PRESS RELEASE

February 22, 2024

Issuances of securitised debt instruments (SDI) by corporate entities to rise to Rs 100 crore in FY2024: ICRA

- ***Volume of SDI transactions issued by corporate entities increased by ~33% in FY2023 (~Rs 73 crore) compared to FY2020***
- ***SDI market to get tapped by increasing number of non-financial entities***

ICRA projects the issuances of securitised debt instruments (SDIs) to rise to Rs 100 crore in FY2024, providing small-to-mid-size entities with a new set of investors, viz. retail investors, to raise funds. The number of non-financial sector entities tapping into the securitisation market through SDI issuances has risen in recent years. This market had previously been concentrated towards financial sector entities. The SDIs issued by non-financial sector entities so far are backed by lease rentals, trade receivables or pool of debenture receivables, in contrast to loan receivables securitised by financial sector entities. ICRA estimates that 18 SDI issuances have been executed by corporate entities since FY2020 with a cumulative value of ~Rs. 250 crore.

Mr. Abhishek Dafria, Senior Vice President and Group Head, Structured Finance Ratings, ICRA, said: *"Corporate entities, unlike non-banking finance companies (NBFCs), have not explored securitisation as a means of raising funds in a meaningful manner so far. However, the recent uptick in issuances of SDIs could be a sign of deeper understanding on these kinds of instruments, which could help corporates diversify their funding avenues. The issuances are listed instruments and thus could be a liquid market for investors in the future once such issuances grow in number and there is better awareness of the risks and corresponding yields. Further, they are regulated under the SEBI (Issue and Listing of Securitised Debt Instruments) Regulations of 2008. At present, we are seeing small-to-mid size corporate entities securitise their trade receivables or lease rentals to raise funds through SDI issuances. The credit ratings of these issuances are moderate to weak, and thus the yield expectation from these instruments is higher than those that the traditional securitisation market offers to the investors."*

Unlike the traditional securitisation market where banks are the largest investors, the SDI issuances from corporate entities have seen high retail participation, including high net worth individuals (HNIs). As per ICRA's estimates, about 50% of the SDI issuances of corporate entities since FY2020 have lease rentals as asset class. Such issuances are conducted by leasing companies who provide assets on operating lease model to their clients. The instruments are insulated from the credit risk of the issuer and remain linked to the credit quality of the cash flows that are being securitised, eg. The lessee's ability to meet its payments are critical for a lease rental-backed SDI. ICRA expects the SDI issuances to continue to grow in the coming years supported by a growing investor base, though it remains imperative that the retail segment should understand the structures behind the SDIs and take informed decisions.

Exhibit 1. Annual trend in SDI volumes and issuances

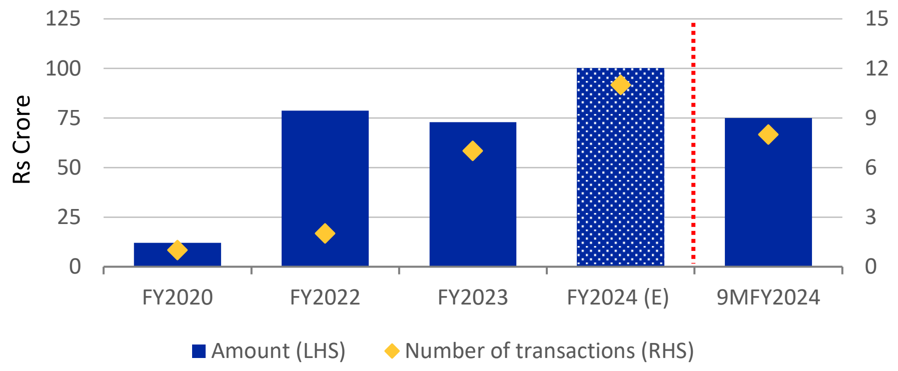
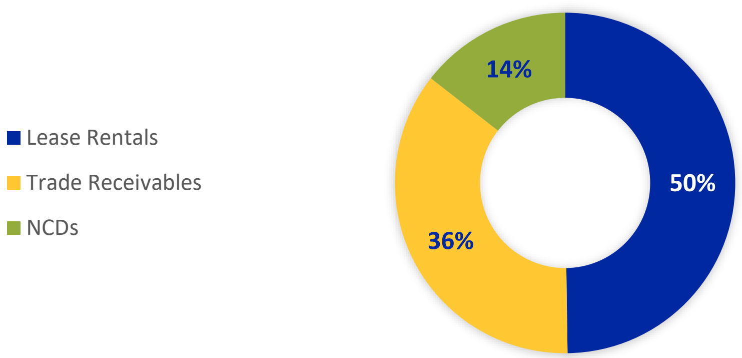


Exhibit 2. Asset class-wise (Value) for the period FY2020-9M FY2024



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