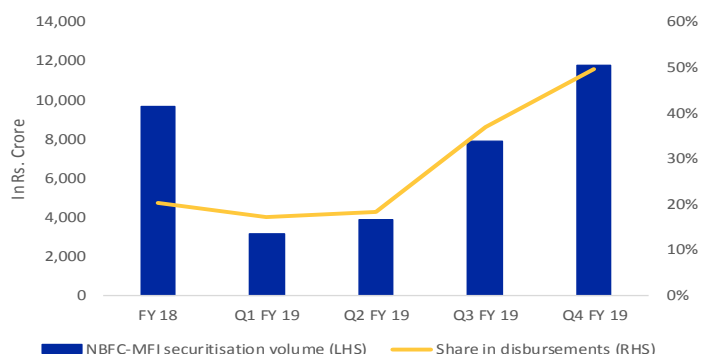


On the back of a tight liquidity environment, NBFC-MFIs significantly increased their reliance on the securitisation route to meet their growth targets in FY 2019. As per ICRA estimates, NBFC-MFIs raised around Rs. 26,200 crores through securitisation in FY19 (~170% growth over Rs. 9,700 crores quantum witnessed in FY 2018).

Securitisation has always been an important funding tool for NBFC-MFIs, but the dependence was particularly high during the second half of fiscal 2019. In FY2018 and H1 FY2019, securitisation contributed to only 18 - 20% of the overall disbursements. However, this number leapfrogged to 37% and estimated 50% in Q3 FY2019 and Q4 FY 2019 respectively. In other words, almost half of incremental disbursements in Q4 FY2019 is estimated to have been met through the securitisation route. Investors were also comfortable buying retail loan portfolios originated by these entities as opposed to taking direct on-balance sheet credit exposure, especially for small and medium sized entities.

**Exhibit 1: Securitisation as % of disbursements<sup>1</sup> for NBFC-MFIs**



Source: ICRA estimates

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

<sup>1</sup> Basis analysis of 41 NBFC-MFIs with an AUM of around Rs. 63,000 crores as on Dec-18. Disbursements based on actuals except for Q4 FY2019 which are as per ICRA estimates

#### Contact:

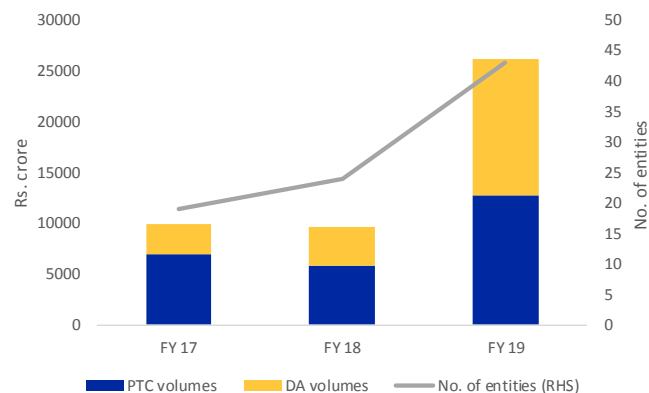
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to another). The PTC route has historically been the preferred route for microfinance asset class due to absence of any credit enhancement in D.A. transactions. However, recent trends indicate sharp increase in D.A. transactions. As per ICRA estimates, D.A. transaction volumes undertaken by NBFC-MFIs were around Rs. 13,500 crores for FY 2019 as against only Rs. 4,000 crores and Rs. 3,000 crores in FY 2018 and FY 2017 respectively. The increase in direct assignment transactions for micro loan asset category validates that investors are comfortable with the asset quality of the underlying loans, and even willing to take credit exposure to this asset class without any credit enhancement. The improved investor confidence is noteworthy, especially factoring the woes faced by the sector post the demonetisation event.

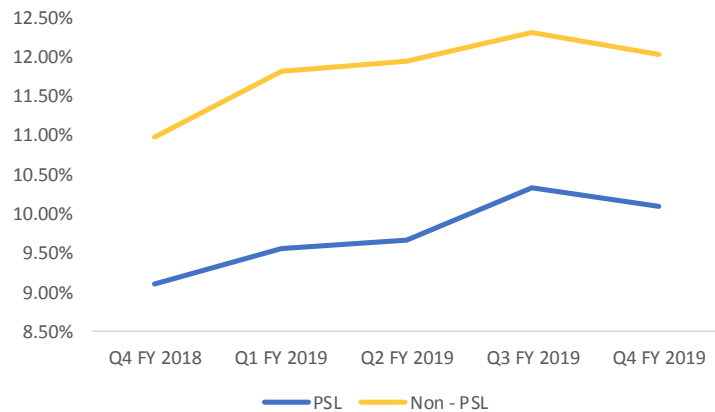
## Exhibit 2: Trend in Micro loan securitisation volumes for last three years



Source: ICRA estimates

ICRA has also noted a sharp increase in the number of NBFC-MFIs taking part in the securitisation market in FY2019. 43 entities raised funds through the securitisation route in FY2019 (as opposed to only 24 such entities in FY 2018). Out of this, as many as 14 entities were first time entrants in the securitisation market which is an encouraging development. However, tighter liquidity in the market resulted in increased funding cost. The yields were higher by 100-150 bps for both Priority Sector Lending (PSL) driven and non-PSL transactions in Q3 FY2019 over the lows seen in FY 2018. However, with some easing in systemic liquidity, yields have come off by around 25-30 bp in Q4 FY2019.

### Exhibit 3: Movement in PTC yields for NBFC-MFI transactions<sup>2</sup>



Source: ICRA research

Despite the inherent nature of the asset class and having witnessed several headwinds (demonitisation event, local and political issues in some areas, several state level elections, cyclones and floods in some parts of the country and farm debt loan waivers in some geographies), the sector has displayed remarkable resilience. The collection efficiencies in ICRA-rated micro loan securitisation transactions have remained high at more than 99% on an average for transactions rated since CY 2017.

ICRA believes that securitisation will remain a key source of funding for NBFC-MFIs in this fiscal as well. However, factors like some consolidation in the sector (banks and other large NBFCs looking to acquire MFIs), banks increasingly looking to partner with NBFCs for originating PSL assets (either through the BC channel or through the co-origination model), and improving liquidity conditions, the dependence on securitisation could moderate in the near to medium term.

<sup>2</sup> Basis transactions amounting to Rs. 4,300 crores rated by ICRA in 'A' rating category



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