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STRUCTURED FINANCE RATINGS

OCTOBER 2019

Loan sell downs helped NBFCs and HFCs raise Rs. 2.4 lakh crore over the last 12-month period

- **Volumes expected to touch an all-time high in FY2020**
- **Direct assignment transactions to remain at the forefront**

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Post the squeeze in the liquidity since September 2018, NBFCs and HFCs together have raised much needed funding to the tune of Rs. 2.36 lakh crore over the last 12-month period (i.e. October 2018 to September 2019) through sell down of their loan assets under either the securitisation or direct assignment route. The unprecedented increase in sell down volumes reflects the choking up of traditional on-balance sheet borrowing channels such as loans, bonds and commercial paper issuances.

The Indian securitisation market is poised for another good year in terms of issuance volumes. NBFCs and HFCs continue to rely heavily on securitisation as a tool for raising funds, manage liquidity and to correct any ALM mismatch. In addition to this, the partial credit guarantee scheme (PCG) of the Government of India (GoI) will also add bulk to the overall market volumes. With the public sector banks directed to disburse funding of Rs. 1 lakh crore under the PCG scheme by February 2020, we believe that the size of the securitisation market would comfortably cross Rs. 2 lakh crore for FY2020 which would be an all-time high.

The sell down 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). As per ICRA estimates, the PTC transaction volumes were around Rs. 92,000 crore in the past one year, i.e. October 2018 to September 2019 (Rs. 47,500 crore in H2 FY2019 and Rs. 44,500 crore in H1 FY2020). Volumes for D.A transactions have been much higher at Rs. 145,850 crore over the same period (Rs. 87,450 crore in H2 FY2019 and Rs. 58,400 crore in H1 FY2020). The D.A volumes have witnessed a decline in H1 FY2020 mainly due to the weakened credit profile of a few originators (that were traditionally large and active participants) having impacted their ability to securitise further.

Consequently, the share of mortgage loans in overall volumes has also reduced. This asset class, which accounted for around 45% - 50% of overall volumes in FY2018 and FY2019, witnessed a reduction in share to 30% of overall volumes in H1 FY2020. Within PTCs, while commercial vehicle loans remained most sought after, small business loans have seen the sharpest pickup making up 11% of the PTC volumes in H1 FY2020. Within D.A's, gold loan is an asset class that has gained greater acceptance amongst the purchasing banks and accounted for 10% of the D.A volume for H1 FY2020.

EXHIBIT 1. Asset class share in market volumes

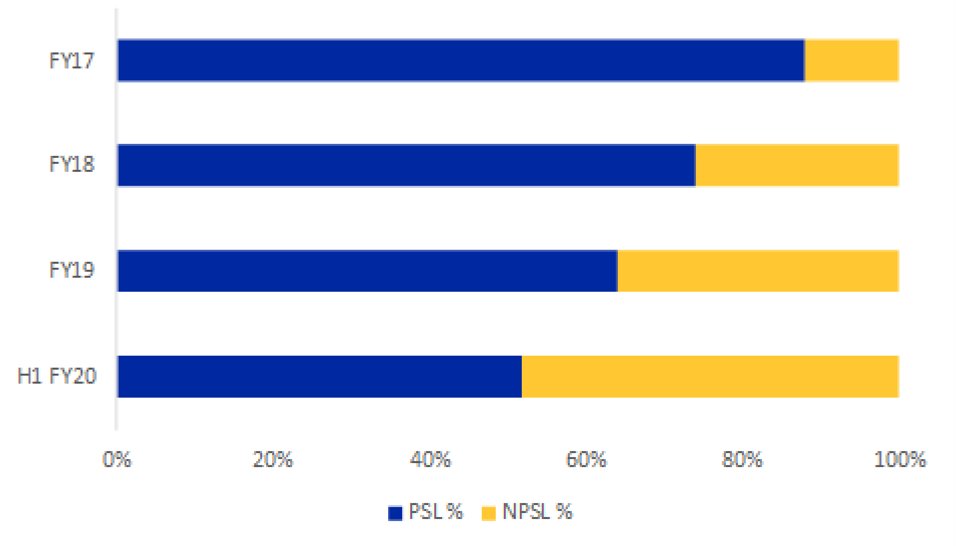
	PTC			Direct Assignments			Total		
	FY2018	FY2019	H1 FY2020	FY2018	FY2019	H1 FY2020	FY2018	FY2019	H1 FY2020
Mortgages (Housing loans + LAP)	7%	11%	10%	72%	68%	46%	45%	48%	30%
CV, CE and Car	70%	43%	43%	14%	13%	20%	37%	24%	30%
Microfinance	17%	18%	7%	10%	14%	19%	13%	15%	13%
Lease rentals	0%	17%	0%	0%	0%	0%	0%	6%	0%
Small business loans	1%	4%	11%	2%	1%	5%	2%	2%	7%
Tractor	2%	3%	9%	0%	0%	0%	1%	1%	4%
Others*	3%	4%	19%	2%	4%	10%	2%	4%	14%
Total	**34,600**	**70,900**	**44,500**	**49,000**	**1,27,800**	**58,400**	**83,600**	**198,700**	**102,900**

Source: ICRA Research, Industry

**Others includes receivables from cash loans, consumer durable loans, two-wheeler loans, gold loans, term loans, construction finance, project finance, loan against shares (LAS), project finance, lease rental discounting (LRD), senior debt and structured debt;*

ICRA has observed that there has been a reduction in PSL (priority sector lending)-driven transactions in the PTC space. The share of PSL PTC transactions has slowly reduced over the past 3-4 fiscals and stood at 52% for H1 FY2020 compared to 88% in FY2017. This reduction can be majorly attributed to a change in the investor base in PTC transactions. Private banks were the major investor category for PTC transactions and their need for acquiring PSL assets drove their appetite. However, in recent years a host of new investor segments such as NBFCs, foreign portfolio investors, HNIs and insurance companies have also been participating, who do not have any specific focus on PSL assets. As a result, there has also been an increase in the proportion of non-PSL asset segments such as two wheeler loans, small business loans and gold loans amongst others, being securitised.

EXHIBIT 2. PSL:NPSL share in PTC volumes



ICRA expects securitisation volumes to remain robust in the near term driven by the funding requirement for the NBFCs that are not being fully met through the other channels. The PCG scheme of the GoI will also help propel volumes in coming months. The market can also benefit from implementation of recommendations made by the committee on the development of housing finance securitisation market formed by the Reserve Bank of India. In the long term, PSL volumes may be hampered as the banks may meet higher proportion of their PSL targets through the PSLC route or through partnership with NBFCs – either through business correspondent (BC) model or through the loan co-origination framework permitted by RBI recently (where banks may partner with NBFCs for onboarding PSL assets

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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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