

PRESS RELEASE
November 23, 2023

Loan sell-downs of personal loan pools may see a temporary pause following the RBI's decision to increase risk weights: ICRA

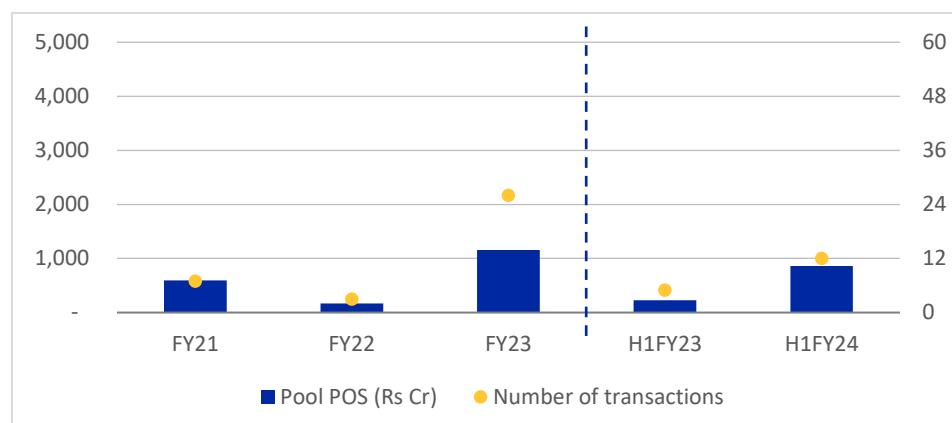
- **Personal loan pool sell-downs had increased four-fold in H1 FY2024 (~Rs 800 crore) compared to H1 FY2023**
- **PTCs may see a growing preference on account of the RBI circular**

ICRA observed that the latest notification by the Reserve Bank of India (RBI) to increase the risk weights for consumer credit exposure (mainly on unsecured asset classes) of banks and non-banking financial companies (NBFCs) by 25% is likely to impact the loan sell-downs of personal loan retail pools, which had gained momentum in recent years. Loan sell-down (direct assignment transactions) by personal loan NBFCs amounted to about Rs. 1,150 crore in FY2023 and had already crossed Rs 800 crore in H1 FY2024 (i.e. 4x of the volumes done in H1 FY2023). Such transactions had picked up momentum, given the growing financing requirements for the NBFCs to meet the strong credit demand for consumer and personal loans in the country, coupled with the growing appetite for personal loan asset class by the banks that were purchasing these loan pools. ICRA expects the pace of personal loan sell-downs to taper at least in the near term, following the increase in capital requirements on such loans for the purchasing banks, which would thereby augment the costs for all parties.

Mr. Abhishek Dafria, Senior Vice President and Group Head, Structured Finance Ratings, ICRA, said: *"Securitisation in the personal loan category has seen good momentum in FY2023 and FY2024 so far with about 13-15 originators raising funds through either the direct assignment (DA) route or through issuance of pass-through certificates (PTCs). While the DA transactions are likely to see a slowdown, we expect the preference for PTCs to continue as the same does not attract the additional capital requirement. Personal loan pools sold through the PTC route form about 70% of the total securitisation volumes in this asset class. Nevertheless, given the regulator's growing concern on the increase in personal loan disbursements, even the PTC transactions could be impacted temporarily if the banks decide to pause on investments in personal loan asset class to reassess the macro-environment."*

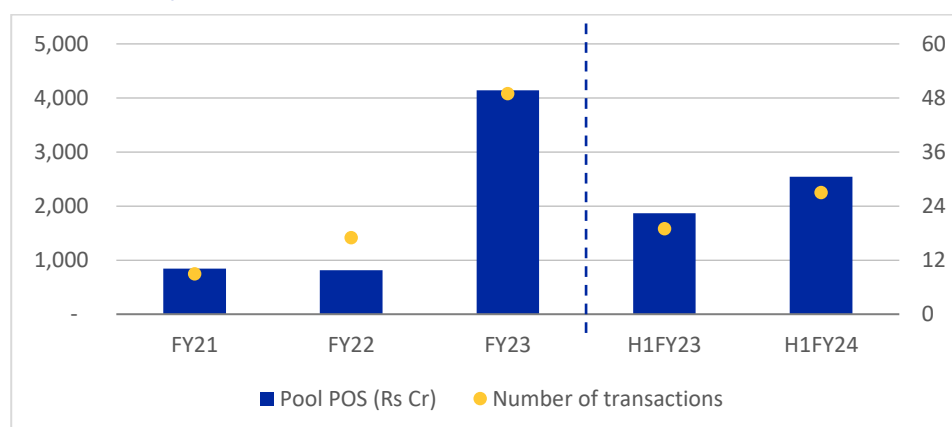
While securitisation in the personal and consumer loan category could see some slowdown for the interim period, ICRA, however, does not foresee any material impact on the overall domestic securitisation volumes as this asset class forms only ~3% of the total securitisation volumes. ICRA maintains its estimate of ~Rs 1.9-2.0 lakh crore of securitisation volumes for FY2024 against ~Rs 1.8 lakh crore seen in FY2023 (includes DAs and PTCs). Issuance of PTCs may also benefit from the RBI circular since bank borrowings to the NBFCs would carry an additional 25% risk weight; this is likely to increase the bank borrowing costs for the industry, thereby improving the viability of PTC transactions.

HIBIT 1. PL/CL DA securitisation



* PL/CL: Personal Loans & Consumer Loans

EXHIBIT 2. PL/CL PTC securitisation



* PL/CL: Personal Loans & Consumer Loans

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