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STRUCTURED FINANCE

Q2 FY2022 witnesses healthy growth in securitisation volumes

OCTOBER 2021

Highlights

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Securitisation volumes clocked an impressive 49% growth in Q2 FY2022 compared to Q1 FY2022

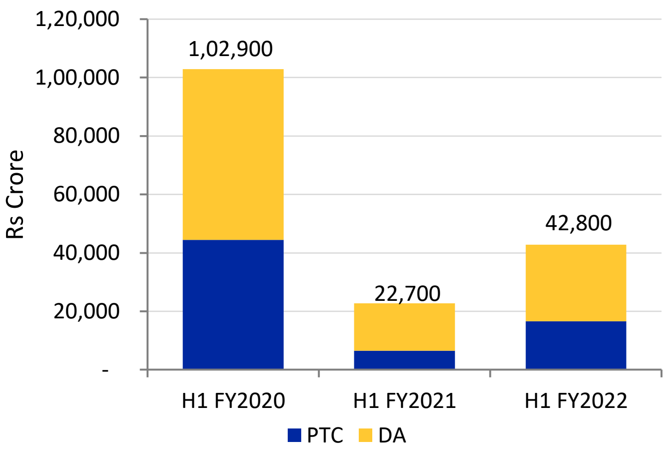
Investors' preference shifted back towards direct assignment which accounted for around two-third of the total securitisation in Q2

Mortgage-backed loans and vehicle loans formed about 70% of total securitisation volumes in Q2 FY2022

- Securitisation volumes by NBFCs and HFCs is estimated to be ~Rs. 25,600 crore in Q2 FY2022, which implies a 49% QoQ growth (over ~Rs 17,200 crore in Q1 FY2022) and a 68% YoY growth (over ~Rs 15,200 crore in Q2 FY2021)
- Securitisation volumes in H1 FY2022 were ~Rs. 42,800 crore implying an 89% growth over H1 of previous fiscal.
- As is typical, the last month of Q2 FY2022 contributed to bulk of the volumes with transactions aggregating to ~60% of the quarter's volume being placed in September 2021.
- Volumes were marginally impacted due to new securitisation guidelines introduced by the Reserve Bank of India (RBI) on September 24, 2021; some market participants preferred to put transactions on hold until they were well-versed with the new regulations
- Secured asset classes have continued to dominate the overall market with mortgage-backed loans and gold loans witnessing considerable traction; vehicle loans also formed a healthy share in the total volumes
- Share of PTCs reverted back to traditional one-third (two-third being direct assignments (DA)); Q1 FY2022 had seen higher PTCs accounting for half of total volumes
- With improving collections, rating upgrades were higher in Q2 FY2022 compared to Q1 FY2022 for ICRA-rated transactions; there were no downgrades in this quarter

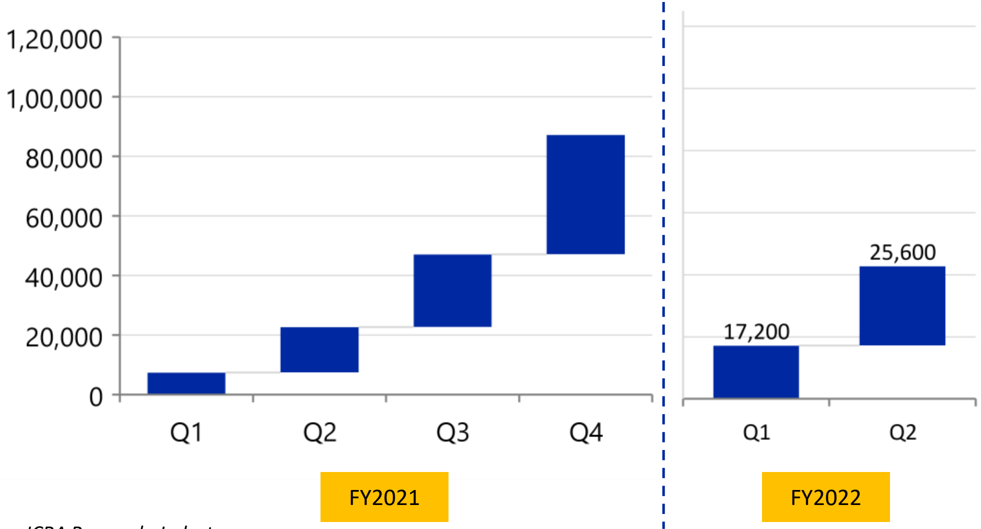
Securitisation volumes witness sequential improvement in Q2 FY2022

Exhibit: Securitisation market volume (PTC + DA)



Source: ICRA Research, Industry

Exhibit: Quarterly trend in FY2021 and FY2022

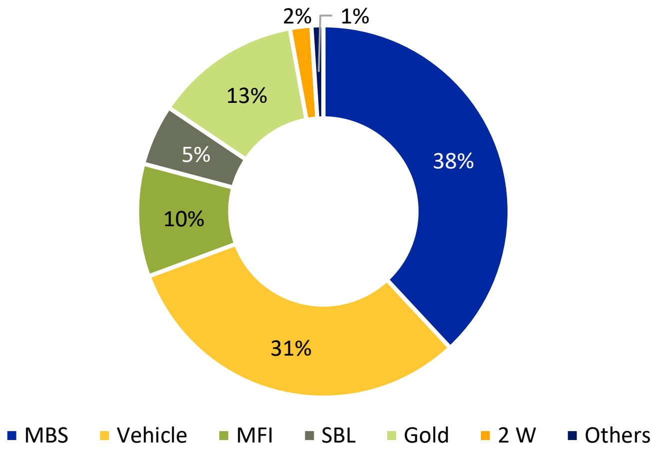


Source: ICRA Research, Industry

- Despite the second wave of the pandemic, securitisation volumes in the current fiscal have been higher at ~Rs 42,800 crore in H1 FY2022 versus ~Rs 22,700 crore in H1 FY2021. Volumes in Q2 FY2022 have also seen an increase compared to Q1 FY2022 as well as the corresponding quarter last year.
- Higher volumes have been supported by the improving economic conditions, more selective and localised lockdowns, increasing disbursements by the NBFCs and the HFCs and improvement in collection efficiencies across asset classes
- With increased pace of vaccinations, ICRA expects the growth in securitisation volumes to continue over the next two quarters of the fiscal. ICRA's estimate for the full year volumes remains at about Rs. 1.2 lakh crore if the improvement in the economic activities and increasing loan disbursement levels do not witness any disruption.

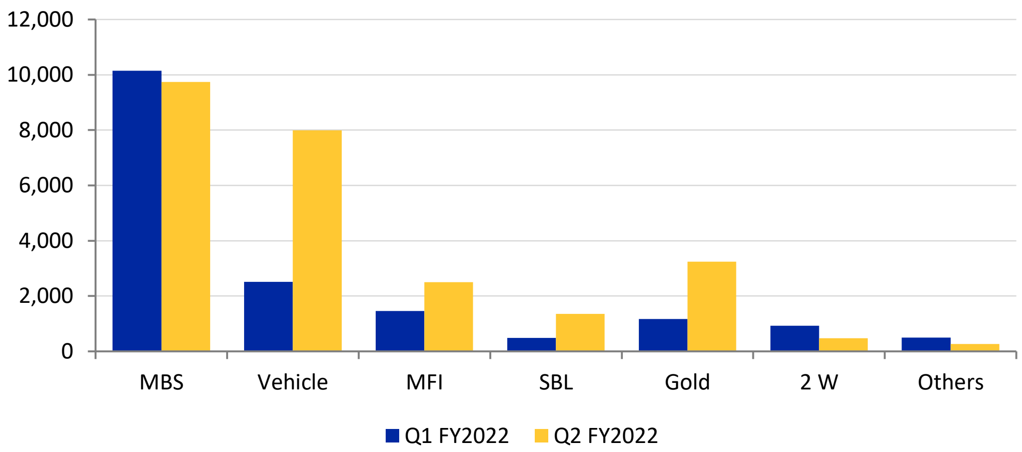
Dominance of secured loans in securitisation market continues

Exhibit: Asset class-wise breakup (PTC + DA) for Q2 FY2022



Source: ICRA Research, Industry

Exhibit: Volumes based on asset classes (Q2 v/s Q1)

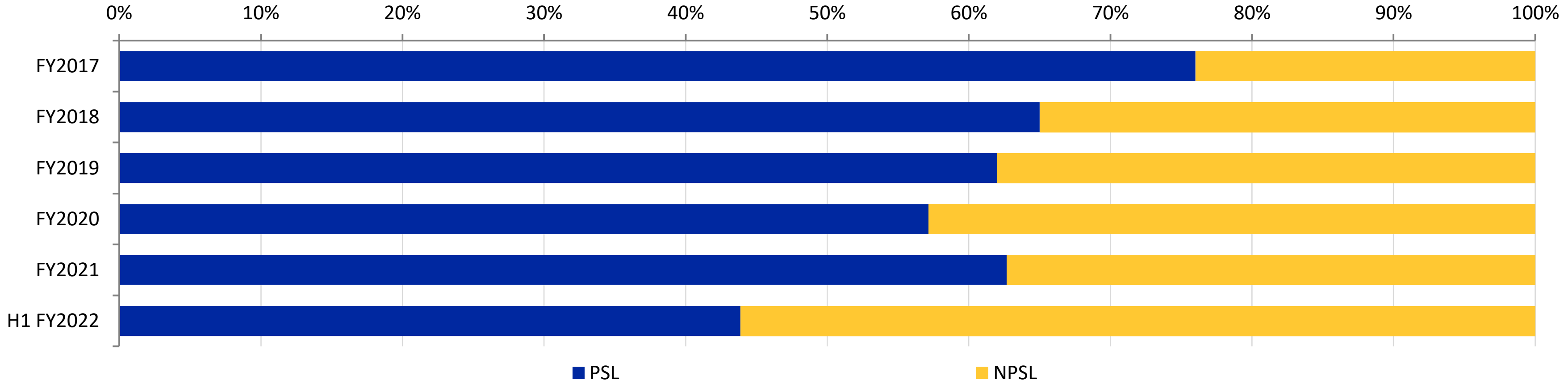


Source: ICRA Research, Industry

- Secured asset classes such as mortgage-backed loans and gold loans have been the preferred route for investors since the beginning of the pandemic as losses are expected to be lower due to the presence of collaterals.
- Securitisation volumes for mortgage-backed loans were high in both quarters of current year, though dominated by two large housing finance companies.
- Vehicle loans picked up pace in Q2 FY2022 due to some large transactions towards end of the quarter.
- Other major asset classes include Microfinance loans and Small Business Loans, both of which have seen decline in terms of their share when compared to pre-Covid period.

Increased share of NPSL transactions

Exhibit: PSL and NPSL share in overall volumes

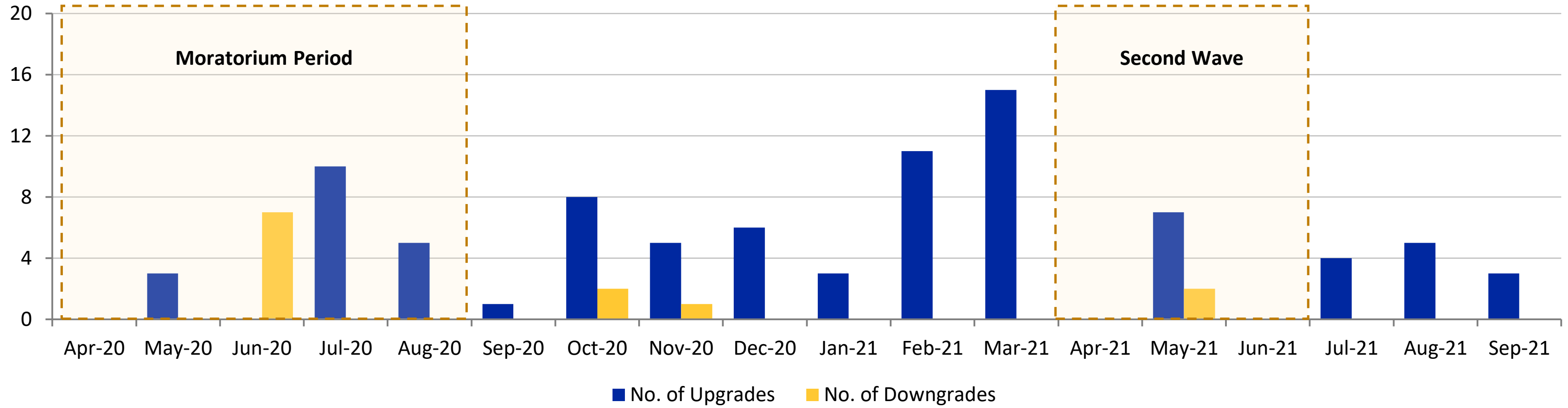


Source: ICRA Research, Industry

- FY2021 had seen a reversal of trend as share of PSL increased. This was mainly due to low volume base, high requirement from banks and lower participation from other investors (non-PSL) as pandemic-linked disruptions lead to investor caution.
- In H1 FY2022, NPSL revived indicating that investor concerns are ebbing due to pickup in economic activities couple with improved collections.

ICRA's rating actions on securitisation instruments post Covid

Exhibit: ICRA's rating actions (tranche-wise) for the period Apr-20 to Sep-21



Source: ICRA Research

- The pace of rating upgrades had reduced in Q1 FY2021 due to concerns on asset quality of the retail pools. A similar trend has been observed in Q1 FY2022 due to the emergence of the second wave.
- The rating upgrades have been largely driven by the build-up in credit enhancement in the transactions following the amortisation of the pools.
- Rating downgrades in the above period were seen for four ICRA-rated transactions due to either – a) absence of moratorium on the PTCs by the investor resulting in high cash collateral utilisation, or b) sharp deterioration in the credit profile of the originator

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Thank You!