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STRUCTURED FINANCE

Retail-pools across asset classes post a strong start to the year as threats from Covid remain low

JUNE 2022

Highlights

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The impact of the third wave on the performance of ICRA-rated retail pools was limited with a swift recovery in March. Collections in the current year remain healthy.

The uptick in business activities across sectors and focused collection efforts of non-banks alleviates concerns regarding asset quality to a large extent. Furthermore, the tighter underwriting process and pool selection criteria adopted by originators and investors respectively, post Covid, would also positively impact asset quality and collections.

- Monthly collection efficiency registered a modest decline (by ~3%) in January 2022, following the third wave of the pandemic. The recovery, however, was prompt given the lower severity of the Covid variant and limited restrictions on movements during this period with collection efficiency increasing to 99%-105% across asset classes by the end of the fiscal.

- Performance of ICRA-rated pool continues to remain healthy in the current fiscal, with collection efficiency in the range of 97% to 101% in April and projected at 99-103% in May

- The unsecured loan segment, such as microfinance loans and SME loans, witnessed the sharpest decline in collections during the first and second Covid waves. However, the uninterrupted business environment, seen over the past 9-10 months, has improved the repayment capability of such borrowers, resulting in a material improvement in the collection efficiency.

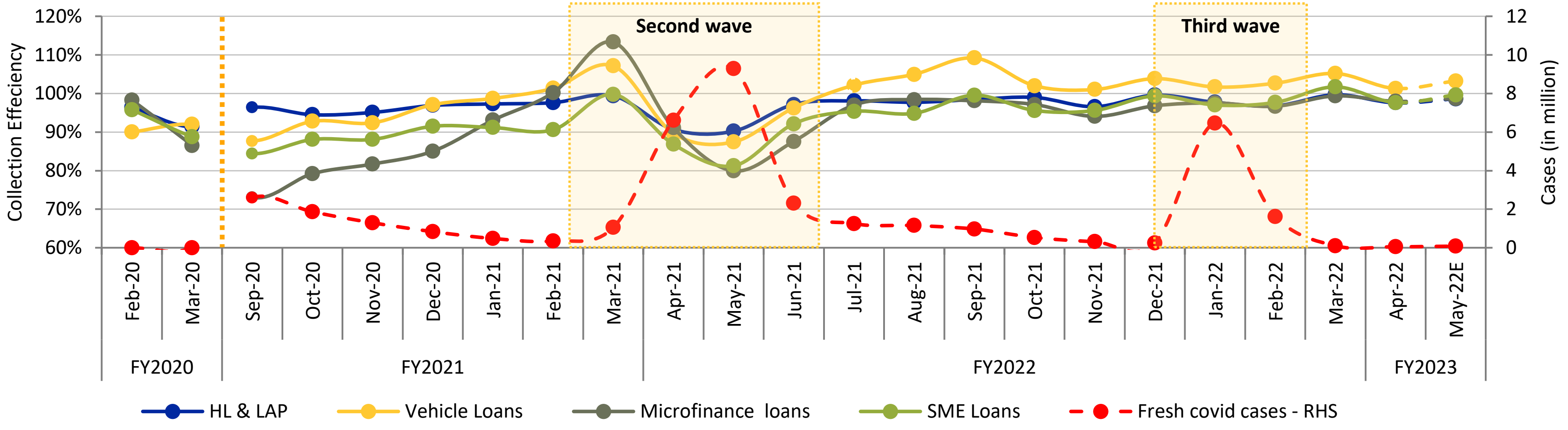
- With the uptick in collections, the 90+ days past due (dpd) delinquencies have witnessed reduction across asset classes, as much as 2-3% for microfinance and unsecured SME pools, from the peaks seen in Q1/Q2 FY2022.

- ICRA expects collection efficiency to remain largely stable this fiscal provided there are no material Covid-related disruptions. Any rise in infections for shorter periods of time is not expected to materially impact collections should the restrictions remain localised (like in the second and the third waves).

- The performance of ICRA-rated securitisation transactions is expected to remain stable as the credit enhancements should be sufficient to meet investor pay-outs even in case of lower collections for a few months.

Strong collections across asset classes

Exhibit: ICRA-rated pools' monthly collection efficiency and trend in fresh Covid cases



- The average collection efficiency in ICRA-rated securitised retail pools originated by Non-Banking Finance Companies (NBFC)s and Housing Finance Companies (HFC)s, witnessed a modest decline by about 3% following the third wave of infections seen in January 2022. The recovery, however, was prompt given the lower severity of the Covid variant and limited restrictions on movements during this period and collection efficiency inched up to 99%-105% across asset classes by the end of the fiscal.
- Collection efficiency continues to remain healthy in the current fiscal, in the range of 97% to 101% in April and is expected to have increased further (99-103%) in May.
- With business activities close to pre-Covid levels for most sectors, coupled with heavy focus on collections by the NBFCs and HFCs, the concern on collection efficiency, at least from the non-restructured portfolio of the financiers, has reduced. Further, tightening of pool selection criteria by the investors for securitised pools and strengthening of prevailing credit appraisal processes and parameters by the lenders following the emergence of Covid has also had a positive bearing on the overall collection efficiency.

Source: ICRA Research, CEIC, May-22E represents estimated collection numbers, Monthly collection efficiency = (current collections + overdue collections)/current billings

Collection efficiencies and delinquencies | HL & LAP pool performance

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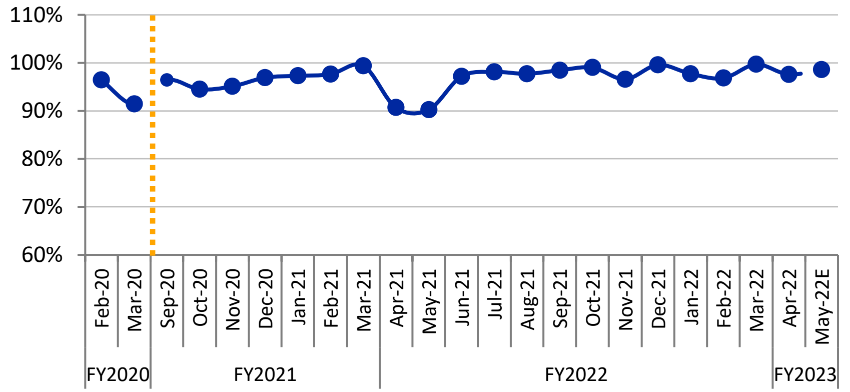
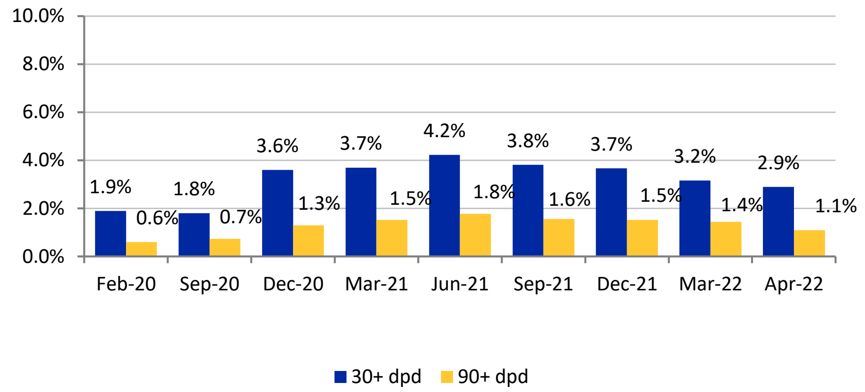
Exhibit: Monthly collection efficiency trend in ICRA-rated HL & LAP pools



Source: ICRA Research, May-22E represents estimated numbers,
Monthly collection efficiency = (current collections + overdue collections)/current billings

- Housing loans (HL) and loans against property (LAP) pools registered a marginal dip in collection efficiency in January 2022 amidst the third wave of the pandemic. However, the impact was short-lived and the collections witnessed a swift recovery increasing to 100% as of March 2022.
- Presence of online collection practices, better financial profile of the borrowers, association of the borrowers with the underlying collateral and the priority given by the borrowers to repay such loans are the key drivers of the recovery in collections.

Exhibit: Delinquencies in ICRA-rated HL & LAP pools

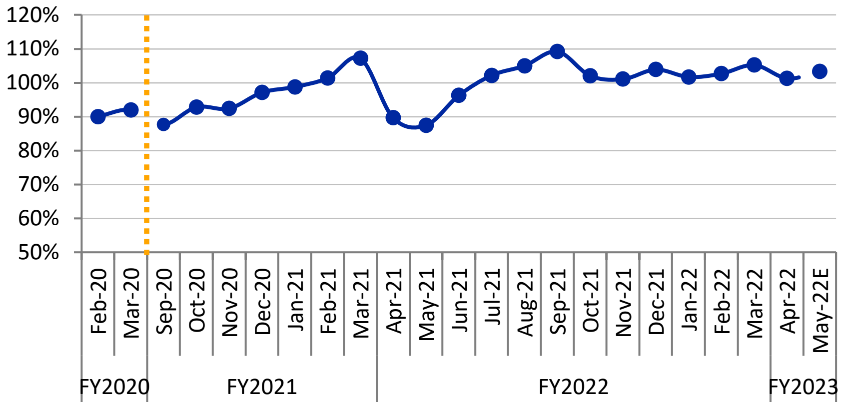


Source: ICRA Research, dpd – days past due

- Delinquency level in HL and LAP segment peaked in May 2021 (30+ dpd of 5% and 90+ dpd of 1.8%) as performance of non-banks was impacted amidst the second wave of the pandemic.
- The mortgage segment (HL and LAP) has witnessed an improvement in delinquency levels supported by the uptick in collection activity, post the second wave. With businesses back to normal operations, improved outlook for non-banks and limited concerns regarding the pandemic with significant growth in vaccination coverage, the performance of MBS pools is expected to remain healthy over the near term.

Collection efficiencies and delinquencies | CV loan pool performance

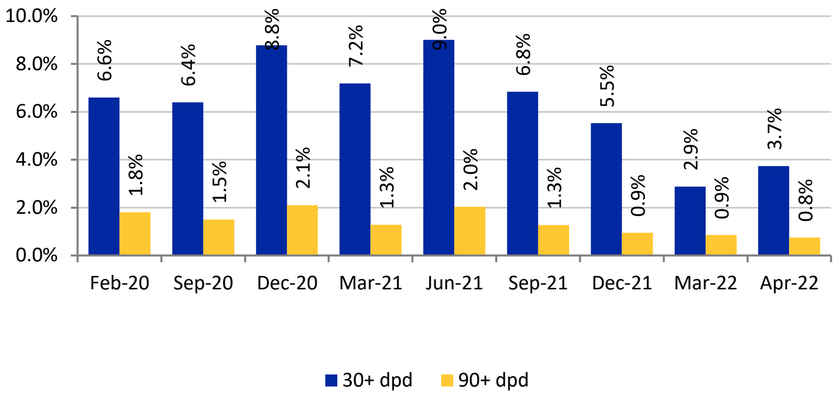
Exhibit: Monthly collection efficiency trend in ICRA-rated Vehicle loan pools



Source: ICRA Research, May-22E represents estimated numbers,
Monthly collection efficiency = (current collections + overdue collections)/current billings

- The collections in commercial vehicle (CV) loans have remained over 100% after July 2021, post the second wave of the pandemic driven by higher inter/intra-state movements upon revival of businesses/mining/factory production activities driving movement of raw materials/final products. While there was some moderation in Q4 FY2022, collection efficiency continued to remain healthy around 105% in March.
- The performance of ICRA-rated vehicle loan pools has remained healthy due to the minimal presence of highly affected passenger vehicle loans (such as buses, cab aggregators) where the recovery has not yet happened due to schools, offices still not operating at full capacity.

Exhibit: Delinquencies in ICRA-rated Vehicle loan pools

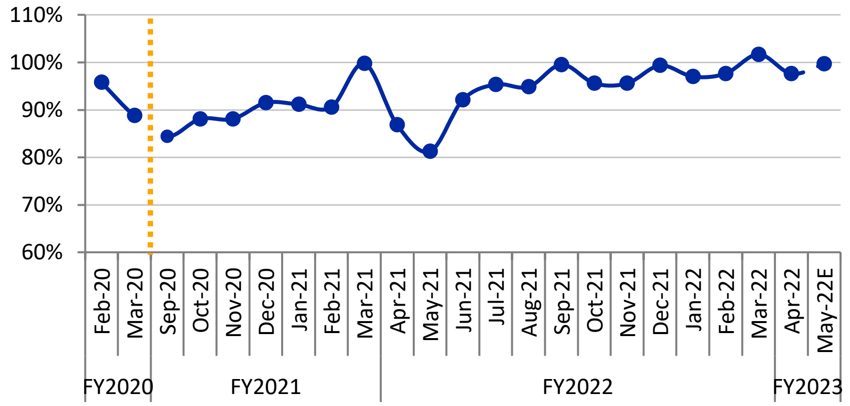


Source: ICRA Research, dpd – days past due

- Consequently, the slippages in softer and harder buckets, which peaked in Q1 FY2022, witnessed a meaningful improvement over the following quarters.
- Supported by focused recovery and collection efforts, the delinquency levels have improved than pre-Covid levels. Further recovery from the delinquent borrowers in vehicle loans can still be expected due to the presence of collateral with eventual losses, post default, being comparatively lower.

Collection efficiencies and delinquencies | SME loan pool performance

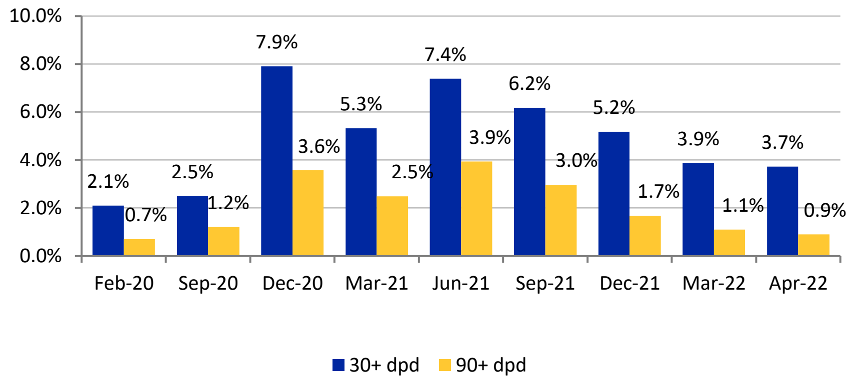
Exhibit: Monthly collection efficiency trend in ICRA-rated SME loan pools



Source: ICRA Research, Oct-21E represents estimated numbers,
Monthly collection efficiency = (current collections + overdue collections)/current billings

- With the ebbing of the second wave of the pandemic, the collection efficiency SME segment witnessed an uptick and gradually stabilised in Q2 FY2022 with the end of restrictions on the opening of local establishments coupled with the pick-up in consumer demand.
- The credit profile of the borrowers and businesses remained largely stable amidst the third wave, supported by the limited restrictions on movement, stable demand scenario and low severity of the virus. Collection efficiency in ICRA-rated SME pools inched up to 102% as of March 2022 after a marginal correction during January and February 2022

Exhibit: Delinquencies in ICRA-rated SME loan pools

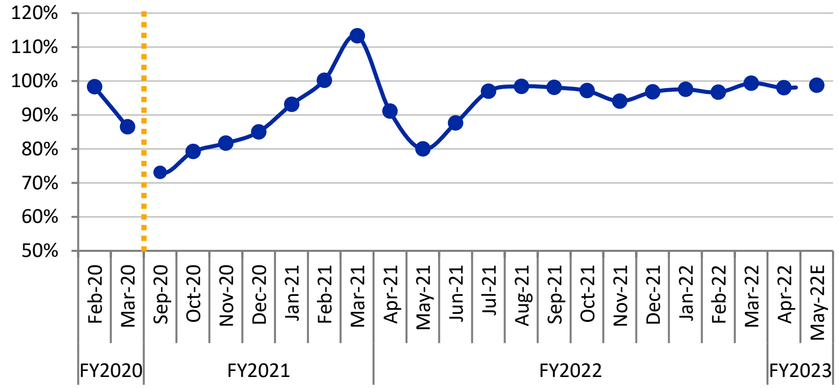


Source: ICRA Research, dpd – days past due

- Non-banks resumed disbursements from H2 FY2021, after the end of the nationwide lockdown and gradual resuming of businesses, and adopted tighter underwriting norms. This has also helped support asset quality for recent transactions.
- Delinquency levels for SME loans have registered a steady improvement from the peaks of May 2021.
- A considerable recovery, from the current level, may be unlikely in the unsecured SME loan segment as recovery from harder buckets would be difficult and the losses may be higher than seen in the past due to the absence of a collateral. The limited share of restructured loan accounts in the ICRA-rated pools is a source of comfort.

Collection efficiencies and delinquencies | Microfinance loan pool performance

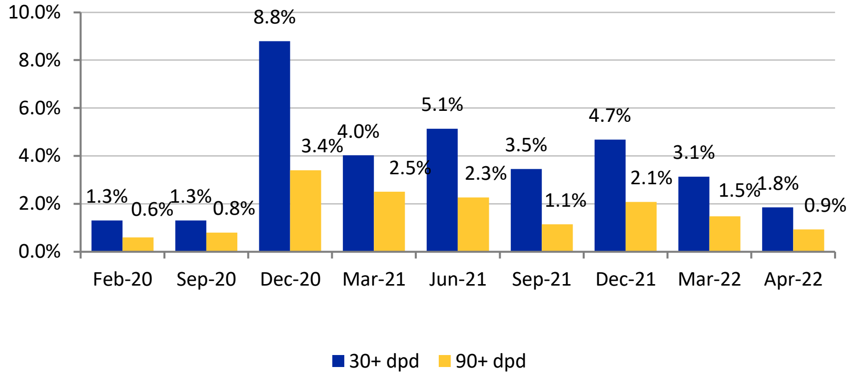
Exhibit: Monthly collection efficiency trend in ICRA-rated Microfinance loan pools



Source: ICRA Research, May-22E represents estimated numbers,
Monthly collection efficiency = (current collections + overdue collections)/current billings

- The impact of the second wave was most prominent in the microfinance segment with collection efficiency sliding to 80% (albeit better than that observed during first wave). This sector too witnessed a healthy recovery over Q2 FY2022 with the monthly collection efficiency of ICRA-rated microfinance loan pools reaching pre-second wave level during the quarter. The performance in the following quarters remained steady with collection efficiency estimated to have remained around 99% since March 2022
- Certain states continued to report weak collections due to their own geographical or political issues.

Exhibit: Delinquencies in ICRA-rated Microfinance loan pools



Source: ICRA Research, dpd – days past due

- The incremental slippages and delinquencies have declined sharply in ICRA-rated microfinance pools in Q4 FY2022 as the cash flows for the underlying borrowers have improved resulting in better collections for the MFIs.
- The asset quality for ICRA-rated MFI pools is expected to remain stable in the near term on account of the presence of better-quality contracts in the pools. Like SME loans, a substantial recovery from harder bucket (i.e. 90+dpd), however, would continue to remain a challenge.

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Thank You!