ICRA

# STRUCTURED FINANCE

## Improving collections in securitised pools and stringent underwriting during Covid period a positive for the NBFC industry; future Covid waves a looming risk

**AUGUST 2021**

# Highlights

ICRA

**Click to Provide Feedback**

*With the gradual ease in restrictions from June 2021 across many states, the monthly collection efficiencies increased by 7-10% in June 2021 over the previous month across the asset classes in ICRA-rated securitised pools*

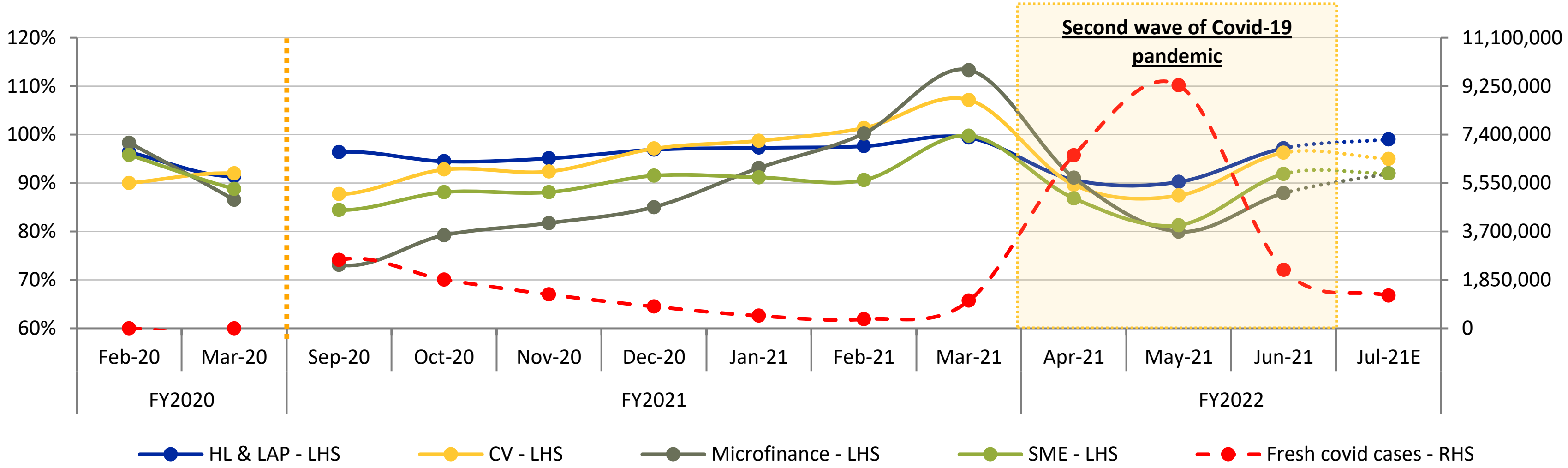
*The collection efficiencies in ICRA-rated retail loan pools are expected to improve in Q2 FY2022 as entities would continue to focus and strengthen their collection efforts at a greater intensity to reduce the slippages, given the uncertainty prevailing regarding the third wave*

- The average collection efficiency in ICRA-rated securitised retail pools originated by NBFCs and HFCs improved in June 2021 due to easing of movement restrictions/ lockdowns in western and northern regions of the country that paved the way for elevated collection activities.
- The increase in monthly collection efficiencies in June 2021 was by 7-10% over the previous month across the asset classes as observed in ICRA-rated securitised pools.
- While the collections in the housing loans (HL) witnessed the swiftest recovery in June 2021, the recovery in collections of the weaker profile borrowers in microfinance loans remained lower. A similar recovery trend is evident in unsecured SME loans because the broader economic and business activities are yet to achieve normalcy levels.
- ICRA observes that the collections in retail pools securitised post the first wave (i.e. September 2020), especially for the more affected unsecured lending sector, have fared better than the pools originated prior to the same.
- The 90+ delinquencies declined in June 2021 compared to May 2021 across asset classes as majority of the lenders have reported lower bounce rates in their portfolio led by the improvement in collections.
- Basis the stable collections and lower bounce rates being reported by several originators in their portfolio for July 2021 month, ICRA believes that the asset quality will improve further in Q2 FY2022 as entities would continue to strengthen their collection efforts to reduce the slippages.
- For ICRA-rated securitisation transactions, ICRA is maintaining a ‘Stable’ outlook and would be monitoring the collection efficiency, delinquencies trends and credit enhancement cover closely.

# Material uptick in collection efficiency across asset classes witnessed in Jun-21

ICRA

**Exhibit: ICRA-rated pools' monthly collection efficiency and trend in fresh Covid cases**

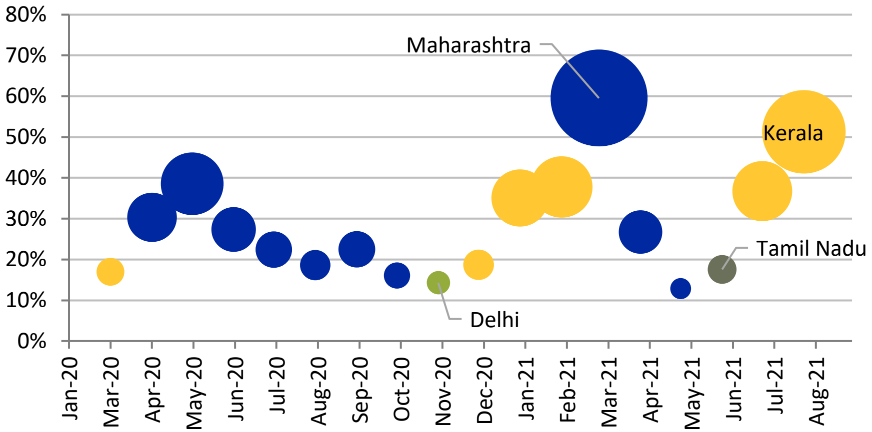



- Declining Covid infection rates after May 2021 and thereby easing of movement restrictions/lockdowns in western and northern regions of the country paved the way for elevated collection activities of the lenders, which augmented the average collection efficiency in ICRA-rated securitised retail loan pools originated by the NBFCs and the HFCs for June 2021 month. Accordingly, the 90+ delinquencies have declined in June 2021 compared to May 2021 across asset classes as majority of the lenders have reported lower bounce rates in their portfolio led by the improvement in collections.
- Basis the stable collections and lower bounce rates being reported by several originators in their portfolio for July 2021 month, we believe that the asset quality will improve further in Q2 FY2022 as entities would continue to focus and strengthen their collection efforts at a greater intensity to reduce the slippages, given the uncertainty prevailing regarding the third wave amid the moderate pace of vaccination drive.

*Source: ICRA Research, CEIC, Jul-21E represents estimated collection numbers, Monthly collection efficiency = (current collections + overdue collections)/current billings*

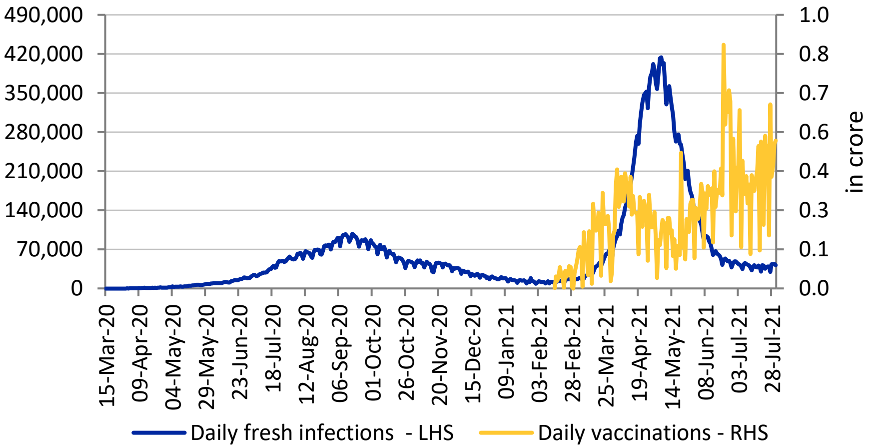
# Easing restrictions/lockdown led by reduction in infections a respite for collections

### Exhibit: Top state contributing to fresh Covid-19 infections each month




*Source: CEIC*

### Exhibit: Fresh infections and daily vaccination in India




*Source: CEIC*

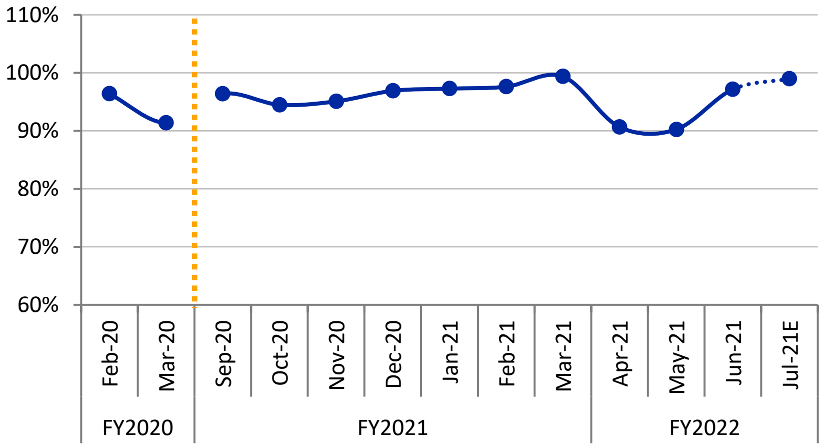
- Since the onset of the pandemic in March 2020 in India, Maharashtra and Kerala are the two major states which have accounted for majority of fresh Covid infections on a month-on-month basis.
- Following the decline in the fresh infections beginning June 2021, most of the state governments in India have eased the lockdown or lockdown-like restrictions in a phased manner, except Kerala where the daily fresh Covid infections are still at an elevated level.

- With the easing of restrictions and rising share of population (~46 crore) receiving vaccination (at least one doze) as of July 2021, the uncertainty prevailing regarding the third wave amid moderate pace of vaccination drive is the risk largely looming on the credit profile of the originators.
- Further, focused continuation of the vaccination programme to cover a major portion of the Indian population (with both the doses of vaccine) would be critical in the near term.

# Collection efficiencies and delinquencies | HL & LAP pool performance

ICRA

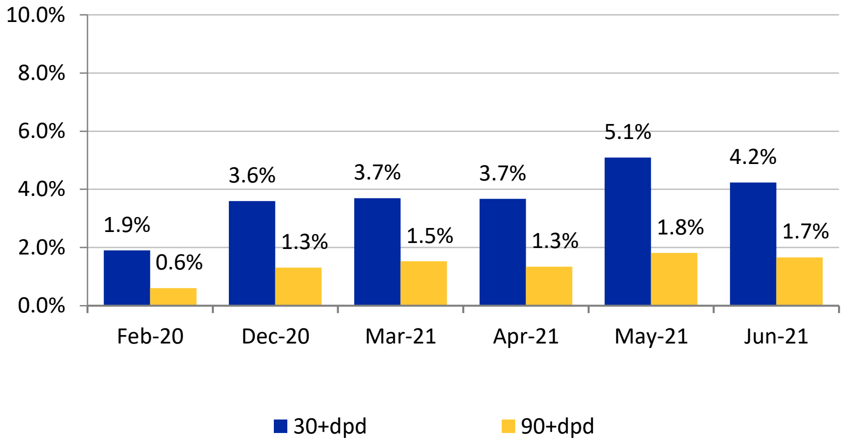
### Exhibit: Monthly collection efficiency trend in ICRA-rated HL & LAP pools




*Source: ICRA Research, Jul-21E represents estimated numbers,*
*Monthly collection efficiency = (current collections + overdue collections)/current billings*

- Housing loans (HL) and loans against property (LAP) pools have demonstrated robust performance as the collections witnessed swiftest recovery in June 2021 post seeing a drop in May 2021 due to disruptions caused by the second wave.
- Presence of online collection practices, association of the borrower with the underlying collateral and the priority given by the borrowers to repay such loans are the key drivers of the recovery in collections.

### Exhibit: Delinquencies in ICRA-rated HL & LAP pools

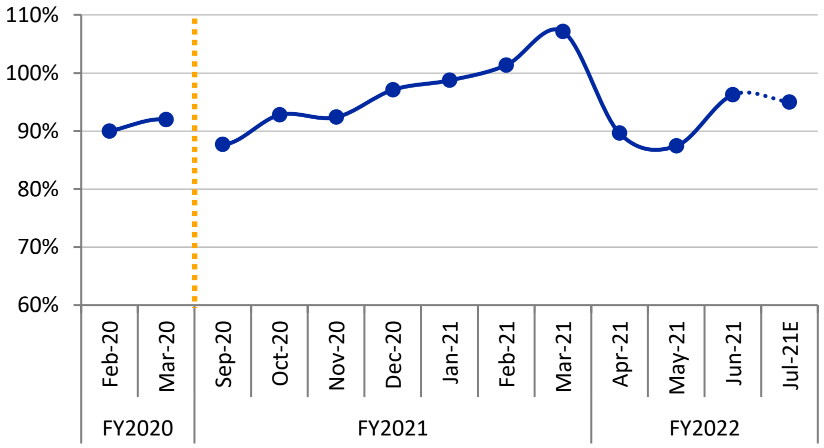



*Source: ICRA Research, dpd – days past due*

- With the collections returning to near normalcy levels in June 2021, the incremental slippages and delinquencies as well have witnessed reduction in June 2021.
- ICRA believes that HL & LAP pools are expected to continue reporting robust recovery in Q2 FY2022 provided there are no restrictions/lockdowns in major states.

# Collection efficiencies and delinquencies | CV loan pool performance

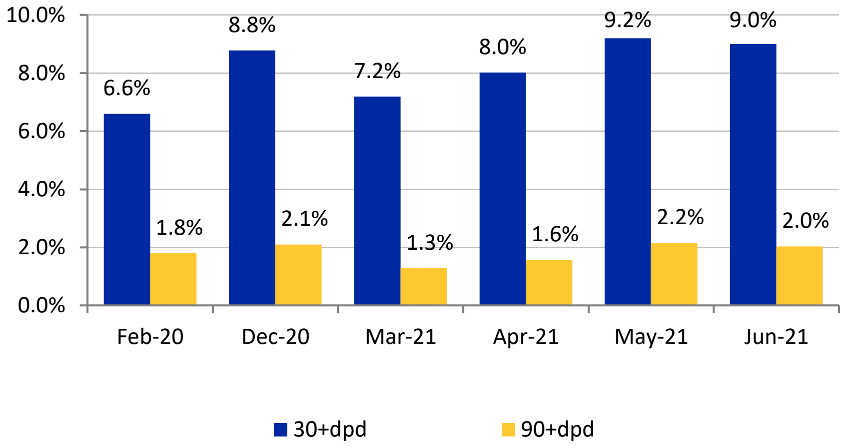
### Exhibit: Monthly collection efficiency trend in ICRA-rated Vehicle loan pools




*Source: ICRA Research, Jul-21E represents estimated numbers,*
*Monthly collection efficiency = (current collections + overdue collections)/current billings*

- The collection efficiency in ICRA-rated vehicle loan pools (includes tractor and construction equipment sub-pools), rebounded in June 2021 on account of ease in movement restrictions. This enabled elevated collection efforts and improved repayment capability of the borrowers led by resumption in the business of the transport operators on the back of higher inter/intra-state movements.
- Also, the performance of the vehicle loan pools has remained healthy on account of minimal presence of highly affected passenger vehicle (i.e. buses) loans.

### Exhibit: Delinquencies in ICRA-rated Vehicle loan pools

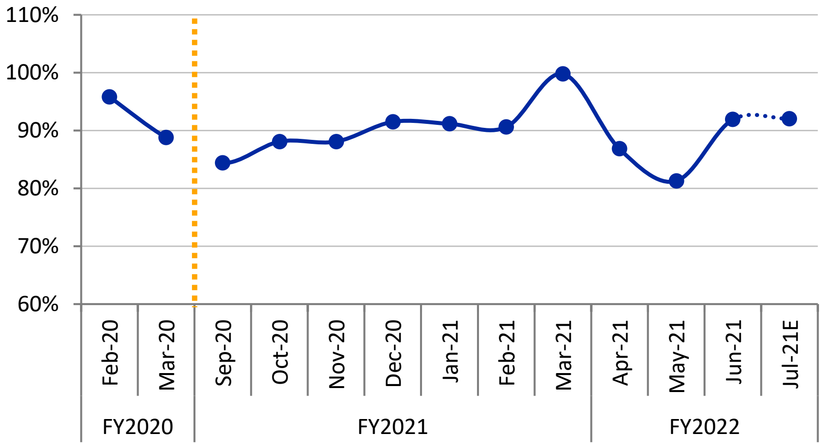



*Source: ICRA Research, dpd – days past due*

- The slippages in softer and harder buckets have witnessed marginal drop in June 2021 on account of elevated collections led by the ease in lockdowns/restrictions in aftermath of falling fresh infection rates across major states.
- Recovery from the delinquent borrowers in CV loans can still be expected due to the presence of collateral with eventual losses being comparatively lower.

# Collection efficiencies and delinquencies | SME loan pool performance

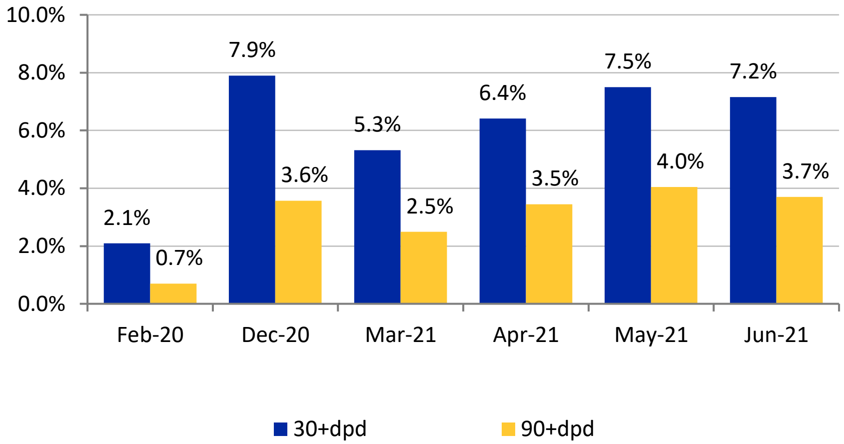
**Exhibit: Monthly collection efficiency trend in ICRA-rated SME loan pools**




*Source: ICRA Research, Jul-21E represents estimated numbers,*
*Monthly collection efficiency = (current collections + overdue collections)/current billings*

- With the easing restrictions on the opening of local establishments, basis the robust consumer demand the cash flows of the borrowers/businesses have improved in June 2021 and consequently the loan repayment ability of the SME borrowers has improved leading to recovery in collection efficiency.
- The SME borrowers from sectors such as hospitality, tourism, textile, gems & jewellery, food & entertainment etc. continued to log in weaker performance.

**Exhibit: Delinquencies in ICRA-rated SME loan pools**

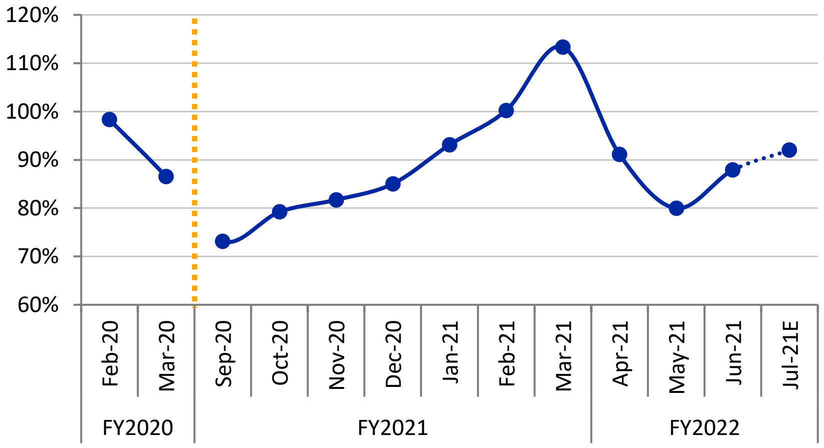



*Source: ICRA Research, dpd – days past due*

- The slippages in softer and harder buckets saw a decline in June 2021 compared to May 2021 as the self-employed borrowers in the segment were relatively less impacted due to ease of lockdowns while lenders also adopted focused recovery efforts.
- A material recovery may not be expected in the unsecured SME loan as recovery from harder buckets would be difficult, such that the losses would be higher than seen in the past due to the absence of a collateral.

# Collection efficiencies and delinquencies | Microfinance loan pool performance

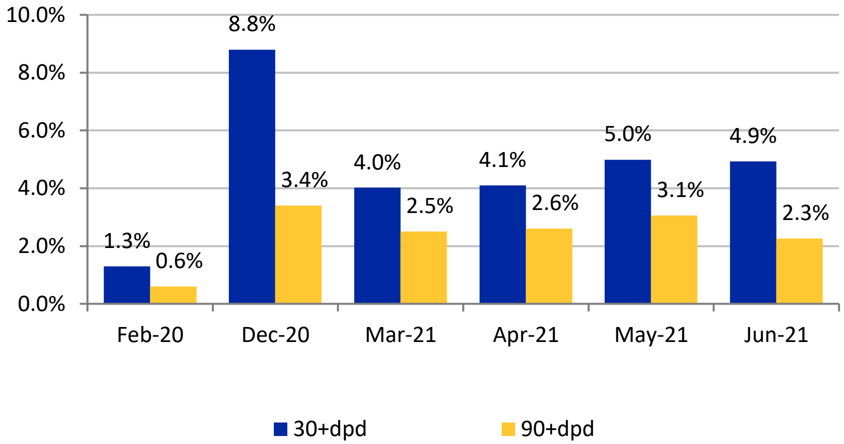
**Exhibit: Monthly collection efficiency trend in ICRA-rated Microfinance loan pools**




*Source: ICRA Research, Jul-21E represents estimated numbers,*
*Monthly collection efficiency = (current collections + overdue collections)/current billings*

- The average monthly collection efficiency of ICRA-rated microfinance loan pools has seen a rebound in June 2021 led by easing in restrictions/lockdowns enabling resumption of operational and collection effort of the microfinance lenders. Nonetheless, improvement to pre-Covid levels may take time because the broader economic and business activities are yet to achieve near normalcy levels.
- Certain states, especially Assam and Kerala, continue to report weak collections due to state-specific issues.

**Exhibit: Delinquencies in ICRA-rated Microfinance loan pools**

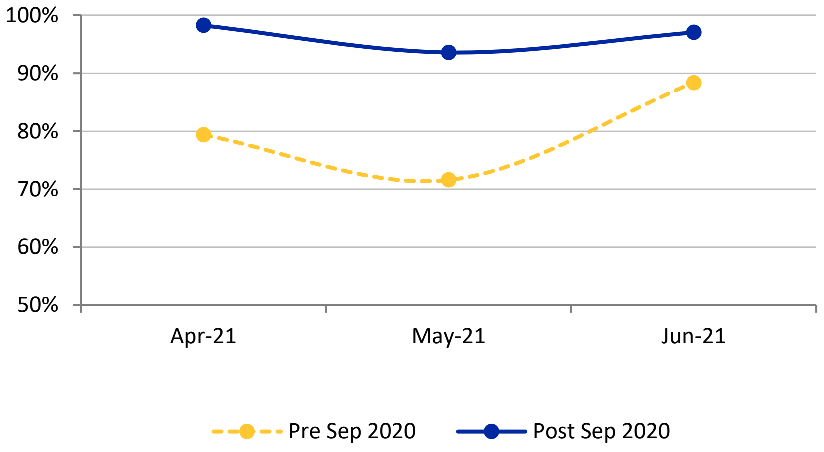



*Source: ICRA Research, dpd – days past due*

- The incremental slippages and delinquency in June 2021 declined in ICRA-rated microfinance pools. The asset quality could improve further in the coming months on account of the presence of better-quality contracts in the pools, as long as Covid infections remained low across major states.
- Like SME loans, a substantial recovery from harder bucket (i.e. 90+dpd) would continue to remain a challenge.

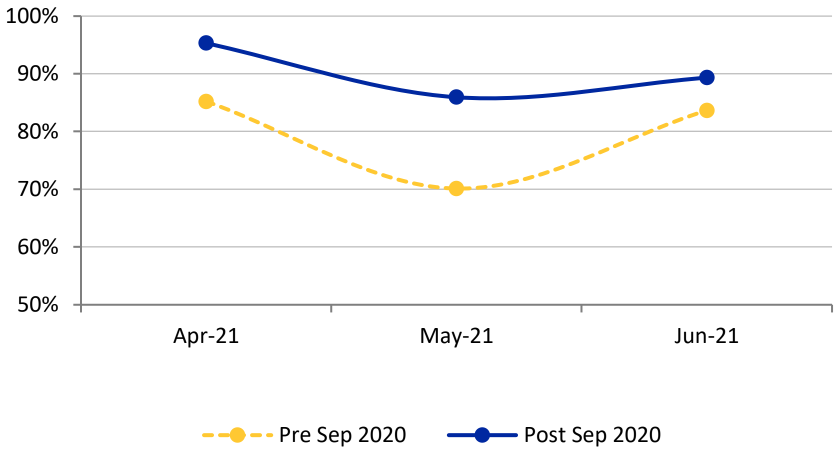
# Better collection efficiency for unsecured loan pools securitised post Sep-20

**Exhibit: Monthly collection efficiency trend in ICRA-rated SME loan pools**




*Source: ICRA Research,*
*Monthly collection efficiency = (current collections + overdue collections)/current billings*

**Exhibit: Delinquencies in ICRA-rated Microfinance loan pools**




*Source: ICRA Research,*
*Monthly collection efficiency = (current collections + overdue collections)/current billings*

- ICRA observes that the collections in retail pools securitised post the first wave (i.e. September 2020), especially for the more affected unsecured loans segment i.e. SME loans and microfinance loans, have fared better than the pools originated prior to the same.
- This is on account of tightening of the prevailing credit appraisal processes and parameters by the lenders to ensure addition of better-quality loans in the portfolio coupled with stringent loan selection criteria espoused by the investors in the pools such as high bureau scores, high seasoning, non-moratorium, exposure to least infected states/districts etc.

## Click to Provide Feedback

# ICRA Analytical Contact Details


| | | |
|---|---|---|
| **Abhishek Dafria** | **Mukund Upadhyay** | **Rachit Mehta** |
| *Vice President & Group Head* | *Assistant Vice President & Sector Head* | *Assistant Vice President & Sector Head* |
| abhishek.dafria@icraindia.com | mukund.upadhyay@icraindia.com | rachit.mehta@icraindia.com |
| +91 22 6114 34440 | +91 22 6114 3411 | +91 22 6114 3423 |

ICRA

# Business Development/Media Contact Details


| L. Shivakumar | Jayanta Chatterjee | Naznin Prodhani |
|---|---|---|
| *Executive Vice-President* | *Executive Vice-President* | *Head Media & Communications* |
| shivakumar@icraindia.com | jayantac@icraindia.com | communications@icraindia.com |
| 022- 6114 3406 | 080 – 4332 6401 | 0124 – 4545 860 |

ICRA

ICRA

# Thank You!