



ICRA

A MOODY'S INVESTORS  
SERVICE COMPANY

## STRUCTURED FINANCE RATINGS DECEMBER 2019

**Securitization volume expected to touch a record high for NBFC-MFIs in FY2020**

- NBFC-MFIs raised Rs. 14,000 crore through securitization in H1 FY2020; growth of around 2x over H1 FY2019
- Direct assignment transactions to drive the future growth

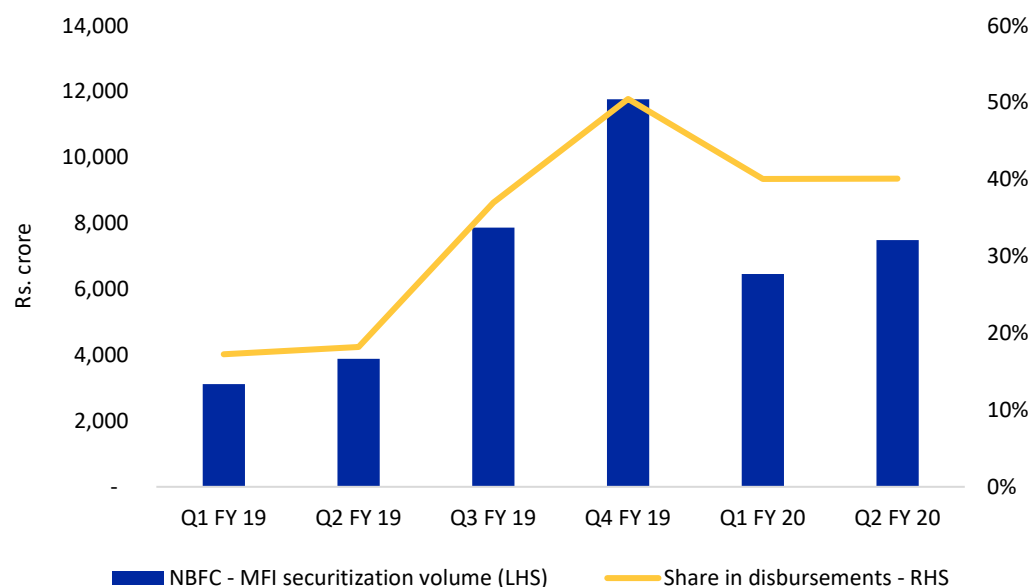
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Securitization continues to be a prominent funding tool propelling the growth of the NBFC-MFIs. As per data collated by ICRA, NBFC-MFIs tapped the securitization market to raise around Rs. 14,000 crore in H1 FY2020, nearly two times the amount raised in H1 FY2019. ICRA expects the securitization volumes for NBFC-MFIs to cross Rs. 30,000 crore during FY2020, higher than the volumes of ~Rs. 26,000 crore achieved in FY2019. The increase in securitization is being driven by the inadequate funding available to NBFC-MFIs from conventional sources while the demand for such borrowings continues to remain high. Funds raised through securitization contributed to about 40% of the total disbursements made by the NBFC-MFIs in H1FY2020 as against 18% in H1FY2019. In addition to securitization, the NBFC-MFIs are also increasing their focus on the business correspondent (BC) model to raise funds. As on September 30, 2019, securitization volumes contributed to about 75% of the off-balance sheet portfolio of the NBFC-MFI industry whereas the remaining 25% shared was contributed by the BC model.

#### EXHIBIT 1. Securitisation volume and as % of disbursements for NBFC-MFIs



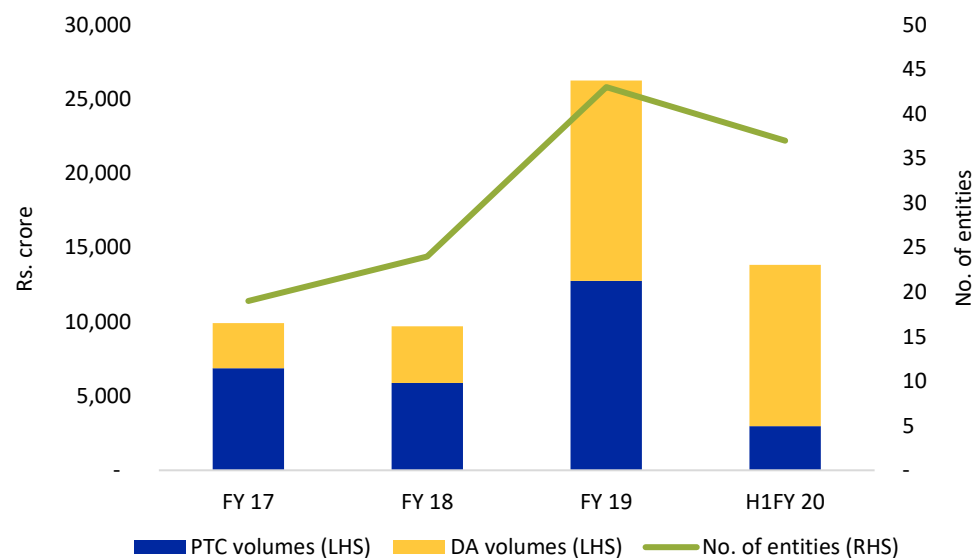
Source: ICRA research

For Q1FY20 & Q2FY20 disbursements numbers has been taken from Micrometer report of MFIN.

The securitization market in India can be segregated into two types of transactions – rated pass-through certificate (PTC) transactions, and unrated DA transactions (bilateral assignment of pool of retail loans from one entity to another). The DA transactions continue to remain the preferred mode (~78% in H1 FY2020) of loan sell-down for the microfinance asset class. As per ICRA's estimates, the DA transaction volumes by NBFC-MFIs were around Rs. 10,900 crore in H1 FY2020 and Rs. 13,500 crore in FY2019 compared to only Rs. 4,000 crore and Rs. 3,000 crore in FY2018 and FY2017, respectively.

Post demonetization, the improvement in broader asset quality of NBFC-MFIs has led to increased confidence among investors (mostly public sector banks) which is evident from sustained rise in the exposure to the asset class and entities despite the absence of credit enhancements (as per RBI guidelines for the securitization of standard assets, DA transactions cannot have any credit enhancements). However, ICRA is of the view that the asset quality of NBFC-MFIs remains vulnerable to natural calamities and political & communal risks. The impact of cyclone and floods in several affected parts of the country and rising political/communal risk in certain geographies is a key monitorable.

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

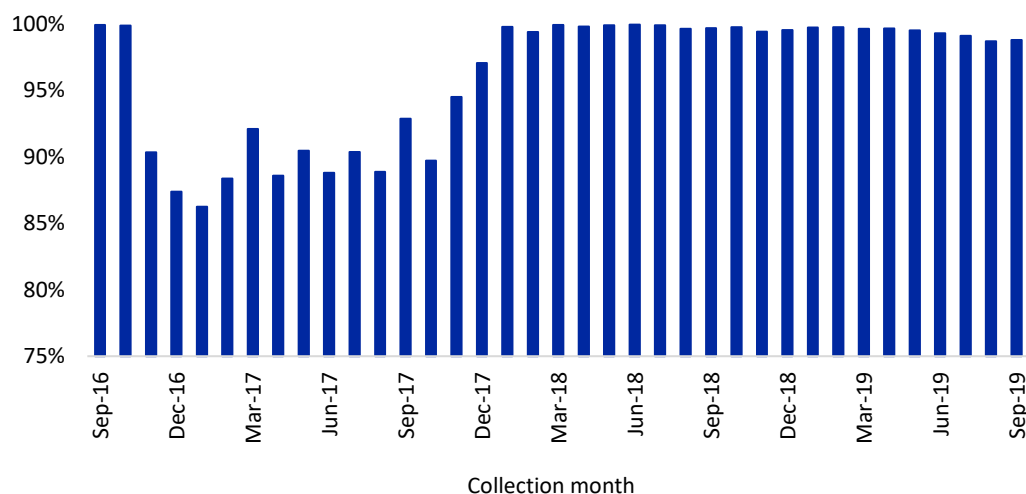


Source: ICRA research

ICRA has also noted a significant rise in the number of NBFC-MFIs partaking in the securitisation market. There were 37 entities (either as single originators or as a part of multi-originator securitisation transactions) that accessed the securitisation market in H1 FY2020, nearly double of the number of entities that carried out securitization in H1 FY2019 (17). Another encouraging trend was that, of these 37 entities in H1FY2020, 4 were tapping the securitisation market for the first time ever thereby widening the issuer base.

Despite the inherent nature of the asset class and having witnessed several headwinds (demonetization 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 continued displaying remarkable resilience. The collection efficiencies in ICRA-rated micro loan securitisation transactions continue to remain high at around 99% on an average for transactions rated since CY 2018.

### Exhibit 3: Vintage-wise median monthly collection efficiency (MCE) in ICRA rated MFI pools



Source: ICRA research

ICRA is of the view that securitisation will remain a key source of funding for NBFC-MFIs in current fiscal year. However, factors such as consolidation in the sector (via acquisitions), banks preference to origination of PSL assets via BC channel or through the co-origination model, and significant improvement in liquidity conditions may limit the pace of growth in securitisation volumes.



## 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.

### **Alliance with Moody's Investors Service**

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

### **The ICRA Factor**

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.





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