SPECIAL COMMENTS

Securitisation Market volumes estimated at Rs. 1.44 lakh crores in 9M FY19, an all-time high

NBFCs and HFCs raised around Rs. 73,000 crores through the securitisation route in Q3 FY2019

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Domestic securitisation market volumes have touched an all-time high of Rs. 1.44 lakh crores (monthly run-rate of Rs. 16,000 crores) during the period 9M FY2019 as compared to market volumes of Rs. 84,000 crores (monthly run-rate of Rs. 7,000 crores) for the entire fiscal 2018. As per ICRA estimates, the market has been particularly buoyant in Q3 FY2019 driven by the prevailing liquidity crisis, with market volumes at around Rs. 78,000 crores (monthly run-rate of Rs. 26,000 crores). Out of this, around Rs. 73,000 crores was raised by NBFCs and HFCs through sell-down of their retail and SME loan portfolio to various investors (primarily banks).

Says, **Mr. Vibhor Mittal, Group Head – Structured Finance Ratings at ICRA,** *"Funds raised by NBFCs and HFCs through the securitisation route helped meet sizeable repayment obligations of the sector in an otherwise difficult market. Investor appetite - particularly from public sector banks and private banks - is high in present times, considering that the investors are not exposed to entity level credit risk, and are seen taking exposure to the underlying pool of retail and SME borrowers (to whom the Seller entities have lent). The yields are also attractive for the investors (yields have moved up by around 100-150 basis points in Q3 FY2019 compared to H1 FY2019). Securitisation volumes were boosted further by RBI's relaxation of the minimum holding period (MHP) criteria for long-tenure loans, which increased the quantum of assets eligible for securitisation in the system."*

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). D.A. transaction volumes soared to Rs. 53,000 crores in Q3 FY2019 and Rs. 94,000 crores in 9M FY2019 (Rs. 49,000 crores in FY2018). Similarly, PTC transaction volumes also surged to Rs. 25,000 crores in Q3 FY2019 and Rs. 50,000 crores in 9M FY2019 (Rs. 35,000 crores in FY2018).

While the liquidity position for NBFCs and HFCs has started easing, the momentum in the securitisation market is likely to remain strong in the last quarter of the current fiscal. **Adds Mr. Mittal,** *"Securitisation market in India has become more broad-based with introduction of many new asset classes like lease rentals, consumer durable loans, cash loans and education loans. Participation from non-PSL focused investor segments like mutual funds, insurance companies, NBFCs and FPIs has also picked up to some extent. Securitisation would remain an important funding tool for retail focused NBFCs, as it provides funding at an attractive cost, while simultaneously achieving a well matched ALM position."*

The asset class-wise breakup of the overall securitisation volumes is given in the table below.

Asset class wise break up of securitisation volumes

	PTC			Direct Assignment			Total		
Rs. crores	**FY 2017**	**FY 2018**	**9M FY 2019**	**FY 2017**	**FY 2018**	**9M FY 2019**	**FY 2017**	**FY 2018**	**9M FY 2019**
Mortgages (HL + LAP)	13%	7%	8%	78%	72%	73%	48%	45%	51%
CV, CE and Car	62%	70%	44%	13%	14%	12%	36%	37%	22%
Microfinance	16%	17%	15%	6%	10%	10%	11%	13%	12%
Lease rentals	0%	0%	25%	0%	0%	0%	0%	0%	9%
Small business loans	3%	1%	2%	0%	2%	1%	1%	2%	1%
Tractor	2%	2%	2%	2%	0%	0%	2%	1%	1%
Others*	4%	3%	4%	1%	2%	4%	2%	2%	4%
Total Amount	**43,000**	**35,000**	**50,000**	**47,000**	**49,000**	**94,000**	**90,000**	**84,000**	**144,000**

**Others includes term loans, education loans, Two and three wheeler loans, Gold loans, Term loans, Consumer durable loans, Personal loans, Individual business loans and lease rental receivables*

Source: ICRA estimates

Mortgage loans (both Housing loans and Loans against Property asset classes taken together) comprise more than 50% of the total volumes witnessed during the period 9M FY2019. Banks prefer to buy mortgage loan portfolios from HFCs and NBFCs under the Direct Assignment route because of the stable asset quality and low credit risk perceived in this segment. Other than mortgage loans, vehicle loans, micro loans and lease rentals were some of the other asset segments that found favour with the investors.

Historically, Priority sector lending (PSL) requirements of banks have remained the driving force behind securitisation volumes. However, in recent years, the share of non-PSL backed transactions is on the rise with increasing participation from mutual funds, insurance companies and NBFCs investor segments. In 9M FY 2019 and FY 2018, the share of non-PSL transactions has increased to 35% compared to 24% in FY2017 and less than 20% in the periods prior to that.

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 Rs. 2.24 lakh crores during the period

9M FY2019 as against 1.84 lakh crores for entire FY2018. However, the traded volumes have dipped significantly in Q3 FY2019 to around Rs. 47,000 crores compared to traded volumes of around Rs. 1.77 lakh crores in H1 FY2019. The drop in PSLC volumes in Q3 FY2019 could also be attributed to investors' preference for securitisation transactions for meeting their PSL requirements, driven by attractive yields on offer for portfolio with good credit quality.

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 securitisation volumes in the medium to long-term.

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