

STRUCTURED FINANCE

Collections for securitised pools
across asset classes remain steady;
likely to remain healthy as possibility
of another Covid wave wanes

NOVEMBER 2021





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The monthly collection efficiency recovers to pre-second wave levels across the asset classes in ICRA-rated securitised pools. Consequently, the incremental slippages in the softer and harder buckets have seen a decline.

The collections in October 2021 are likely to have shown further improvement as the operational activities are at normal levels with the rising share of vaccinated population.



- The average collection efficiency in ICRA-rated securitised retail pools originated by the NBFCs and the HFCs improved to pre-second Covid-19 wave level and remained steady.



- The monthly collection efficiencies in September 2021 were about 100 -~110% across the asset classes.



- While the housing loans (HL) and loan against property (LAP) continued to remain healthy during Q2 FY2022, the monthly collections in commercial vehicle (CV) loans, SME and microfinance loans also displayed improvement in September 2021 on account of uninterrupted collection activities of the lenders.



- Collections in retail pools securitised post the first wave (i.e. September 2020), especially for the unsecured SME and microfinance loan pools, continued to be better than the pools originated prior to the same period.



- Incremental slippages reduced during Q2 FY2022 across asset classes, as the originators have reported lower bounce rates in their portfolio led by the improving collections, leading to waning asset quality concerns and investor wariness.



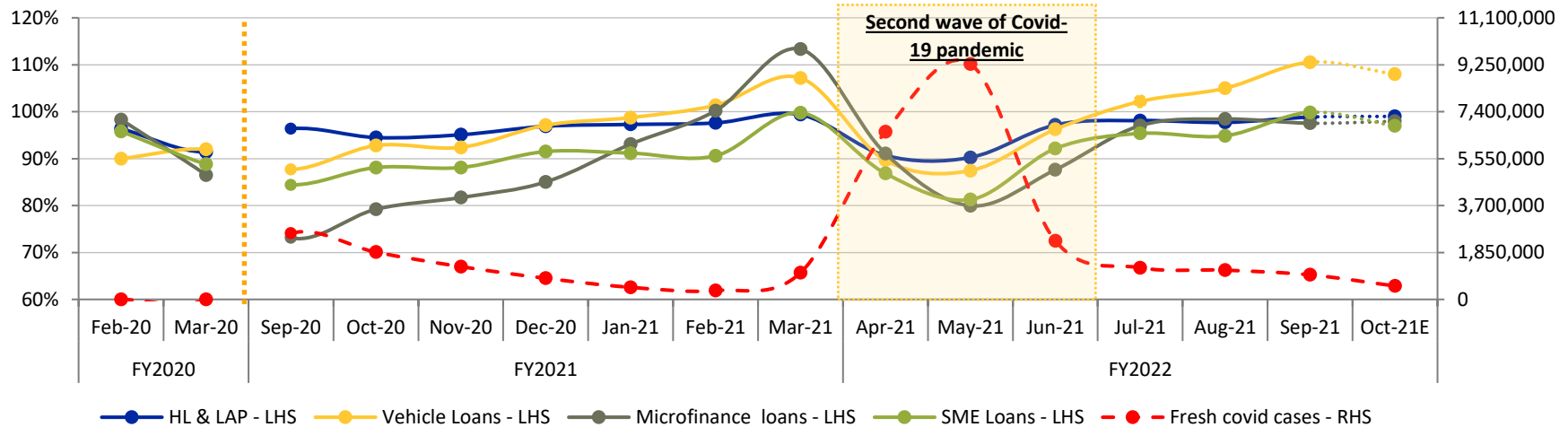
- ICRA does not foresee any decline in the collection efficiencies of the retail pools during Q3 FY2022. While the possibility of future wave of Covid infections remains, ICRA expects that with the rising vaccinated population, basis the past experience, the State/Central Governments and the companies would be better equipped to handle such an event with least disruptions.



- For ICRA-rated securitisation transactions, ICRA maintains a 'Stable' outlook as the credit enhancements are sufficient to meet investor payouts in case of lower collections for a few months.

Monthly collections across asset classes at pre-second wave levels

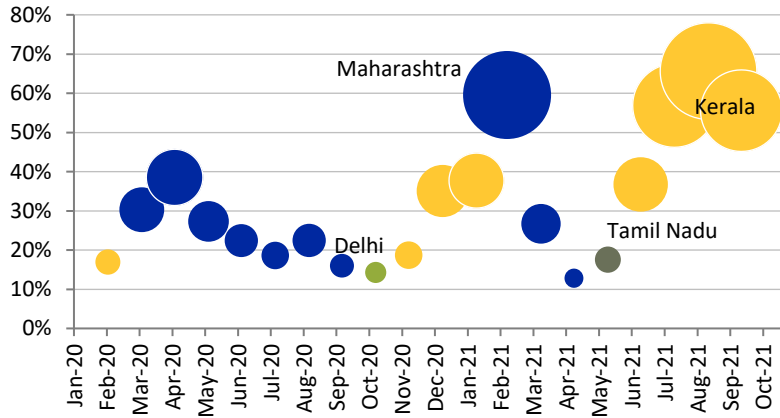
Exhibit: ICRA-rated pools' monthly collection efficiency and trend in fresh Covid cases



- The average collection efficiency in ICRA-rated securitised retail pools originated by Non-Banking Finance Companies (NBFC)s and Housing Finance Companies (HFC)s improved significantly during Q2 FY2022 on the back of continued decline in fresh Covid-19 infections during June to October 2021 period, a high share of vaccinated population and uninterrupted operational activities of these entities. Consequently, the incremental slippages in the softer and harder buckets have seen a decline.
- Basis our discussions and lower bounce rates reported by several originators in their portfolio, the collections would also have shown continued improvement for October 2021 as the operational activities are at normal levels along with the rising share of vaccinated population.
- ICRA does not foresee any material credit pressures on its rated securitisation transaction during H2 FY2022 except in case of a further rise in Covid infections which would be an event risk. Nonetheless, the presence of credit enhancements is more than the adequate for the pools which enhances the liquidity and buffer to absorb the eventual losses.

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

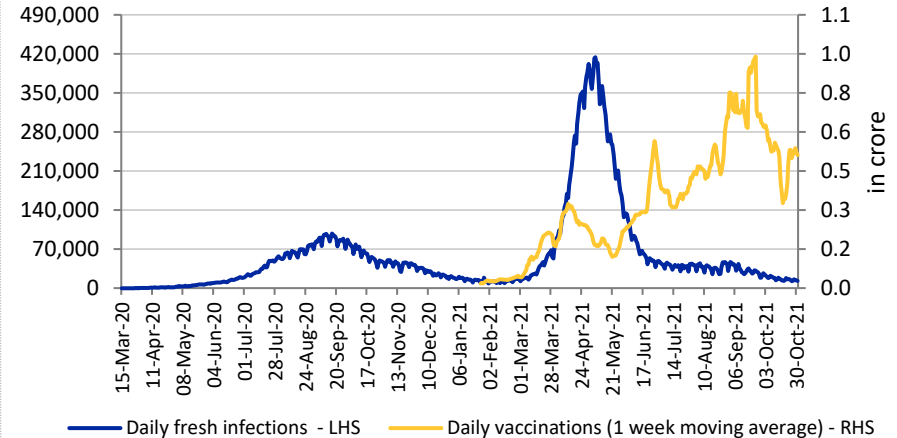
Exhibit: Top state contributing to fresh Covid-19 infections each month



Source: CEIC

- Despite drop in fresh infection volume by around 55% from the previous month, Kerala continued to be the top state contributing majority of fresh Covid infections.
- The fresh infections outside of Kerala continue to remain low, post peaking in May 2021.

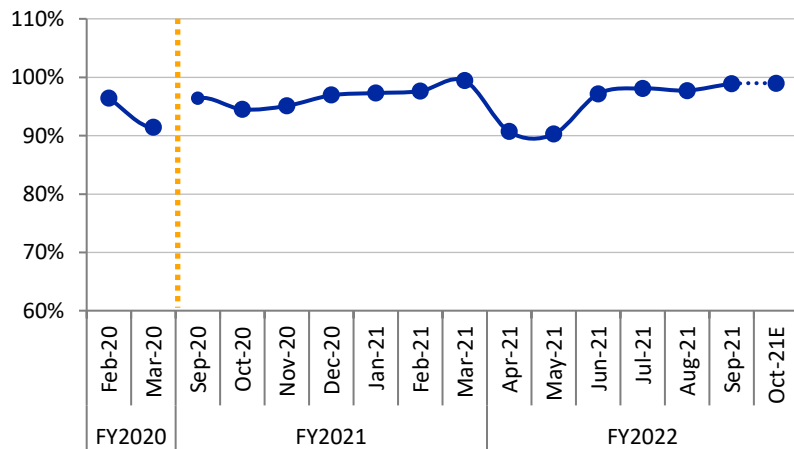
Exhibit: Fresh infections and daily vaccination in India



Source: CEIC

- With no movement restrictions and increasing share of population (>100 crore) receiving vaccination (at least one dose) as of October 31, 2021, the business and collection activities of lenders have achieved normalcy levels.
- The high vaccination coverage would reduce the impact of future waves of pandemic compared to the first and second wave.

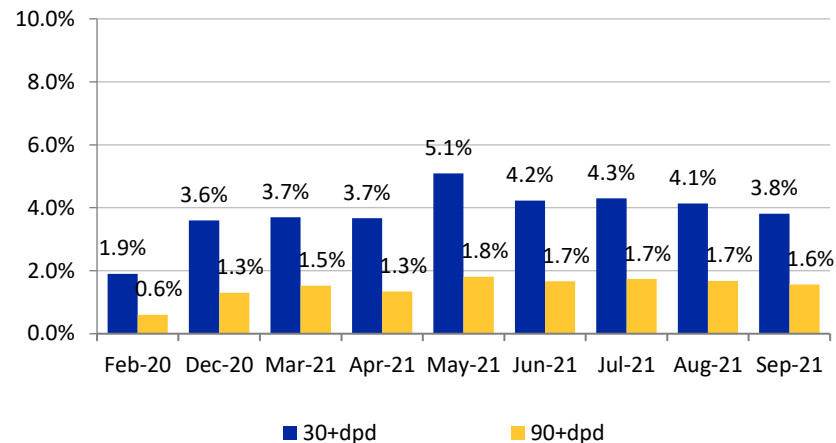
Exhibit: Monthly collection efficiency trend in ICRA-rated HL & LAP pools



Source: ICRA Research, Oct-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 during Q2 FY2022 as the collections witnessed the swiftest recovery in June 2021 post seeing a drop in May 2021 due to the 2nd wave.
- Presence of online collection practices, better financial profile of the borrowers, association of the borrowers with the underlying collateral and the priority given by the borrowers to repay such loans are the key drivers of the recovery in collections.

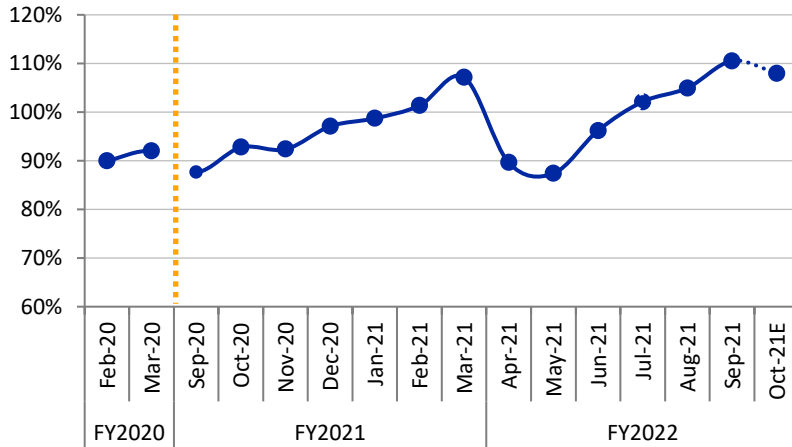
Exhibit: Delinquencies in ICRA-rated HL & LAP pools



Source: ICRA Research, dpd – days past due

- With the collection activities remaining uninterrupted during Q2 FY2022, the slippages and delinquencies have declined gradually from the peak of May 2021.
- With first half of Q3 FY2022 witnessing normalcy of business/collection activities across lenders and no sight of fresh rise on infections/third wave, ICRA believes that HL & LAP pools would exhibit healthy performance during Q3 FY2022 and would report further recovery from the delinquent contracts.

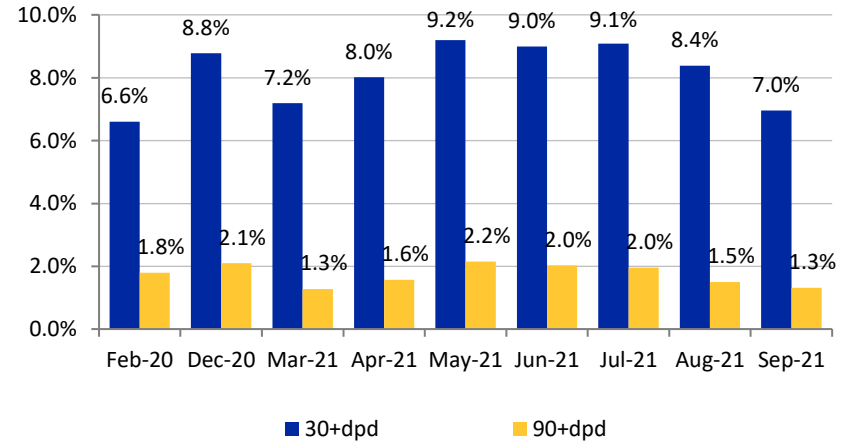
Exhibit: Monthly collection efficiency trend in ICRA-rated Vehicle loan pools



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

- The collections in commercial vehicle (CV) loans have improved to above 100% after July 2021, driven by higher inter/intra-state movements upon revival of businesses/mining/factory production activities driving movement of raw materials/final products, further backed by increased consumer demand owing to several festivals in Q2 FY2022.
- The performance of ICRA-rated vehicle loan pools has remained healthy due to the minimal presence of highly affected passenger vehicle loans (such as buses, cab aggregators) where the recovery has not yet happened due to schools, offices still not operating at full capacity.

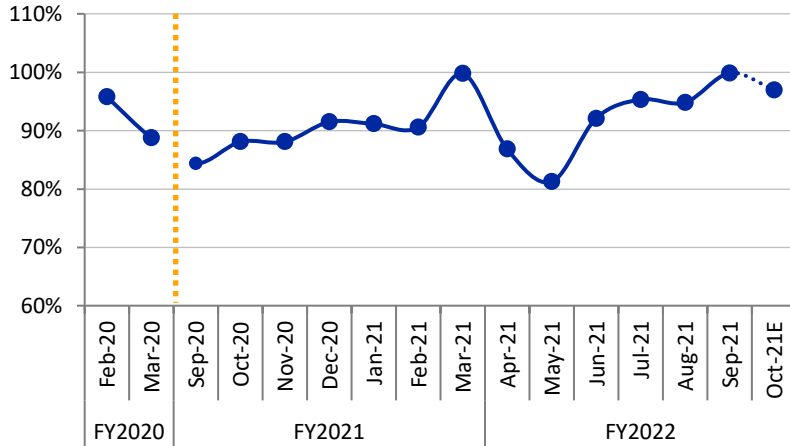
Exhibit: Delinquencies in ICRA-rated Vehicle loan pools



Source: ICRA Research, dpd – days past due

- Consequently, the slippages in softer and harder buckets have seen a meaningful drop during Q2 FY2022.
- Further recovery from the delinquent borrowers in vehicle loans can still be expected due to the presence of collateral with eventual losses post default being comparatively lower.

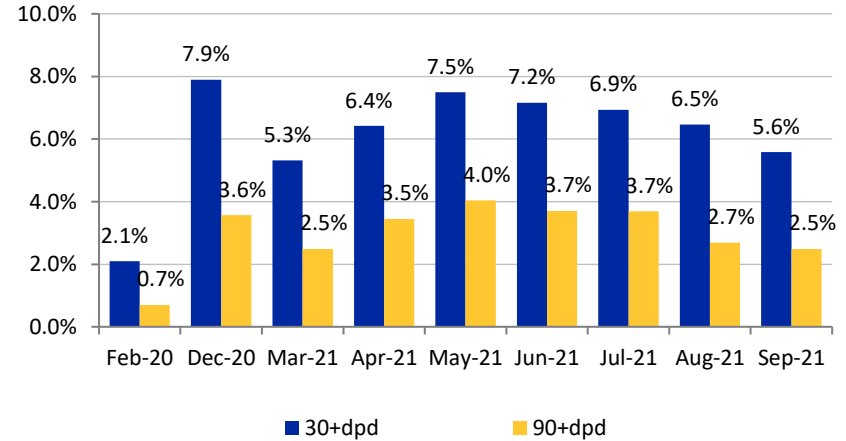
Exhibit: Monthly collection efficiency trend in ICRA-rated SME loan pools



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

- With the end of restrictions on the opening of local establishments, coupled with the pick-up in consumer demand during Q2 FY2022, the cash flows of the borrowers and businesses have improved and consequently the loan repayment ability of the SME borrowers would have improved leading to recovery in collection efficiency.
- The SME borrowers from sectors such as hospitality, tourism, textile, food & entertainment etc. are expected to log in better performance following the end of local restrictions.

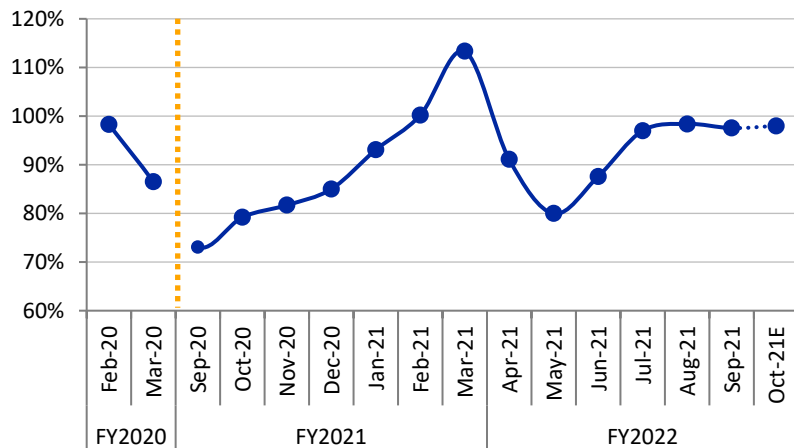
Exhibit: Delinquencies in ICRA-rated SME loan pools



Source: ICRA Research, dpd – days past due

- The slippages in softer and harder buckets have exhibited a sustained decline from the peaks of May 2021 as resumption in the local business/operational activities improved repayment ability of the self-employed borrowers in the segment.
- A considerable recovery may not be expected in the unsecured SME loan segment as recovery from harder buckets would be difficult and the losses may be higher than seen in the past due to the absence of a collateral. The limited share of restructured loan accounts in the ICRA-rated pools is a source of comfort.

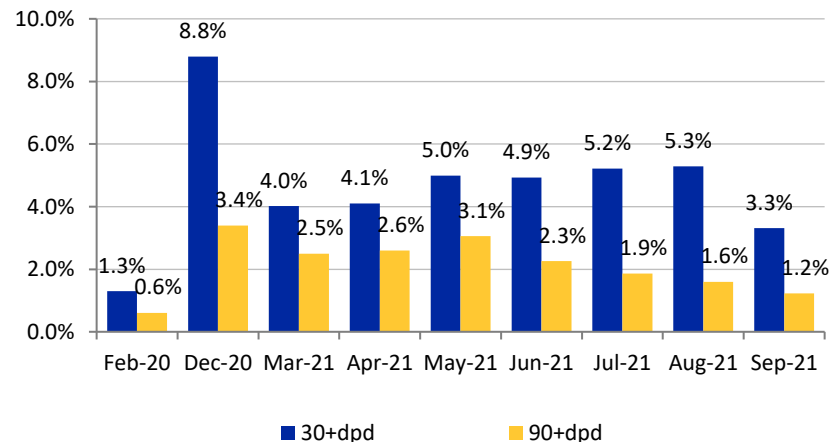
Exhibit: Monthly collection efficiency trend in ICRA-rated Microfinance loan pools



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

- The average monthly collection efficiency of ICRA-rated microfinance loan pools continued to rebound and reached the pre-second wave level during Q2 FY2022. This is on account of uninterrupted operational activities following the receding of Covid-19 infections in rural and semi-urban areas gradually.
- Certain states continued to report weak collections due to their own geographical or political issues.

Exhibit: Delinquencies in ICRA-rated Microfinance loan pools

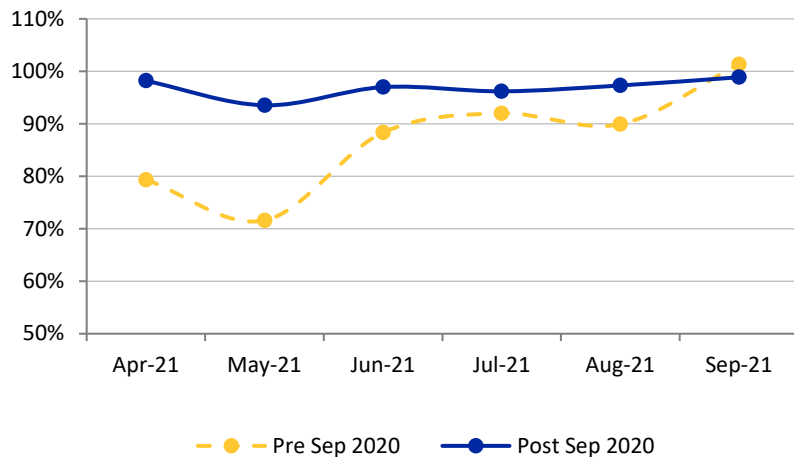


Source: ICRA Research, dpd – days past due

- The incremental slippages and delinquencies declined sharply in ICRA-rated microfinance pools during Q2 FY2022. The asset quality is expected to improve further in the near term on account of the presence of better-quality contracts in the pools. Like SME loans, a substantial recovery from harder bucket (i.e. 90+dpd) would continue to remain a challenge.

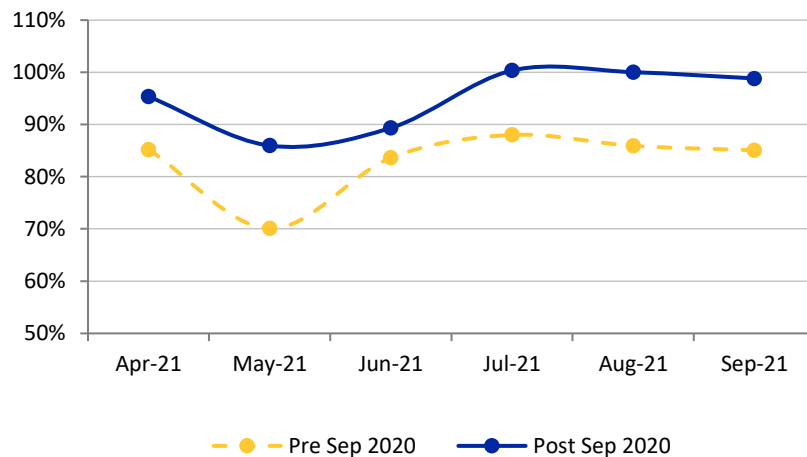
Unsecured loan pools securitised post Sep-20 continued to perform well

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



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

Exhibit: Monthly collection efficiency trend 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.
- Specific to the unsecured SME loan pools, with the improving business activities and resultantly the cash flows of the self-employed borrowers in SME segment, the gap in collection performance has closed. ICRA expects a similar trend in Microfinance loan pools only post the borrowers in rural / semi-urban areas recover significantly from the impact of second wave gradually and with some lag.



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