ICRA

A MOODY'S INVESTORS SERVICE COMPANY

STRUCTURED FINANCE RATINGS

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Securitisaton market on path to achieve all-time high issuance volume in FY2020 despite some headwinds

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The Indian securitisation market registered a robust growth with NBFCs and HFCs together raising funds of around Rs. 1.57 lakh crore in 9M FY2020 compared to Rs. 1.44 lakh crore in 9M FY2019. In Q3 FY2020, the securitization volumes stood at Rs. 47,000 crore. The sustained increase in sell down volumes reflects the continuing liquidity squeeze since September 2018.

The Indian securitisation market is witnessing another good year in terms of issuance volumes as NBFCs and HFCs continue to rely heavily on securitisation for raising funds, and managing liquidity and ALM mismatch. We expect that the size of the securitisation market would cross Rs. 2 lakh crore for FY2020 which would be an all-time high. While the volumes in Q3 FY2020 have been high, the market has faced some headwinds due to muted growth in the NBFCs’ books which reduces the eligible assets available for sale. Further, the default on pools of an originator due to on-going bankruptcy proceedings against it, may have made some investors cautious. Nevertheless, the liquidity challenges being faced by the NBFCs and HFCs coupled with a push by the GoI through the extension of its partial credit guarantee (PCG) scheme as well as extension on relaxation of minimum holding period (MHP) criteria for NBFCs/HFCs for another six months to June 2020 would support the securitisation market.

The sell-down market in India can now be segregated into three types of transactions – rated Pass Through Certificate (PTC) transactions, unrated Direct Assignment (DA) transactions (bilateral assignment of pool of retail loans from one entity to another) and rated DA transactions (referred to as Assignee/Purchaser/Acquirer payouts; transactions under the 'Partial Credit Guarantee (PCG)’ Scheme being offered by the GoI). As per ICRA estimates, the PTC transaction volumes were around Rs. 64,000 crore in the past nine months , i.e. April 2019 to December 2019 as compared to around Rs. 71,000 crore for FY2019. Volumes for DA transactions were around Rs. 93,000 crore in the past nine months as against around Rs. 128,000 crore for FY2019. In Q3 FY2020, the securitization volumes stood at Rs. 47,000 crore (PTC of around Rs. 18,500 crore and DAs of around Rs. 28,500 crore).

The DA volumes have witnessed a decline in 9M FY2020 (during Q2 FY2020 & Q3 FY2020) primarily due to non-participation of few large mortgage loan originators who were active participants previously. Consequently, the share of mortgage loans in overall volumes dropped to 31% in 9M FY2020 from around 45% - 50% in FY2018 and FY2019. Within PTCs, commercial vehicle loans continued to remain the most preferred asset class accounting for 41% of the total PTC volumes in 9M FY2020. Further, small business loans and others (primarily gold and personal loans) have increased substantially making up 11% and 19% of the PTC volumes respectively during 9M FY2020 (compared to 4% each in FY2019). Within DAs, other asset classes accounted for 11% of 9M FY2020 volumes, largely due to higher preference for gold loans amongst the investors. While share of microfinance loans has remained stable at around 14% of the overall volumes in FY2019 and 9M FY2020, the asset class has witnessed a shift from PTC to DA during 9M FY2020.

EXHIBIT 1. Asset class share in market volumes

	PTC			Direct Assignments #			Total		
	FY 2018	FY 2019	9M FY20	FY 2018	FY 2019	9M FY20	FY 2018	FY 2019	9M FY20
Mortgages (Housing loans + LAP)	7%	11%	11%	72%	68%	45%	45%	48%	31%
CV, CE and Car	70%	43%	41%	14%	13%	19%	37%	24%	28%
Microfinance	17%	18%	7%	10%	14%	19%	13%	15%	14%
Lease rentals	0%	17%	0%	0%	0%	0%	0%	6%	0%
Small business loans	1%	4%	11%	2%	1%	5%	2%	2%	8%
Tractor	2%	3%	10%	0%	0%	0%	1%	1%	4%
Others*	3%	4%	19%	2%	4%	11%	2%	4%	14%
Total	34,600	70,900	64,506	49,000	1,27,800	92,508	83,600	1,98,700	1,57,014

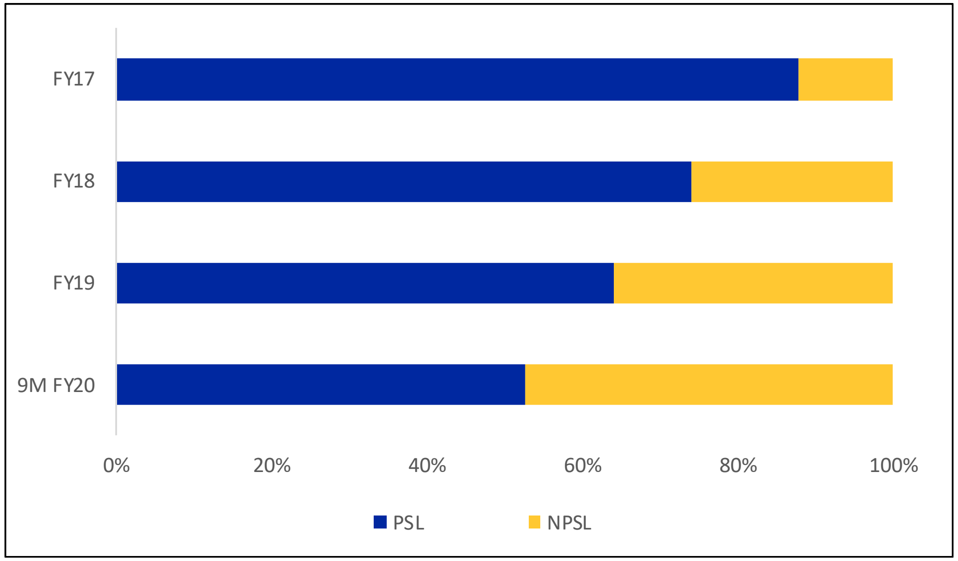
Source: ICRA Research, Industry

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

 # Includes transactions executed under the 'Partial Credit Guarantee (PCG)' Scheme being offered by the GoI

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 53% for 9MFY2020 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



Source: ICRA Research, Industry

ICRA expects that in the long term, securitisation volumes to meet PSL targets may be hampered as banks may meet the same through purchase of PSL Certificates or through partnership with NBFCs – either through business correspondent (BC) model or through the loan co-origination framework permitted by RBI (where banks may partner with NBFCs for onboarding PSL assets). However, ICRA expects that the greater inclination of market participants towards NPSL transactions will offset the decline in PSL volumes. Further, the Government-backed PCG scheme has seen some traction now after it took time to pickup post its announcement in August 2019. Sizeable sanctions were approved by several PSU banks in Q3 FY2020 under the PCG scheme and the first set of disbursements were reported in December 2019, though the amounts are modest in comparison to the disbursement targets. ICRA expects more momentum to be seen in the PCG-backed scheme in Q4 FY2020, after the scheme was extended till June 2020, which would further boost the 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.

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- 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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