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India Ratings Assigns Nimbus 2023 PL Bluebird Final Rating

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India Ratings and Research (Ind-Ra) has assigned Nimbus 2023 PL Bluebird (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)	INE0OWP15013	20 February 2023	9.30	17 December 2024	INR474.90	IND AA+(SO)/Stable	Assigned
Series A2 Pass-through Certificates (PTCs)	INE0OWP15021	20 February 2023	11.00	17 July 2026	INR85.60	IND AA(SO)/Stable	Assigned

The pool of digital personal loans 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.

Key Rating Drivers

Originator's Servicing, Underwriting and Collection Capabilities: The ratings are based on the origination, servicing, collection and recovery capabilities of NPL, the legal and financial structure of the transaction, pool characteristics 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 personal loan is NFL's first and leading offering in the financial services space. Through the Navi app, users can avail personal loans digitally without any paperwork or physical interactions. NFL revised the product parameters in June 2021, based on the experience earned during the launch of the product in mid-2020. The underwriting for all personal loans 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 other than through the Navi app. Cases in the 30+days past due (dpd) bucket are allocated to third-party agencies for field visits and recovery.

Additionally, 90+dpd observed in Ind-Ra rated past transactions is lower than projected base case, along with stable collection efficiency.

Transaction Structure: The transaction has a par structure, wherein the loan pool is assigned to the trust for a purchase

consideration equal to 88.34% of the principal outstanding (POS) of the pool. The rating of Series A1 PTCs addresses the timely payment of the interest and timely payment of principal to the Series A1 PTCs investors on the scheduled payout dates, in accordance with the transaction documentation. The rating of Series A2 PTCs addresses the ultimate payment of interest and principal to Series A2 PTC investors on the final maturity date, in accordance with the transaction documentation. The transaction also has a turbo amoritsation, wherein any residual cashflows would be utilised to make prepayments to the Series A1 investors until the Series A1 PTCs are fully extinguished. Subsequently, once Series A1 PTCs are fully extinguished, the residual cashflows would be utilised to make prepayment to Series A2 investors until Series A2 PTCs are fully extinguished.

Availability of Credit Support: The transaction benefits from the available internal and external CE. For Series A1 PTCs, the internal CE arises in form of subordination through Series A2 PTCs, overcollateralisation and excess interest spread of 13.49%, 11.7% and 16.9%, respectively, of the initial POS. For Series A2 PTCs, the internal CE arises in form of overcollateralisation and excess interest spread of 11.7% and 16.5%, respectively, of the initial POS. The transaction also benefits from a turbo amortisation, which would help in faster amortisation of Series A1, and subsequently to Series A2 PTCs. The total available external CE in the transaction is 10.00% of the initial POS. The CE is provided in the form of fixed deposits held in the name of the trust held with ICICI Bank Limited.

Liquidity Indicator - Superior: For the current transaction, external and internal CEs add liquidity comfort. Assuming a base case default scenario, there is a liquidity cover is more than 3.0x of the scheduled monthly obligation for Series A1 PTCs and Series A2 PTCs. Features such as turbo amortisation and tail period in the transaction add liquidity comfort to the transaction.

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 INR634.51 million as on the pool cut-off date of 1 February 2023. As on the pool cut-off date, the 4,994-loan pool had a weighted average (WA) seasoning of 5.9 months and WA amortisation of 14.9%, implying a significant repayment track record of underlying borrowers. Also, the WA credit bureau score of the pool is 760.5, with an average outstanding loan balance of INR1,27,054 and a WA internal rate of return of 20.9%. As represented by the originator, all loans were current as of the cut-off date.

Key Assumptions and Analytical Approach: Ind-Ra has derived a base case gross default rate of 5.5%-6.5%. 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 both the long-term historical average of the key performance variables of the old static pools and the performance of the latest static pools, both from the originator and the market peers, which includes the 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 derived the recovery rate and monthly prepayment rate on the basis of the performance of agency-rated transactions for the originator and market inputs. Ind-Ra has assumed a base case recovery rate of 5%-15%, with a base case recovery time of three-to-six months. The pool cash flow has been further adjusted for prepayments of underlying loans, assuming a base case monthly prepayment rate of 0.1%-0.3%.

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

Rating Sensitivities

As part of its analysis, Ind-Ra built a pool cash flow model based on the transaction's financial structure. The agency also analysed historical data to determine the base values of key variables that would influence the level of expected losses in this transaction. 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 CE was sufficient for the current rating levels.

In case the long-term issuer rating of the originator falls below 'IND A', the rating of Series A1 and Series A2 PTCs would be partially linked to the rating of originator to reflect the increased commingling and servicer risk.

Ind-Ra also conducted rating sensitivity tests. If the assumptions of both base case default rate and base case recovery rate were simultaneously worsened by 20%, the model-implied rating sensitivity suggests that the rating of Series A1 and Series A2 PTCs will remain unchanged.

A new issue report for this transaction will be available shortly on Ind-Ra's website, www.indiaratings.co.in.

Company Profile

NFL, a wholly-owned subsidiary of the Navi group (main holding company is 100%-owned by Navi Technologies Limited, holds 100% stake in Chaitanya India Fin Credit Private Limited; 'IND A'/Stable) which has been in operations since 2009. The consolidated assets under management of the lending vertical stood at INR29.3 billion at end-March 2022. Navi Technologies has forayed into financial services business with focus on middle-income group using technology.

FINANCIAL SUMMARY

Particulars	FY22	FY21
Total assets (INR million)	40,933	32,944
Total equity (INR million)	11,382	11,260
Net profit (INR million)	-669	975
Return on average assets (%)	-1.8	2.8
Equity/assets (%)	27.8	34.2
Capital adequacy ratio (%)	30.7	38.0
Source: Company Data, Ind-Ra analysis		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Size of Issue (million)	Rating	16 February 2022
Series A1 PTCs	Long-term	INR474.90	IND AA+(SO)/Stable	Provisional IND AA+(SO)/Stable
Series A2 PTCs	Long-term	INR85.60	IND AA(SO)/Stable	Provisional IND AA(SO)/Stable

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Series A1 PTCs	High
Series A2 PTCs	High

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

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APPLICABLE CRITERIA

Structured Finance Rating Criteria

Rating Criteria for Indian Asset-Backed Securitisations

The Rating Process

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