SPECIAL COMMENTS

Securitisation helps retail focused NBFCs to tide over the liquidity crisis

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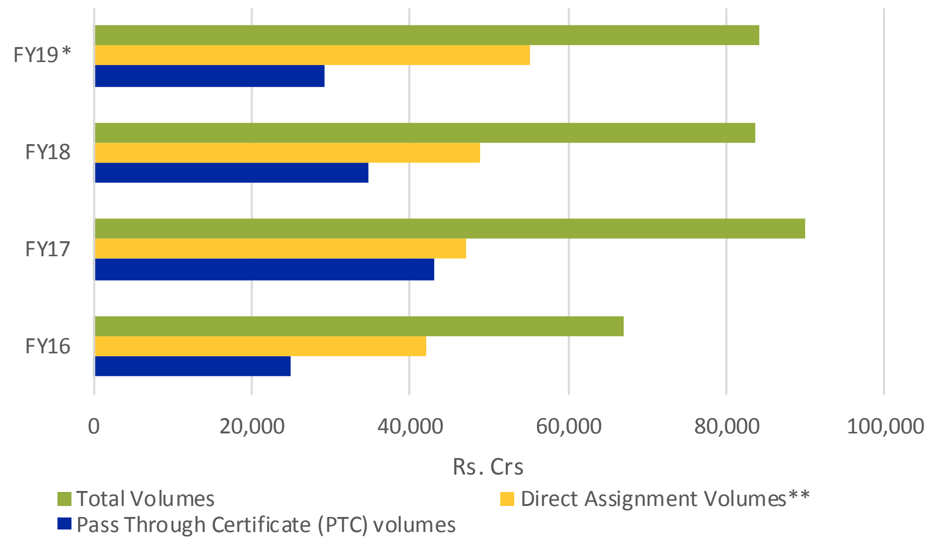
Securitisation market has witnessed heightened activity in recent times driven by large scale funding requirements of NBFCs and HFCs. The securitisation volumes soared to around Rs. 18,000 crore in the month of October 2018 alone, with many entities raising funds through retail portfolio sell-down to banks. In comparison, the securitisation volumes were around Rs. 66,300 crore till H1 FY2019 and around Rs. 83,800 crore for the entire fiscal 2018. These funds helped meet the sizeable repayment obligations of the NBFC sector (around Rs. 78,000 crore of Commercial Paper (CP) was due for repayment in October 2018) in an otherwise difficult market. The securitisation market in India can be segregated into two types of transactions – rated Pass Through Certificate (PTC) transactions, and unrated Direct Assignment (D.A.) transactions (bilateral assignment of pool of retail loans from one entity to another).

Other funding avenues had dried up for the NBFC sector, with capital market investors becoming wary of taking incremental exposures to some entities and general freeze in the credit markets owing to tight liquidity. **Says Mr. Vibhor Mittal, Group Head – Structured Finance Ratings at ICRA,** *"The advantage of securitisation transactions – especially in the current market scenario – is that the investors are not exposed to entity level credit risk and are seen taking exposure to the underlying pool of retail borrowers to whom these entities have lent. Even banks that have exhausted single party credit limit to an entity can do business with that entity by buying its retail loan portfolios. Both public and private sector banks have participated in a big way. However, yields have gone up significantly (by around 100-200 basis points in October 2018 compared to H1 FY2019), as the market dynamics have changed completely – from being a Sellers' market earlier to becoming a Buyers' market now".*

While the liquidity position seems to be easing, the momentum in the securitisation market is likely to remain strong in the remainder of this quarter as there are significant redemptions falling due in the months of November and December 2018 as well. **Adds Mr. Mittal,** *"Securitisation market in India is growing rapidly and becoming more broad-based with volumes in the current fiscal (till October 2018) already exceeding the full year volumes witnessed in the previous fiscal. Securitisation is an important tool for retail focused NBFCs as it provides them funding at an attractive cost while simultaneously providing a hedge against the ALM risk."*

The movement in securitisation market volumes for both PTC and D.A. transactions over the past few years are provided in the graph below.

Exhibit 1 – Trends in securitisation volumes in recent years



** YTD till October 2018*
*** ICRA estimates*

Priority sector lending (PSL) requirements of banks have remained the driving force behind securitisation volumes for the past several years. However, in recent years, the share of non-PSL backed transactions is on the rise with increasing participation from mutual funds and NBFCs as investors. In H1 FY 2019 and FY 2018, the share of non-PSL transactions has increased to around 35% compared to around 24% in FY2017.

Priority Sector Lending Certificates (PSLCs) is an alternate avenue available to banks for meeting PSL requirements. PSLCs have gained widespread acceptance in the market with traded volumes of around 1.78 lakh crore in H1 FY2019 as against 1.84 lakh crore for entire FY2018. Both PSLCs and the co-origination framework permitted by RBI recently – where banks may partner with NBFCs for onboarding PSL assets – may adversely impact the PSL volumes in the medium to long-term.

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