



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

STRUCTURED FINANCE

*Sharp increase in securitisation volumes
in Q3 FY2021; uptick expected to continue
in the coming quarters*

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OUTLOOK

Securitisation volumes witnessed significant QoQ increase in Q3 FY2021

Uptick in volumes expected to continue in the coming quarters

Increase in proportion of mortgage-backed securities in total securitisation volumes

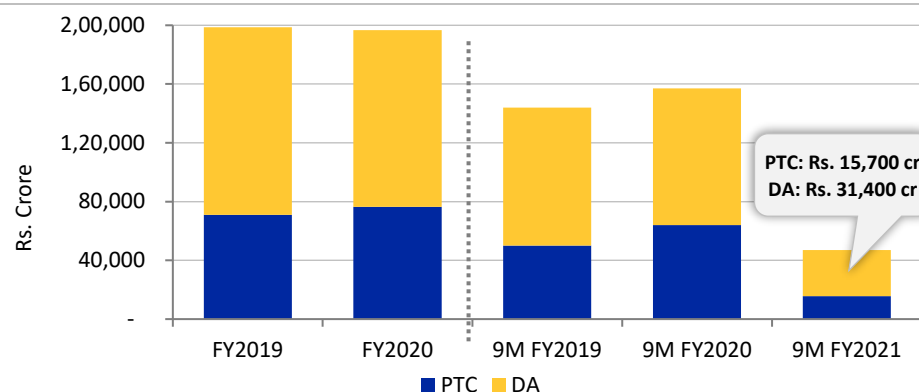
- Non-banking financial companies (NBFCs) and housing finance companies (HFCs) securitised about ~Rs. 24,400 crore of their retail loan assets in Q3 FY2021, implying a healthy quarter-on-quarter (QoQ) growth of ~61%. Nevertheless, the securitisation volumes remain below the pre-Covid levels as reflected in the 48% year-on-year (YoY) drop in Q3 FY2021 volumes. Direct assignment (DA) continues to be the preferred mode of securitising, accounting for two-third of the volumes in 9M FY2021.
- The increase in securitisation volumes in the past two quarters is expected to continue in Q4 FY2021 and in the next fiscal. ICRA maintains its annual securitisation volume estimate at 0.8- 0.9 lakh crore for FY2021.
- Mortgage-backed securitisation (MBS) transactions re-emerged as a leading asset class with a share of ~38% in 9M FY2021. Commercial vehicle (CV) loans accounted for just above a quarter of the overall volumes in 9M FY2021.
- Securitisation volumes that qualify for priority sector lending (PSL), which had seen a declining trend over the past few years as well as in H1 FY2021, witnessed higher volumes in Q3 FY2021. This was mainly on account of increased activity in the MBS segment, which is mainly PSL in nature, and a few large PSL transactions in the CV segment.

SHARP INCREASE IN SECURITISATION VOLUMES IN Q3 FY2021

NBFCs and HFCs securitised about Rs. 24,400 crore of their retail loan assets in Q3 FY2021, as per ICRA's estimates. This implies a healthy QoQ growth of ~61%. Ever since the sharp fall in domestic securitisation volumes in Q1 FY2021, the securitisation market has revived on a sequential basis. Investors and originators are again seeing securitisation as a viable funding tool, given the healthy collections across most asset classes post the end of the moratorium period in August 2020 provided under the Reserve Bank of India's (RBI) COVID-19 – Regulatory Package. As per ICRA's estimates, 50 originators undertook securitisation transactions in Q3 FY2021, reflecting an improvement compared to 18 and 45 originators in Q1 and Q2 FY2021, respectively. Nevertheless, the securitisation volumes remain below the pre-Covid levels as reflected in the 48% YoY drop in Q3 FY2021 volumes. The securitisation volumes were Rs. 47,100 crore in 9M FY2021 against Rs. 1,57,000 crore during the corresponding period in the previous year. DA continues to be the preferred mode of securitising, accounting for two-third of the volumes in 9M FY2021.

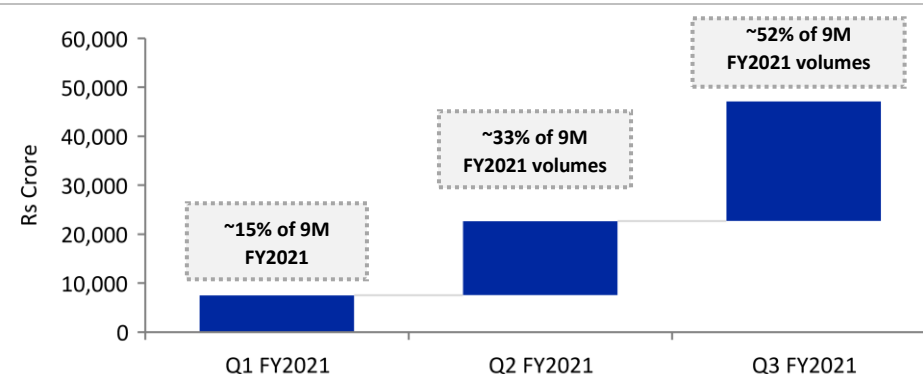
The increase in securitisation volumes in the past two quarters indicates a path to normalcy for NBFCs and HFCs, at least as far as disbursements are concerned, post the shocks seen in the economy in Q1 FY2021 following the Covid-19 pandemic and the nationwide lockdown. The recovery was also aided by an uptick in the collection efficiency, which increased to pre-Covid levels across all asset classes following the end of the moratorium period. Most investors, nonetheless, are maintaining stringent filters during pool selection, though there is a considerable increase in the appetite for the purchase of such retail pools, mainly in the secured asset class.

EXHIBIT 1: Securitisation market volume



Source: ICRA research; PTC – Pass-through certificate

EXHIBIT 2: Quarterly trend in FY2021



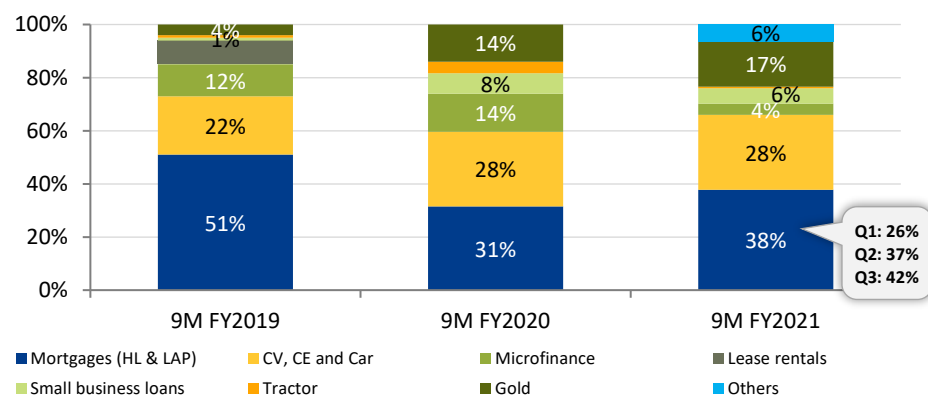
Source: ICRA research

IMPROVEMENT IN PROPORTION OF MORTGAGE-BACKED SECURITIES IN TOTAL SECURITISATION VOLUMES

Secured loans found higher traction with investors in Q3 FY2021. MBS transactions, backed by receivables from home loans (HLs) and loan against property (LAP), re-emerged as leading asset class with its share being ~38% in 9M FY2021. The collection performance in this segment was also the least impacted throughout the moratorium period. The share of MBS in total securitisation volumes has increased in each quarter of FY2021, viz. 26% in Q1, 37% in Q2 and 42% in Q3. However, its share in 9M FY2021 was still lower than the 51% share recorded in FY2019 when a few large originators were actively securitising in the aftermath of the liquidity crisis. Almost the entire securitisation in the MBS segment has been through the DA route in 9M FY2021. The appetite for gold loan securitisation, another secured asset class, also remained at similar levels of ~17% compared to H1 FY2021. In addition to its secured nature, gold loans offer highly liquid security, better yields and stable portfolio performance. CV loans accounted for just above a quarter of the overall volumes in 9M FY2021. Unsecured loans like microfinance loans remain limited in the securitisation market, forming ~4% in 9M FY2021 against ~15% in FY2020. Other asset classes such as small business loans, two-wheelers, etc, continue to form a small share of securitisation volumes.

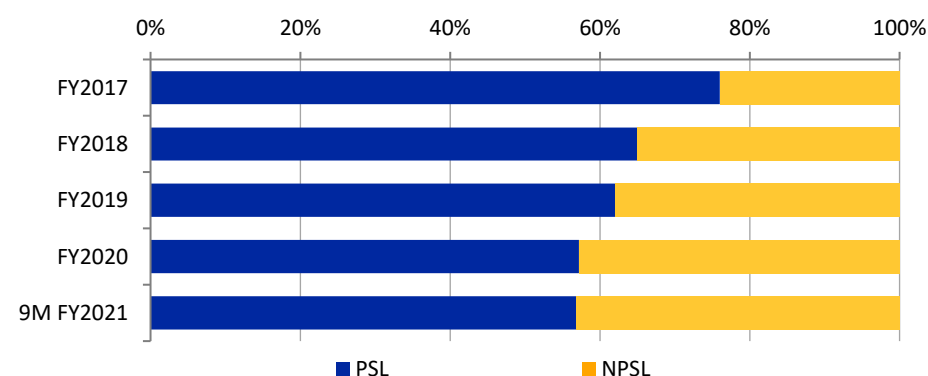
Securitisation volumes that qualify for PSL, which had seen a declining trend over the past few years as well as in H1 FY2021, witnessed higher volumes in Q3 FY2021. This was mainly on account of the increased activity in the MBS segment, which is mainly PSL in nature, and a few large PSL transactions in the CV segment. In ICRA's view, PSL volumes may be impacted in the long term if the banks meet a higher proportion of their PSL targets through the purchase of priority sector lending certificates (PSLCs) and inter-bank participation certificates (IBPCs) or through partnerships with NBFCs via the business correspondent (BC) model or through the loan co-origination framework.

EXHIBIT 3: Asset class-wise securitisation market volume (PTC + DA)



Source: ICRA research

EXHIBIT 4: PSL and non-PSL share in overall volumes



Source: ICRA research

OUTLOOK

Due to the uncertainty caused by the pandemic, investors increased their focus on the secured asset class where the losses are expected to be restricted, given the presence of adequate collateral. The dominance of asset classes like mortgage-backed loans and gold loans is a clear indication of the same. On the other hand, unsecured loans like microfinance loans remain limited in the securitisation market. However, even microfinance entities have seen a healthy increase in disbursement levels in recent months and ICRA expects their share in securitisation to improve from Q4 FY2021 as they would have better pool availability for meeting the investor criteria. While the delinquency levels have increased across asset classes, as expected post the end of the moratorium period, ICRA has observed that the credit enhancement available in its rated transactions has been adequate so far to take care of any shortfall in collections. This would also give confidence to the investors. The increase in securitisation volumes in the past two quarters is expected to continue in Q4 FY2021 and in the next fiscal. ICRA maintains its annual securitisation volume estimate at 0.8-0.9 lakh crore for FY2021 with the quarterly growth momentum expected to continue in the next fiscal.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

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- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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