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STRUCTURED FINANCE

Momentum in growth of securitisation volumes continues, albeit at a slower pace

JANUARY 2022

Highlights

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Securitisation volumes grew by 23% in Q3 FY2022 compared to Q2 FY2022

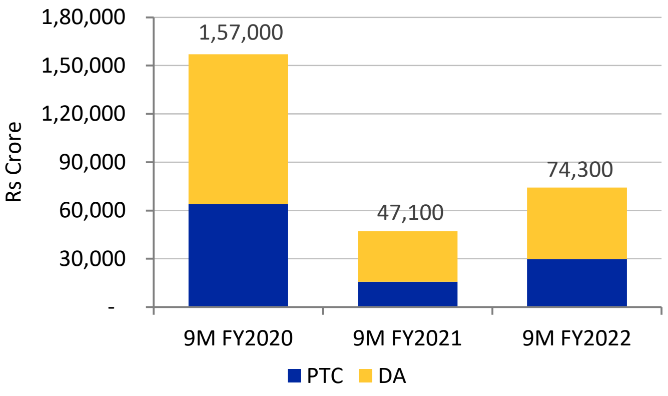
Volumes were marginally impacted by the threat of spreading the Omicron variant towards the end of the quarter

Vehicle loans have seen high sequential; overall volumes continue to be dominated by secured asset classes

- Securitisation volumes by NBFCs and HFCs is estimated to be ~Rs. 31,500 crore in Q3 FY2022, which implies a 23% QoQ growth (over ~Rs 25,600 crore in Q2 FY2022) and a 29% YoY growth (over ~Rs 24,400 crore in Q3 FY2022)
- Securitisation volumes in 9M FY2022 were ~Rs. 74,300 crore implying a 58% growth over 9M of previous fiscal (~Rs. 47,100 crore).
- Volumes were marginally impacted by the threat of spreading the Omicron variant towards the end of the quarter. ICRA has marginally reduced its annual volume estimate to Rs 1~1.1 lakh crore from the earlier estimates of Rs 1.2 lakh crore.
- Vehicle loans have seen high sequential growth as collection efficiencies improved post the second wave; Secured asset classes have continued to dominate the overall market with mortgage-backed loans and gold loans witnessing considerable traction in post-pandemic period
- Share of PTCs increased in Q1 FY2022 at time of the second wave of the pandemic, and again in Q3 FY2022, which saw the rising share of Omicron cases towards the end of the quarter.
- Rating actions have followed the overall macro-economic scenario; upgrades were lower in Q1 FY2022 but subsequently have gained pace whereas downgrades continue to remain very few.

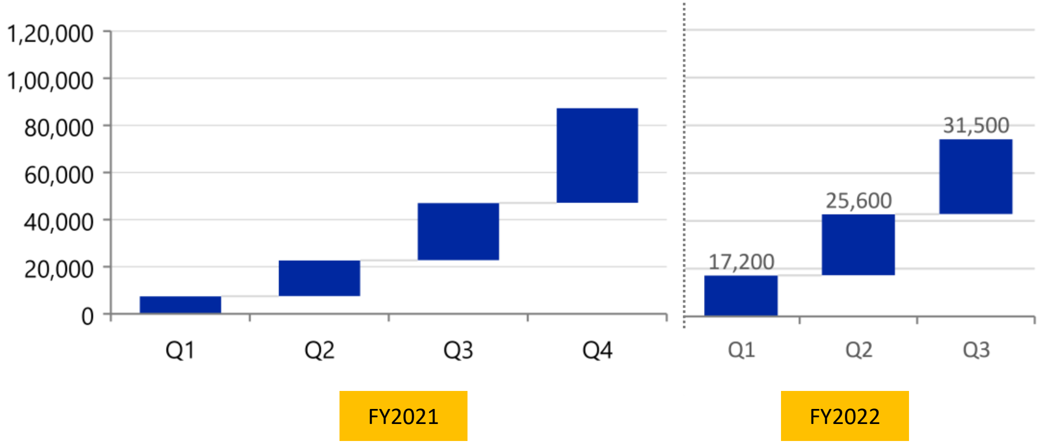
Securitisation volumes witness QoQ growth in Q3 FY2022

Exhibit: Securitisation market volume (PTC + DA)



Source: ICRA Research, Industry

Exhibit: Quarterly trend in FY2021 and FY2022



Source: ICRA Research, Industry

- For 9M FY2022, securitisation volumes were ~Rs 74,300 crore compared to ~Rs. 47,100 crore in 9M FY2021. The volumes in Q3 FY2022 were about Rs 31,500 crore i.e. 23% QoQ growth and 29% YoY growth. Volumes were marginally impacted by the threat of spreading Omicron variant towards the end of the quarter.
- ICRA has marginally reduced its annual volume estimate to Rs 1~1.1 lakh crore from the earlier estimates of Rs 1.2 lakh crore.
- Preference for PTCs has increased (~42% share in Q3 volumes compared to traditional share of one-third) since the credit enhancements in such structures would be able to absorb higher-than-expected losses that may arise due to the current economic uncertainties.
- Securitisation volumes though continue to be much lower than pre-Covid period as lower disbursements have led to lower availability of loan pools that can be securitised. Healthy liquidity available with most of the higher rated entities has also reduced dependence on securitisation for now. Threat of spread of the Omicron variant may also be weighing on the mind of investors.

Dominance of secured loans in securitisation market continues

Exhibit: Asset class-wise breakup (PTC + DA) for 9M FY2022

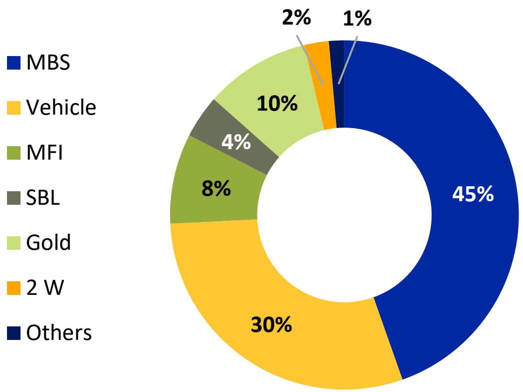
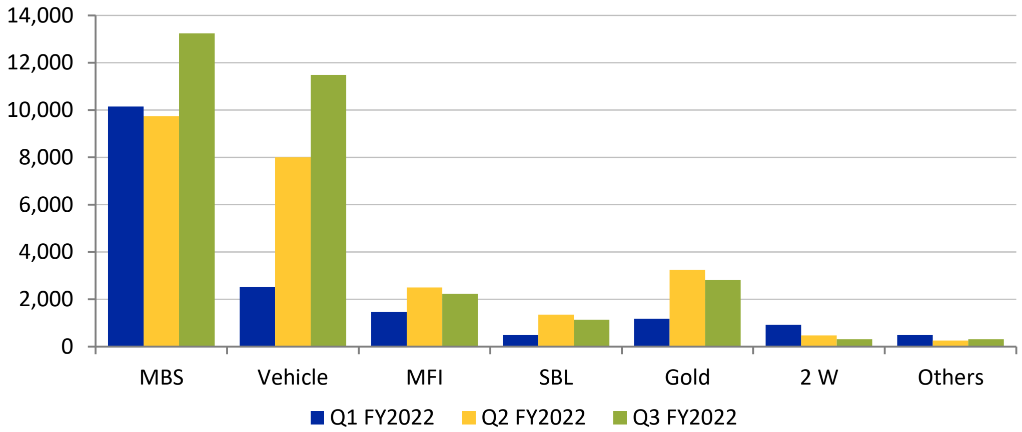


Exhibit: Quarterly securitisation volumes based on asset classes

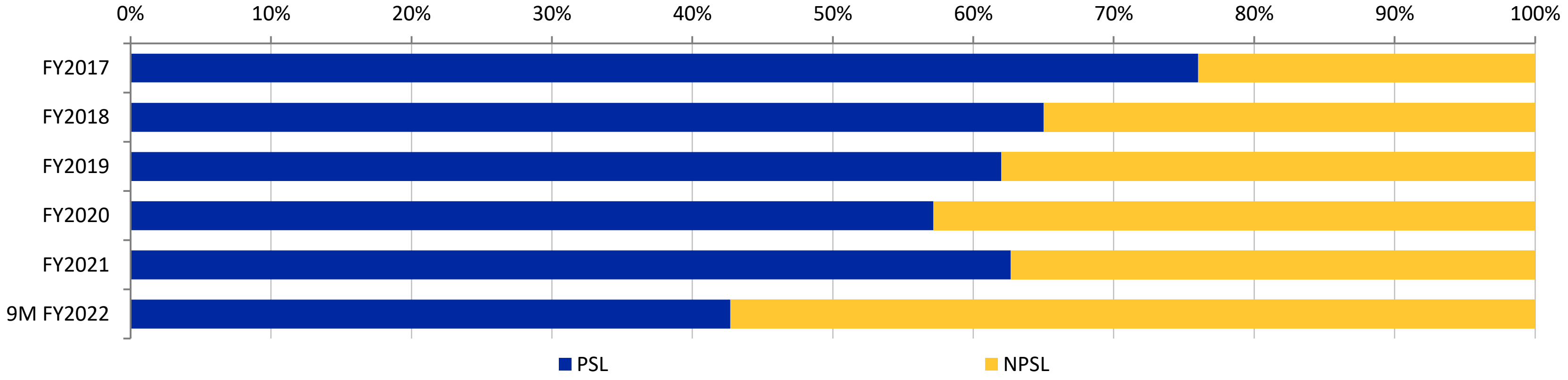


Source: ICRA Research, Industry

- Securitisation of vehicle loans has increased each quarter as the asset class witnessed healthy improvement in collections post the second wave; its share increased from ~15% in Q1 FY2022 to ~36% in Q3 FY2022
- 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.
- Other major asset classes include microfinance loans and small business loans, both of which have seen a decline in terms of their share when compared to the pre-Covid period. Volumes further shrunk in Q3 following the Omicron scare and reducing availability of pool to securitise.

Increased share of NPSL transactions a positive

Exhibit: PSL and NPSL share in overall volumes



Source: ICRA Research, Industry

- FY2021 had seen a reversal of trends as share of pools that qualify for priority sector lending (PSL) had 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 led to investor caution.
- However, during 9M FY2022, the non-PSL (NPSL) pools have seen a healthy contribution to overall securitisation volumes, indicating that investor concerns remain lower than last year due to pick-up in economic activities couple with improved collections.
- We, however, expect the PSL requirements to be a key driver for securitisation in Q4.

ICRA's rating actions on securitisation instruments, post Covid

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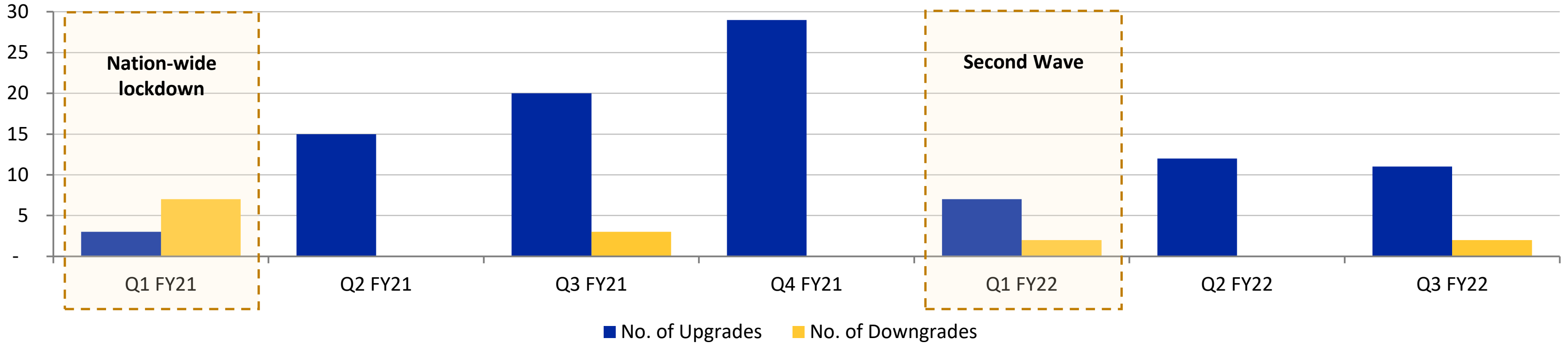
Exhibit: ICRA's rating actions (tranche-wise) for the period



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 was 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 respective originator.

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Thank You!