# INDIAN SECURITISATION MARKET REVIEW FY2018-19

## MAY 2019


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# Executive Summary

# HIGHLIGHTS of FY2019

- Securitisation market size grows nearly 140% YoY to Rs. 1,98,700 crore in FY2019
- DA volumes in FY2019 (Rs. 1,27,800 crore) jump to 2.6 times the volumes in the previous fiscal
- Greater reliance on securitisation by HFCs and NBFCs for fund raising, post the liquidity squeeze, pushes up volumes in H2 FY2019
- Share of non-PSL transaction volumes increase sharply for PTC transactions (36%); ratio in overall volumes (38%) remains comparable to previous years
- Conventional asset classes like mortgages (home loans and loan against property), commercial vehicles and microfinance continue to dominate (86% of the volumes)
- Lease rentals emerge as new asset class in FY2019 and share of non-conventional asset classes like term loans, gold loans, two-wheeler and three-wheeler loans, education loans and consumer durable loans continue to rise
- Replenishing securitisation structure implemented for the first time in vehicle loan asset class
- Issuance of India's first covered bond transaction, which involved the securitisation of cover pool receivables
- Banks — both private and public — remain the dominant investors
- 107 originators were active in securitisation market (PTC and DA markets taken together); the number crosses 100 for the first time in FY2019
- Average ticket size of Rs. 214 crore for ABS deals and Rs. 346 crore for MBS deals in FY2019

# OVERVIEW

The domestic securitisation market volumes touched an all-time high in FY2019, falling just short of the Rs. 2-lakh-crore mark. In earlier commentaries, ICRA had highlighted the surge in securitisation in 9M FY2019 and the expectation of the market size being close to Rs. 2 lakh crore by the end of the fiscal year. The market gained buoyancy in Q3 FY2019, driven by the prevalent liquidity crisis for non-banking finance companies (NBFCs) and housing finance companies (HFCs), which increased the demand for securitisation as an alternate funding route. The relaxation of the minimum holding period (MHP) criteria for longer tenure loans, by the Reserve Bank of India (RBI) in November 2018, resulted in an increase in the supply of assets eligible for securitisation. The momentum continued in Q4 FY2019, which saw volumes of around Rs. 55,000 crore. Thus, the total volumes for FY2019 are estimated to be Rs. 1,98,700 crore, an increase of around 140% from FY2018 (market volumes were Rs. 84,000 crore in FY2018).

The securitisation market in India can be segregated into two types of transactions – rated pass-through certificate (PTC) transactions and unrated direct assignment (DA) transactions (the bilateral assignment of a pool of retail loans from one entity to another). The surge in volumes was driven by a sharp increase in the quantum of DA transactions. As per ICRA's estimates, the total volume of DA transactions in FY2019 was Rs. 1,27,800 crore - 2.6 times the volumes in FY2018. DA transaction volumes got a boost as some large HFCs undertook massive portfolio sell-downs in H2 FY2019 to raise funds for repayments on their capital market instruments (mainly commercial papers). Nearly 66% of the DA volume (around Rs. 84,000 crore) was undertaken by HFCs, of which 45% was done in Q3 FY2019 alone.

Volumes for PTC transactions also received a boost in FY2019, more than doubling to Rs. 70,900 crore from Rs. 34,600 crore in FY2018, despite several entities migrating to Ind AS. Under Ind AS (unlike GAAP), the benefit of capital relief is not there for the originators in PTC transactions. Even though the average yields attached to such instruments are higher than usual, the need to raise funds in an otherwise tight liquidity environment meant that some originators had to increase their dependence on securitisation. Unlike DA, the PTC route was dominated by NBFCs.

Traditionally, in India, the priority sector lending (PSL) requirement of banks has remained the primary driving force for securitisation volumes. However, in recent years, there has been an increase in investments by mutual funds, insurance companies and NBFC investors in transactions with non-PSL assets as the underlying. In FY2019, the share of non-PSL transactions through the PTC route increased to 36% compared to 26% in FY2018 and less than 20% in the periods prior to that. The share of non-PSL DA transactions has remained stable over the past two years at around 40%.

In April 2018, ICRA rated India's first securitisation transaction, backed by lease rental receivables (click here to view the rationale). The total share of such transactions in FY2019 was around Rs. 12,000 crore, accounting for 50% of the non-PSL PTC volumes. Other asset classes such as gold loans, vehicle loans, consumer durable loans, term loans and small business loans made up the remaining share of the non-PSL PTC volumes.

While lease rental receivables were a new asset segment in the Indian securitisation market, there were some other innovative structures as well that saw fruition in FY2019. ICRA rated the first replenishing securitisation structure for a vehicle financier in December 2018 (click here to view the rationale). Unlike typical securitisation transactions, the structure envisaged a replenishment period where instead of paying the PTC holders, the collections from the pool would be utilised to purchase a fresh set of loan receivables. While the conventional amortising securitisation structure helps the lender raise tenure-matched funding, a replenishing securitisation structure goes a step further and helps the lender maintain a positive Asset-liability management (ALM) and improve its liquidity profile.

In January 2019, ICRA rated India's first covered bond transaction (click here to view the rationale). Covered bonds, as an asset class, are usually perceived to be a safe investment option because the bond investors have the benefit of dual recourse – unlimited recourse on the issuer and recourse on the bankruptcy remote cover pool assets (akin to a securitisation transaction) if the issuer does not pay.

Conventional asset classes like housing loans, loan against property (LAP) and vehicle loan receivables continued to dominate overall volumes. While mortgages – both housing loans and LAP – accounted for a bulk (68%) of the DA volumes, the share of this asset class has historically remained low in the PTC route. On the other hand, PTC was the most preferred route for vehicle loans. An asset class that garnered a lot of interest in the PTC as well as DA route was microfinance loans. As per ICRA's estimates, NBFC-MFIs raised around Rs. 26,200 crore through securitisation in FY2019, showing YoY growth of around 170%. A few NBFCs (other than MFIs) and small finance banks (SFBs) also undertook securitisation of their microfinance loans. After considering these as well, the total volumes for this asset class were Rs, 28,600 crore.

Banks remained the largest investor segment in securitisation in India. While investment by banks -- public, private as well as and foreign -- will remain high, given their need for PSL assets, the participation of other investor classes such as mutual funds and NBFCs would depend on the yields on offer.

ICRA expects moderation in volumes in FY2020 compared to FY2019 as 1) the quantum of eligible assets for securitisation in the system would have declined, given the higher-than-usual volumes seen in FY2019; 2) the incentive for higher-rated entities to undertake securitisation has reduced as on-balance sheet borrowing costs have declined in recent months and yields are expected to soften going forward as well; and 3) the co-origination framework permitted by the RBI recently, whereby banks may partner with NBFCs for onboarding PSL assets, is an additional route for banks to meet their PSL targets. However, till the systemic liquidity normalises, the dependence on securitisation as a fund-raising tool will remain intact. Therefore, ICRA believes that while volumes would not be as high in FY2020 as in FY2019, they would be much higher than the volumes witnessed in the years prior to that.

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