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STRUCTURED FINANCE

Healthy pick-up in credit demand for NBFCs and HFCs leads to strong securitisation volumes in Q1 FY2023

JULY 2022

Highlights

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Securitisation volumes almost doubled in Q1 FY2023 compared to Q1 FY2022

Quarterly volumes are expected to be more evenly spread out this year

Mortgage loans and vehicle loans continue to dominate the overall securitisation market

- Securitisation volumes, originated by NBFCs and HFCs, are estimated to be ~Rs. 33,000 crore in Q1 FY2023, which is almost double the volumes seen in Q1 FY2022 and a 4.4x increase compared to Q1 FY2021.

- The first quarter in each of the previous two years was hit by the Covid-19 pandemic, resulting in lockdowns, whereas the Q1 of the current fiscal saw overall macroeconomic stability with no major disruptions. This resulted in robust credit growth for NBFCs and HFCs on a YoY basis.

- The share of DA and PTC of 60:40 was in line with the past trends, indicating normalisation of the overall macroeconomic perception.

- As in the past, mortgage loans (MBS; home loans and loans against property) and vehicle loans continue to have a major share in overall securitisation.

- Though rate hikes by the Reserve Bank of India had some impact in May when originators and investors postponed some ongoing transactions, securitisation activity picked up in June as more clarity emerged.

- Rating actions have followed the overall macroeconomic scenario; upgrades were lower in Q1 FY2022 but subsequently have gained pace, whereas downgrades continue to be very few.

Healthy pick-up in credit demand for NBFCs and HFCs leads to strong securitisation volumes

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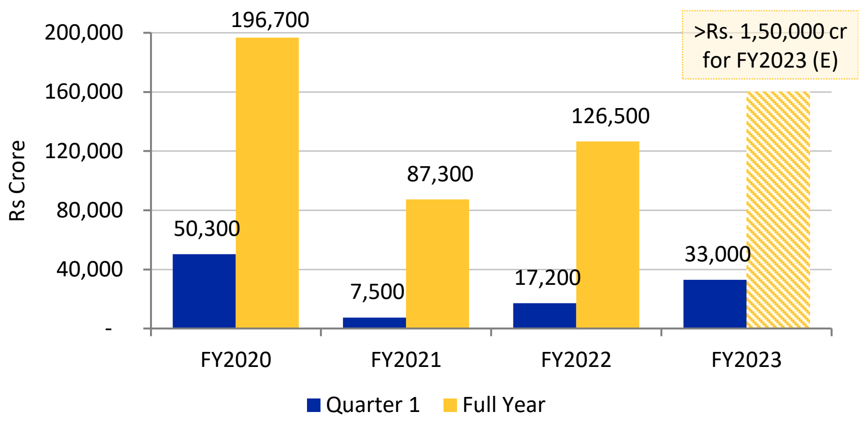
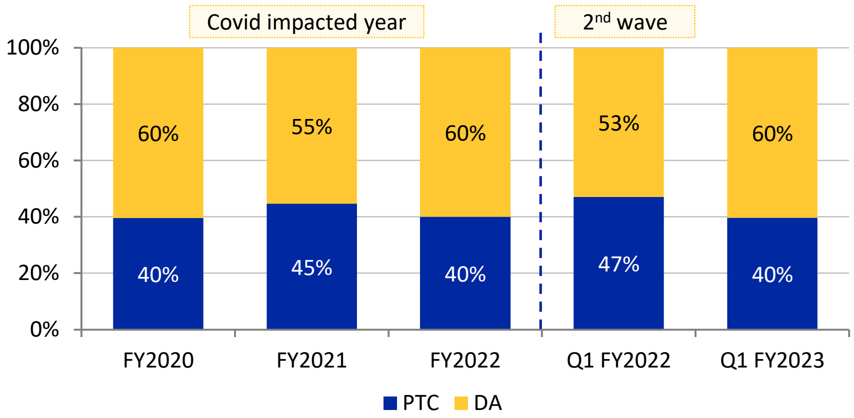
Exhibit: Securitisation market volume (PTC + DA)



Source: ICRA Research, Industry

Exhibit: Spilt between PTC & DA



Source: ICRA Research, Industry

- Securitisation volumes, originated largely by NBFCs and HFCs, were ~Rs. 33,000 crore in Q1FY2023, reflecting a 1.9x increase compared to Rs. 17,200 crore in Q1 FY2022. The key reason for the healthy volumes in Q1 of the current year is the overall macroeconomic stability with no major disruptions which resulted in a robust credit growth for NBFCs and HFCs on a YoY basis.
- The share of DA and PTC of 60:40 was in line with past trends, indicating normalisation of the overall macroeconomic perception. During periods of uncertainty (like FY2021 and Q1FY2022), preference towards PTCs increases as PTC structures have credit enhancements which safeguard investors from higher losses.
- ICRA expects securitisation volumes to cross Rs. 1.5 lakh crore in FY2023, supported by increasing credit demand and higher funding requirements of NBFCs and HFCs, assuming there are no further Covid-related disruptions.

Overall (PTC + DA) asset class-wise distribution

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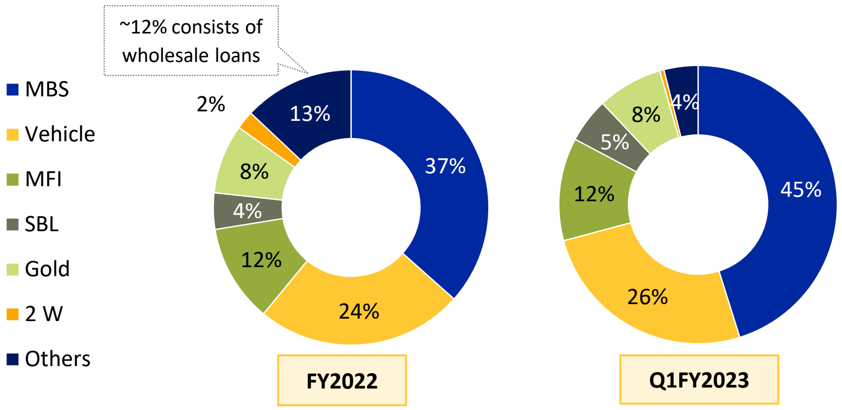
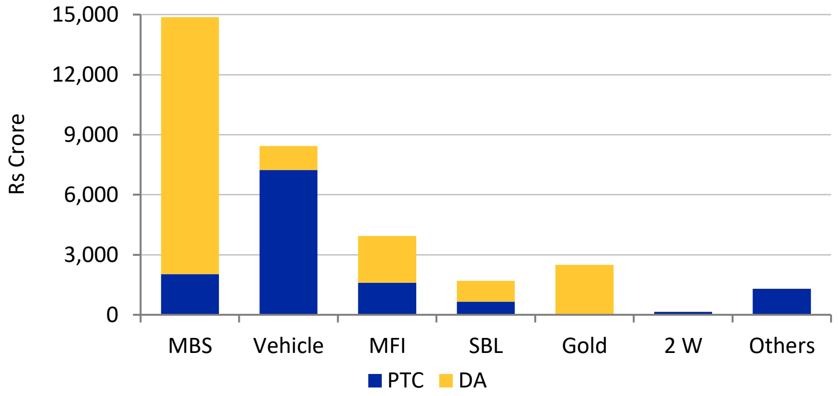
Exhibit: Share of asset classes in overall volumes (PTC + DA)



Source: ICRA Research, Industry

Exhibit: Asset class-wise volumes PTC and DA in Q1FY2023

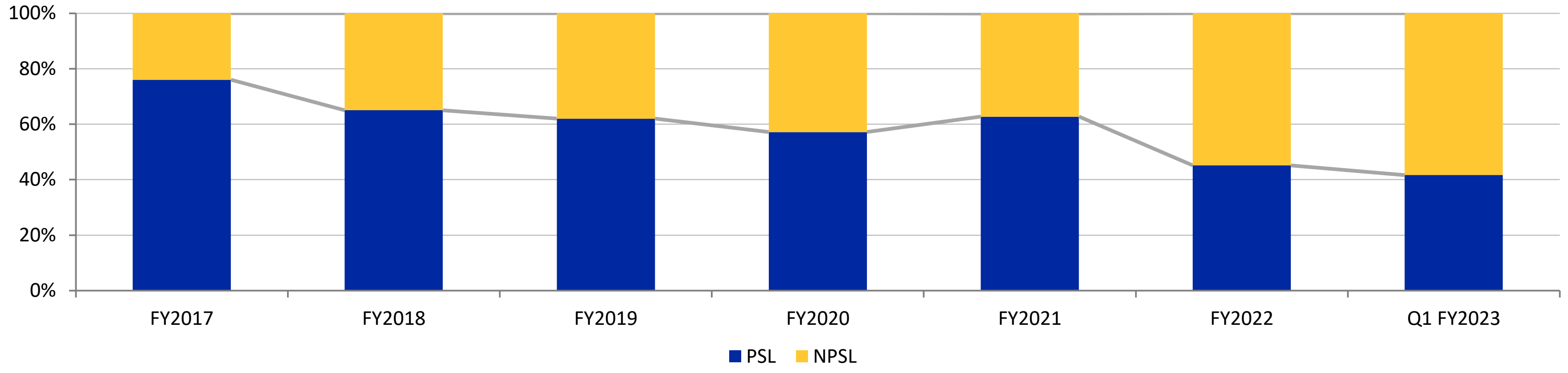


Source: ICRA Research, Industry

- As in the past, mortgage loans (MBS; home loans and loans against property) and vehicle loans continue to have a major share in the overall securitisation.
- DA remains the preferred route for MBS transactions where public sector banks are typically the primary investors. On the other hand, vehicle loan securitisation, which is mainly through PTCs, sees majority participation from private banks.
- The unsecured asset classes, such as microfinance loans and small business loans, have witnessed a healthy increase in the proportion of DA transactions as the collections have improved post the second wave, resulting in improved investor confidence.
- The “Others” category constitutes largely personal / consumer loans which has been a growing area in the securitisation space.

Increased share of NPSL transactions a positive

Exhibit: PSL and NPSL share in overall volumes

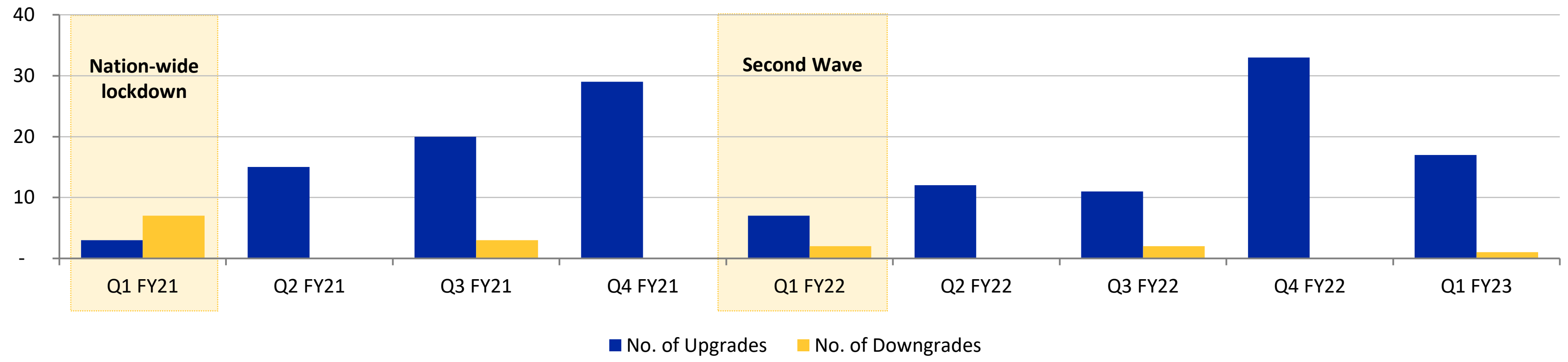


Source: ICRA Research, Industry

- From FY2017 to FY2022, the share of non-priority sector lending (NPSL) had increased, indicating a broadening of the investor and asset-class base.
- FY2021 was an exceptional year when priority sector lending (PSL) had increased. This was mainly due to the low volume base, high requirement from banks and lower participation from other investors (non-PSL) as pandemic-linked disruptions led to investor caution.
- Increase in NPSL is a directionally positive trend market as securitisation activity is less likely to be driven by regulatory compulsions.

ICRA's rating actions on securitisation instruments, post Covid

Exhibit: ICRA's rating actions (tranche-wise) for the period



Source: ICRA Research

- The pace of rating upgrades had reduced in Q1 FY2021 due to concerns on the asset quality of the retail pools. A similar trend was observed in Q1 FY2022 due to the second wave.
- The rating upgrades have been largely driven by the build-up in credit enhancement in the transactions following the amortisation of the pools.
- Rating downgrades in the above period were seen for five ICRA-rated transactions due to either – a) absence of moratorium on the PTCs by the investor resulting in high cash collateral utilisation, or b) deterioration in the credit profile of the respective originator/underlying borrower.

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Thank You!