.indiaratings.co.in.

STATUS OF NON-COOPERATION WITH PREVIOUS RATING AGENCY

Not applicable

COMPLEXITY LEVEL OF THE INSTRUMENTS

Instrument Type	Complexity Indicator
Series A1 PTCs	High
Equity Tranche PTCs	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

RATING HISTORY FOR LAST THREE YEARS

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (INR million)	Rating	29 February 2024	FY2023	FY2022	FY2021
Series A1 PTCs	Long-term	INR819.52	IND AA(SO)/Stable	Provisional IND AA(SO)/ Stable	-	-	
Equity Tranche PTCs	Long-term	INR36.42	IND A+(SO)/Stable	Provisional IND A+(SO)/ Stable			

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