ICRA
A MOODY'S INVESTORS SERVICE COMPANY

STRUCTURED FINANCE RATINGS

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Credit quality of ICRA-rated pass-through certificates to remain sensitive to pace of collection recovery and extent of credit enhancement utilisation post moratorium

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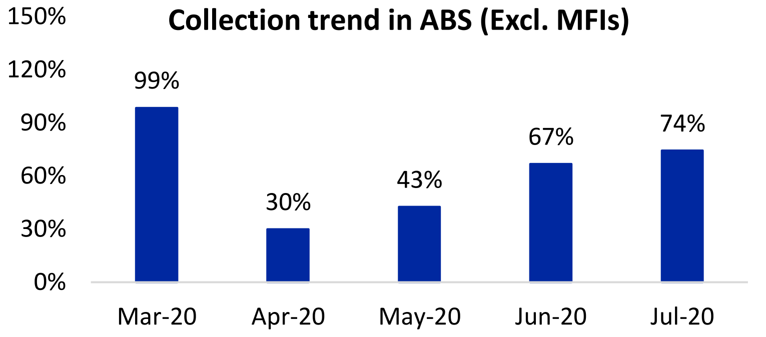
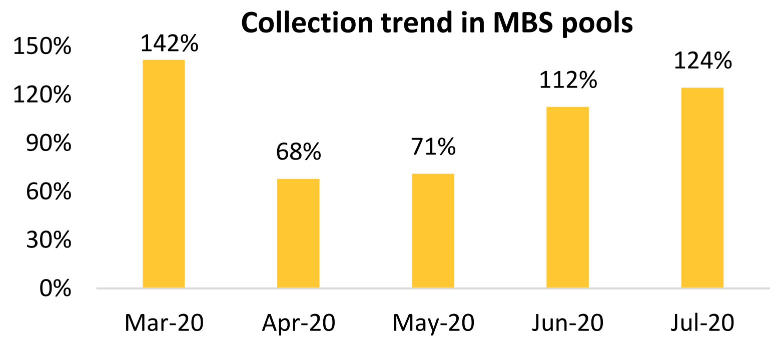
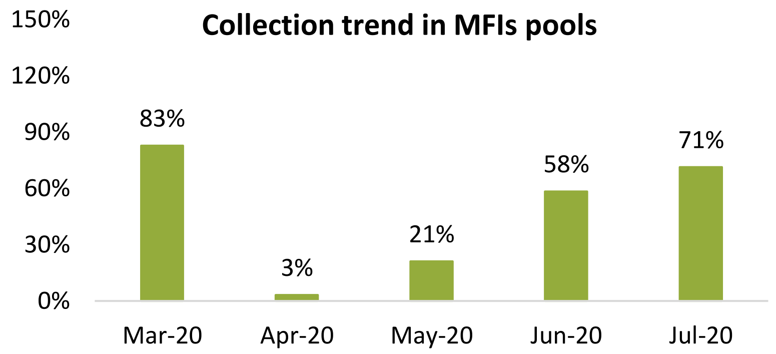
Improving collection efficiency[1] in ICRA-rated securitisation transactions

The collections in the pools underlying ICRA-rated securitization transactions, across asset classes, witnessed a steep drop in April 2020 due to the nationwide lockdown owing to the Covid-19 pandemic. However, since May 2020, the collections started to improve, led by gradual resumption of business activities following the easing in lockdown. The improvement in collection was also supported by almost all of the originators putting in efforts to accept and promote online collection. As a result, despite regional lockdowns and restrictions on movements, the collections across segments have seen significant recovery during April to July 2020 period. Basis ICRA's discussion with originators, collections in August 2020 is believed to have seen further improvement relative to that in July 2020 but the pace of incremental improvement has slowed down. The collections continue to remain lower than the pre-Covid levels by 20% ~ 40%, depending on the originator and asset class.

Among the segments, the collections in mortgage-backed securities or MBS segment continued to show remarkable resilience and witnessed substantial improvement over the past four-month period. Within MBS, affordable housing pools have shown marginally lower recovery in collections. Within asset-backed securities or ABS (excluding microfinance), SME pools have shown higher collections as compared to vehicle pools. The collection in microfinance pools, which had dipped to lower single digit in April 2020, recovered substantially by July 2020.







Source: ICRA Research, Industry

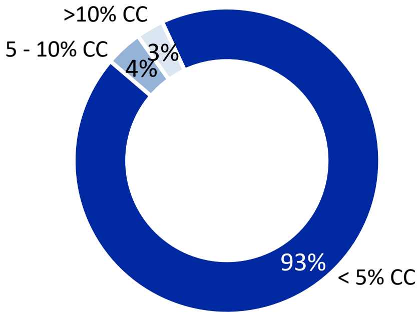
[1] Collection efficiency = (current collection + overdue collection + prepayments)/current billing as per pre-moratorium schedule

Sustained healthy collections post moratorium period leading to low credit enhancement utilisation would remain critical to avoid rating downgrades of securitisation transactions

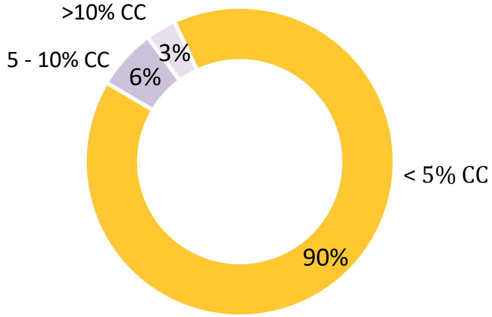
In an attempt to mitigate the impact of financial stress on borrowers due to lockdowns and resultant weakening of economic activity, RBI had announced a three-month moratorium policy from March 1, 2020 under its 'Covid-19 Regulatory Package' which was further extended up to August 31, 2020. Under this policy, the lending institutions could offer a 6-month moratorium to their borrowers such that they were eligible to opt for non-payment of the EMIs and their account status remained status-quo to pre-Covid period. In line with the guidelines, most originators offered the moratorium to their borrowers and also received a similar approval from investors on the PTC payouts. For most transactions, the utilisation of credit enhancement was suspended during the moratorium period. In ICRA's rated portfolio, more than 95% of the transactions had received approval on the moratorium from the investors. Most of the remaining transactions did not avail any moratorium due to substantial amortisation of the pools. Among the ICRA-rated transactions, about 14% of the ABS (including microfinance) segment and 27% of the MBS segment witnessed cash collateral utilisation due to low to moderate collection shortfall to meet the promised payouts to investors. However, as seen from the below exhibit, only about 2% of the transactions in ICRA-rated portfolio witnessed cumulative cash collateral utilisation in excess of 10% post the lockdown.

Exhibit: Trend in cumulative cash collateral (CC) utilisation in ICRA-rated securitisation transactions (upto July-20 collections)

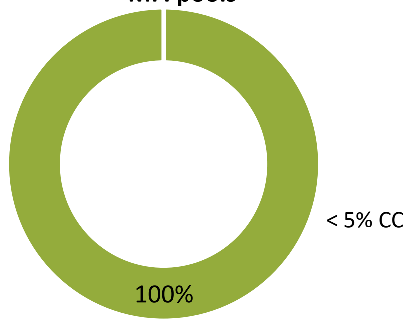
Cumulative CC utilisation for ICRA-rated ABS (non-MFI) pools



Cumulative CC utilisation for ICRA-rated MBS pools



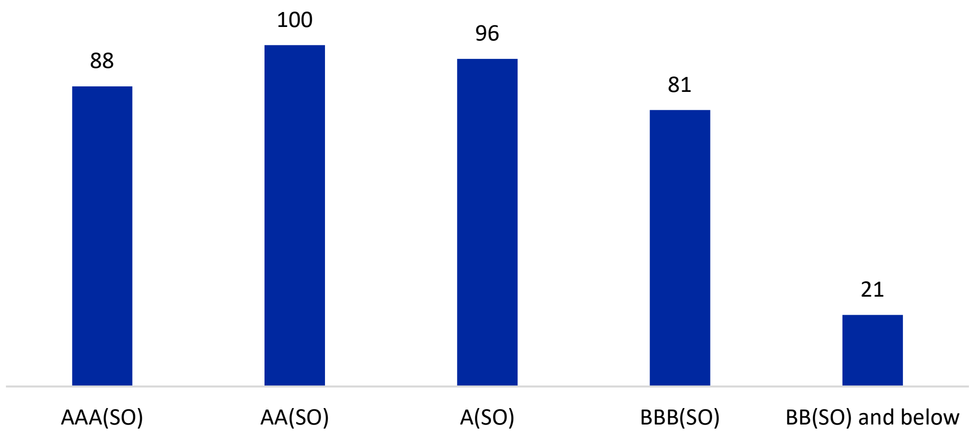
Cumulative CC utilisation for ICRA-rated MFI pools



Source: ICRA Research, Industry

ICRA expects the slippages into softer buckets (0+dpd) to increase substantially for most transactions post the moratorium (October 2020 payout). Transactions with a timely interest and timely principal (TITP) structure where the interest and principal are promised on a monthly basis may see an increase in utilisation of the credit enhancement. The extent of credit enhancement utilisation and the pace of recovery in collections would be key determinants in ICRA's assessment of the credit quality of the transactions. Transactions where the principal is promised only on an ultimate basis on the maturity date (TIUP structure) would not see any immediate utilisation of credit enhancement thereby protecting the transaction's credit quality and allowing for a longer period for recovery in collections. ICRA believes that originators would continue to focus, support and strengthen their collection efforts at a greater intensity during next few months to limit substantial rise in the slippages and delinquencies. The same would however face a challenge from the weakening of the financial profile of the borrowers on account of weaker economic activity amid Covid-19 pandemic, regional lockdowns and flood-like situations in certain geographies, which may not result in an immediate recovery to pre-Covid levels. Thus, the credit quality of PTCs, much like that of other debt instruments, is hugely dependent on the extent and speed of overall economic activity.

Exhibit: Rating category-wise distribution of ICRA-rated securitisation portfolio



Source: ICRA Research, Industry; Note: Ratings above include ratings for senior tranche, junior tranche, second loss facility, liquidity facility etc.

ANNEXURE

For the collection efficiency analysis, ICRA has considered information received from the following number of ICRA-rated pools across different asset classes:

Asset class	March 2020	April 2020	May 2020	June 2020	July 2020
ABS (non-MFI)	106	106	105	104	103
MBS	63	63	63	63	63
Microfinance	61	61	60	58	58
Total	**230**	**230**	**228**	**225**	**224**

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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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.

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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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