Review of CRISIL-rated securitisation transactions

Executive Summary

CRISIL has analysed the collection performance of 74 asset-backed securities (ABS), 36 mortgage backed securities (MBS) and 2 commercial mortgage backed securities (CMBS) under surveillance in December 2017. The transactions are backed by commercial vehicle loans (CV), car loans, tractor loans, construction equipment (CE) loans, loans extended to small & medium enterprises (SME), two-wheeler loans (TW), microfinance (MFI) loans, home loans (HL) and loans against property (LAP). Key observations after December 2017 payouts are:

- **Robust collection ratio of commercial vehicle pools aids in stabilizing delinquencies**

  CRISIL-rated CV pools demonstrated robust collection performance during the quarter ended December 2017 with median 3 month average monthly collection ratio (MCR) at 98.9% as after December 2017 payouts. Performance of pools of 2016 vintage continue to be weak when compared to those of 2013 to 2015 and 2017 vintages.

- **Delinquencies in tractor pools continue to fall**

  Six-month average collection ratio has been steady at or above 100% between June 2017 and December 2017. 0+ OD[1] reduced to 3.6% from 6.3% in September 2017. Similarly, 90+ dpd[2] fell to 4.3% from 7.1% in September 2017 and 30+ dpd[3] declined to 8.0% from 9.7%.

- **Stable performance by MFI pools**

  CRISIL-rated MFI pools demonstrated stable performance during the quarter ended December 2017. The weak performing pools were fully amortised during the quarter and median cash collateral of 42.8% of the stipulated cash collaeral was utilised to make payouts to investors. With the weak performing pools fully amortised by November 2017, median collection ratio for December 2017 improved to 96.7% from 93.6% in September 2017.

- **LAP pools witnessing rising overdue**

  Overall collection performance of the pools backed by HL receivables continued to be strong during Q3 of fiscal 2018 with negligible overdue. However, LAP pools saw slight weakening with overdue levels increasing to 0.3% in December 2017 from 0.2% in March 2017.

- **Other asset-backed pools enjoy healthy cover**

  Performance of other asset class backed pools (CE, Car, TW and SME) is in line with expectation. As after December 2017 payouts, median threshold collection ratios (TCR) required to service future investor payouts are low and below median MCRs for each asset class.

- **CMBS transactions continue to enjoy healthy interest coverage ratio**

  CRISIL has been receiving monthly payout confirmations for the CMBS issuances of DLF Emporio Ltd and DLF Promenade Ltd. The earnings before interest, depreciation, tax and amortisation for both the transactions provide

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[1] The total overdue in the pool plus loss on sale of repossessed assets (wherever available) as a percentage of pool principal at the time of securitisation.

[2] The unamortisaed principal plus the overdue on contracts delinquent for more than 90 days plus loss on repossessed assets (wherever available) as a percentage of pool principal at the time of securitisation.

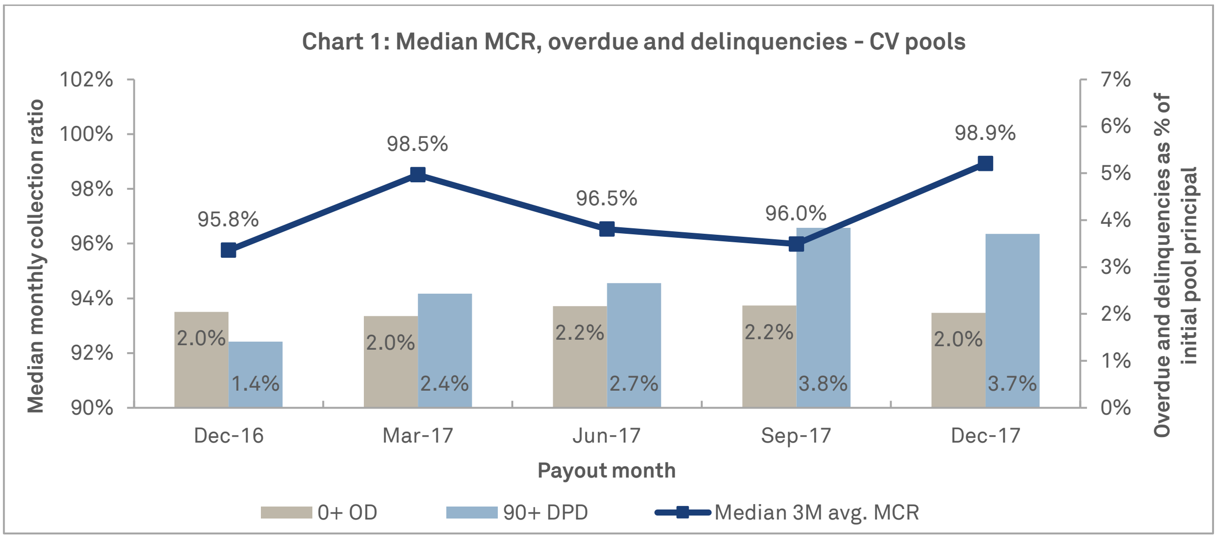
[3] The unamortisaed principal plus the overdue on contracts delinquent for more than 30 days as a percentage of pool principal at the time of securitisation.

adequate cover to the rating category. As after December 2017 payout, interest coverage for DLF Emporio Ltd and DLF Promenade Ltd was 1.80 and 2.10, respectively.

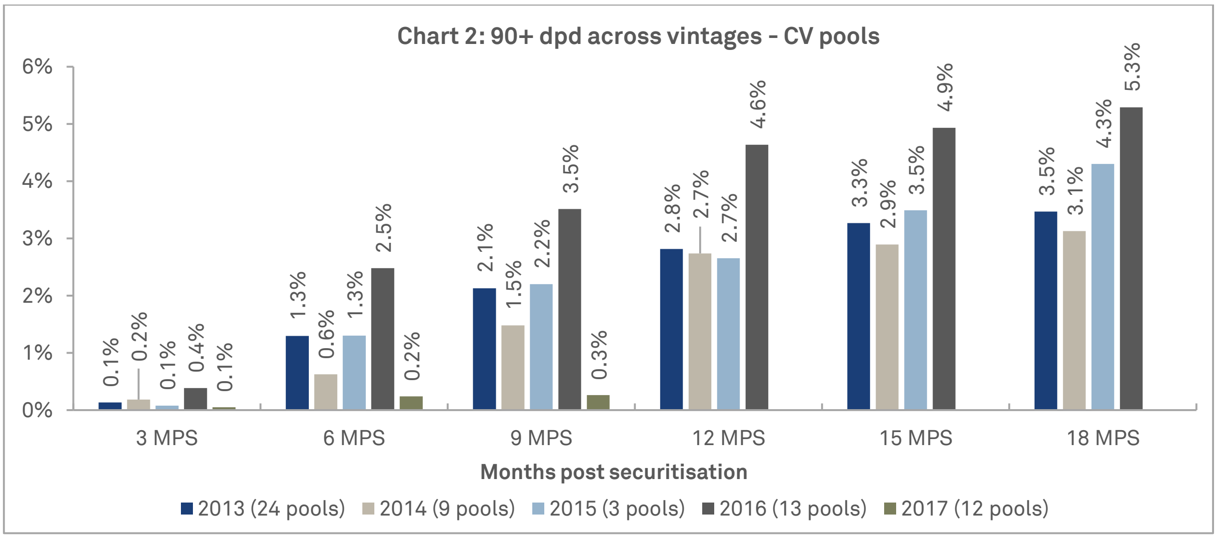
Commercial Vehicles

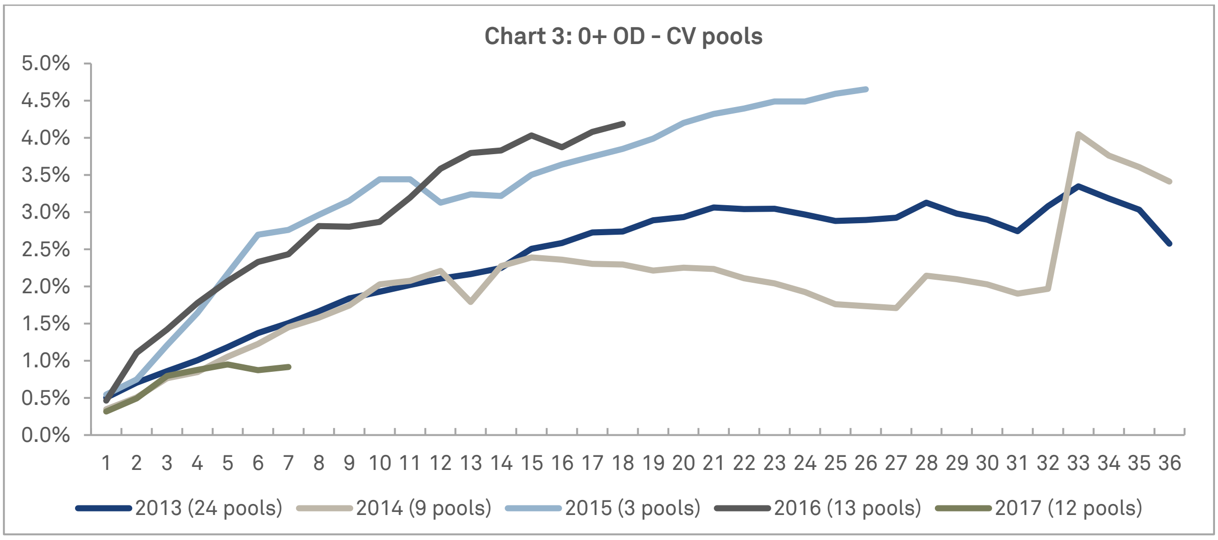
Robust collection performance

CRISIL-rated CV pools have demonstrated robust collection performance during the quarter ended December 2017 with median 3-month average monthly collection ratio (MCR) at 98.9% as of December 2017 payouts. Median MCR for CV pools has risen steadily since September 2017 after having fallen for six months since March 2017. The median MCR has bounced back from the subdued levels to 96% since the Goods and Services Tax (GST) roll out. This has led to a slight improvement in median 0+ OD and 90+ dpd to 2% and 3.7%, respectively.



Performance of 2016 vintage pools has been weaker than those of 2013 to 2015 and 2017 vintages. 90+ dpd of 2016 vintage has witnessed a peak of 5.7% against 5.0% or lower for other vintages. 0+ OD for 2016 vintage has also witnessed a peak of 4.2% at 18 MPS compared to 2013 and 2014 vintages. Weaker performance of 2016 vintage pools can be attributed to higher proportion of used vehicles in the pool and large proportion of overdue at the time of securitisation.





Although the performance of 2016 vintage has been weak, maximum cash collateral (CC) utilisation was 3.0% of the stipulated CC. Peak CC utilisation was 4.3% and 4.5% for 2014 and 2015 vintages, respectively. The peak CC utilisation in CV pools was observed immediately after demonetisation. However, CC was topped up in subsequent months.

After December 2017 payouts, CRISIL has ratings outstanding on 28 pools backed by CV - loan receivables. The median amortisation and median TCR for these pools was 45.4% and 74.4%, respectively. Distribution of pools by TCR and amortisation level is given below:

	TCR					
Amortisation level	**< 20%**	**20% - 40%**	**40% - 60%**	**60%-80%**	**>80%**	**Total no. of pools**
< 25%	0	0	0	2	4	6
25% to 50%	0	0	0	4	4	8
51% to 75%	0	0	3	5	0	8
75% to 90%	1	1	2	0	0	4
>90%	2	0	0	0	0	2
Total no. of pools	**3**	**1**	**5**	**11**	**8**	**28**

Tractor

Near normal monsoon aided increase in collection ratio

Supported by near-normal monsoon (5% below LPA), the performance of CRISIL-rated tractor pools has been robust with 6-month average collection performance steady at or above 100% between June 2017 and December 2017, coinciding with the harvest period in the third quarter. High level of amortisation coupled with near normal monsoon helped in reducing median 0+OD to 3.6% in December 2017 from 6.4% in July/ August 2017.

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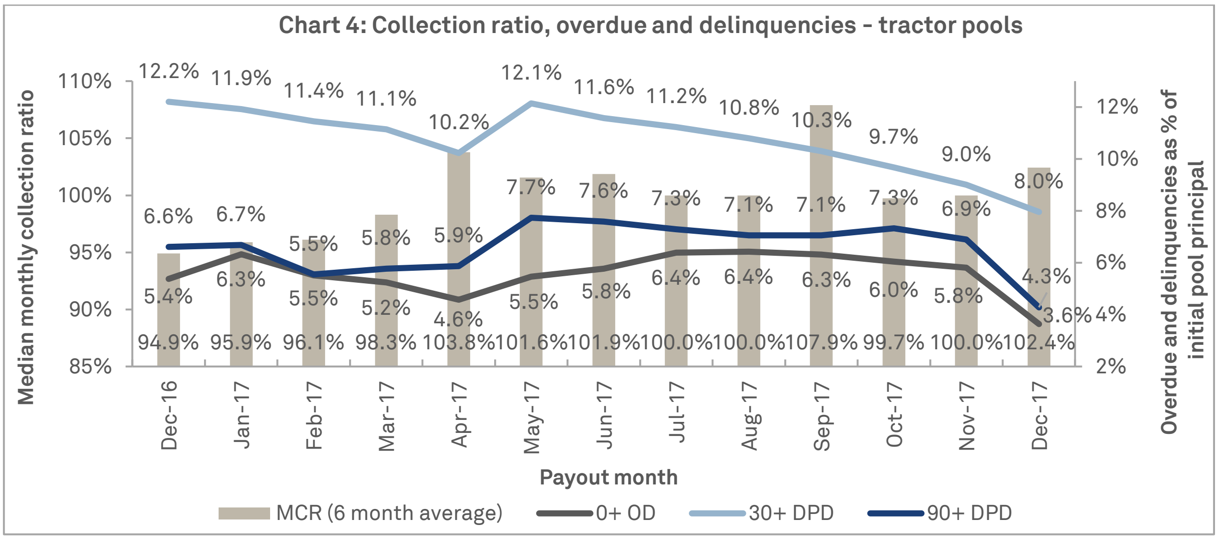


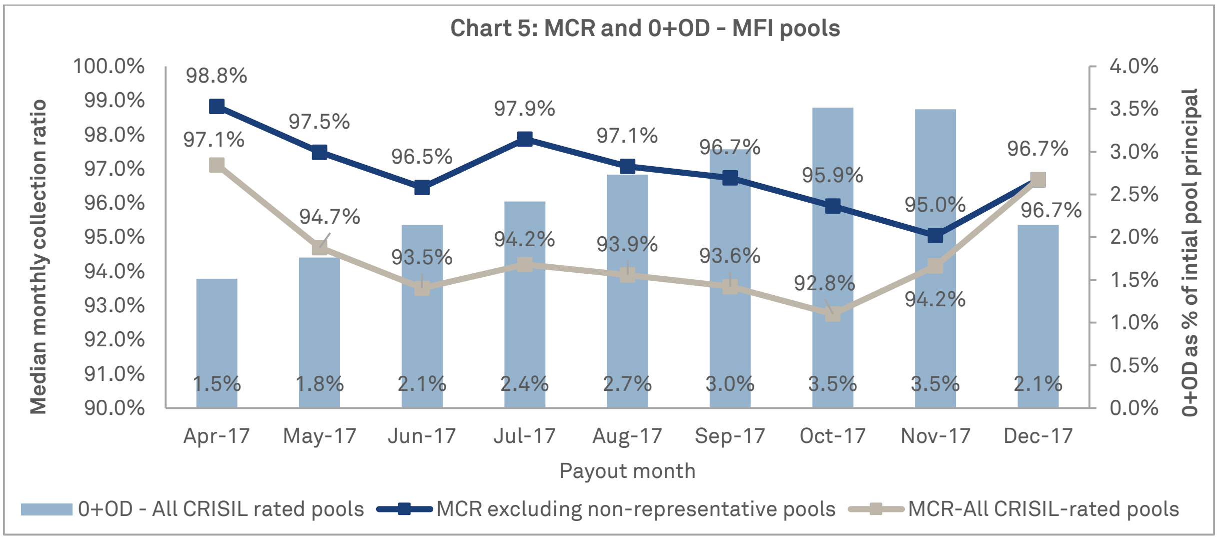
As the pools have demonstrated healthy collection ratio since April 2017, upward rating action was taken on five pools backed by tractor loan receivables. In three pools, rating of senior tranche was upgraded to CRISIL AAA (SO).

Three of the CRISIL rated pools backed by tractor loan receivables were cleaned up in December 2017 quarter as they had amortised by over 90%. These pools saw peak CC utilisation ranging between 5.6% and 15.1%, the maximum cash collateral utilisation was 15.1% for pool originated in September 2014.

Microfinance

Stable performance; collection ratio and overdues remain stable

CRISIL-rated pools backed by MFI loan receivables have demonstrated stable performance in terms of monthly collection ratio and 0+ OD level. CRISIL had earlier indicated that collection ratio for MFI pools has stabilised at new normal of 96-98%. The collection ratio during the quarter ended December 2017 has remained within new normal range with no significant increase in 0+OD level.



CRISIL-rated MFI pools, where performance was weak, were fully amortised after November 2017 payouts. Three of the weak-performing pools defaulted in payout to Series A1 and/or Series A2 PTCs. The defaulted amount, however, is being paid through overdue collection in subsequent months. As after February 2018, defaulted amount in two of the pools was fully paid.

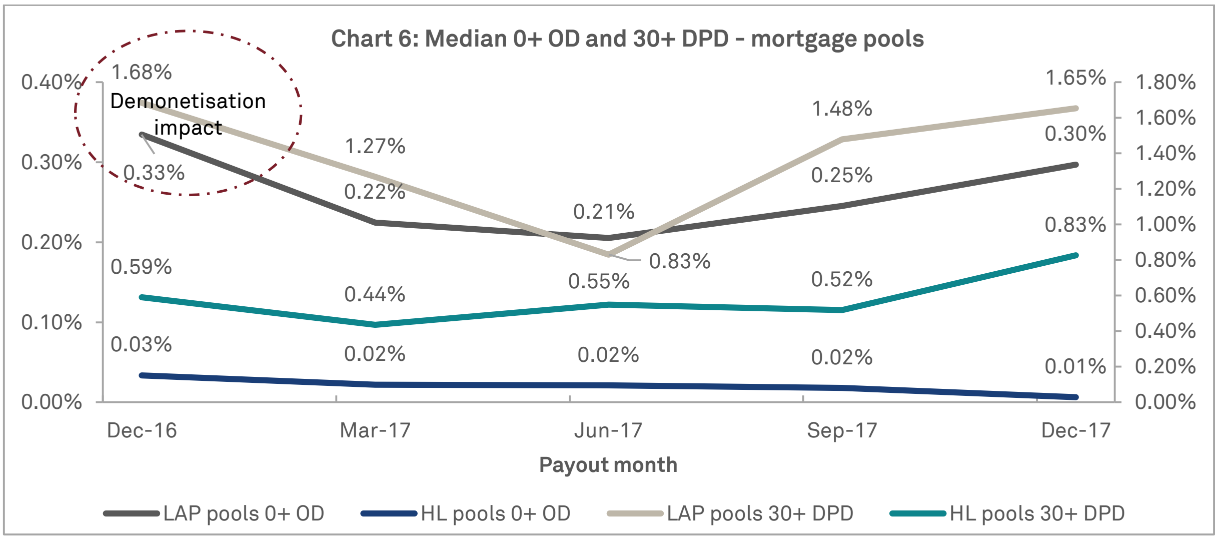
CRISIL rated pools backed by MFI loan receivables, which have timely interest and timely principal (TITP) structure, witnessed peak CC utilisation at 8.2% of the stipulated CC in December 2017. However, the median CC utilisation was negligible.

Mortgages

Uptrend in overdue in LAP pools

During the quarter ended December 2017, performance of CRISIL rated mortgage-backed securities remained robust with median 3-month average MCR at 99.6% (pools with amortisation less than 80%) with 0.0% CC utilisation. However, uptrend is observed in 0+OD for pools backed by LAP receivables. LAP loans, typically borrowers of which are small business owners, faced cash crunch during demonetisation, however, unpaid loan installments were paid in subsequent months and 0+OD level dropped to 0.2% at the end of June 2017. The stress was again built from July 2017 on account of GST rollout, business was impacted post GST, which resulted in increase in overdue and delinquency level.

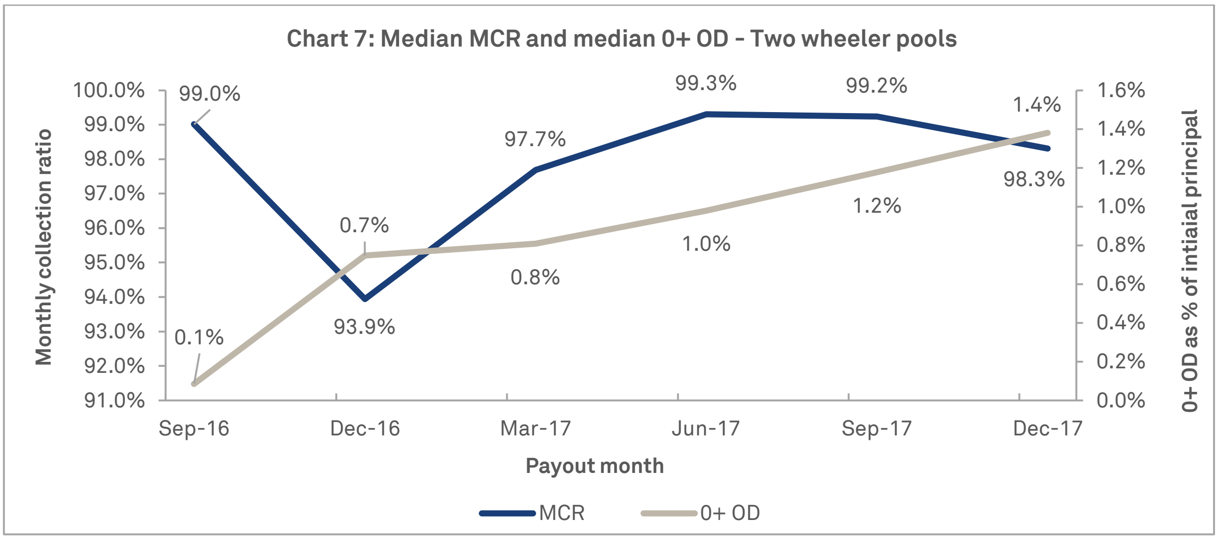
During the quarter ended December 2017, CRISIL rated pools backed by HL receivables have shown robust performance with 0+ OD remaining low at 0.01%, however, 30+ dpd increased to 0.83% from 0.52% in September 2017. The performance of these pools is continuously monitored by CRISIL.



Other asset classes

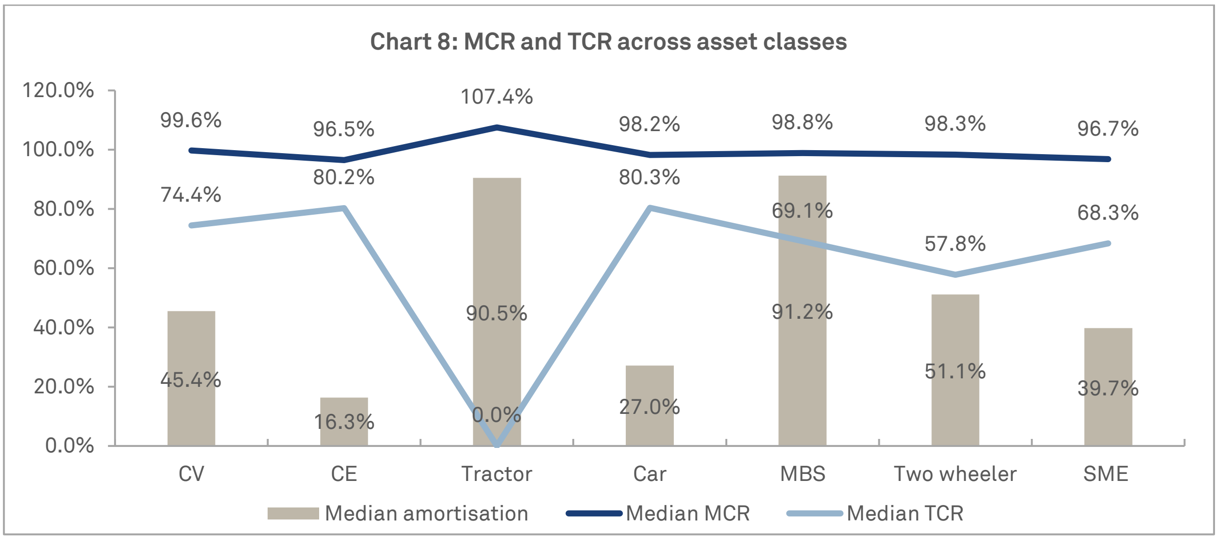
Robust performance of two-wheeler pools

CRISIL has ratings outstanding on five pools backed by two-wheeler loan receivables. Median MCR has remained in the range of 97-99% throughout and median 0+ OD has remained below 1.5% as after Dec 17 payouts. Although the overdue trend is increasing, as after December 2017 payouts, median threshold collection ratio is below 60% and median CC covers 24.0% of future investor payouts. All the five pools have timely interest and ultimate principal (TIUP) structure, hence there has been no CC utilisation.



Pools backed by other assets enjoy healthy cover

CRISIL-rated PTCs backed by car, two-wheeler, construction equipment and small business loan pools enjoy healthy asset cover commensurate with the ratings. The median TCR required to service future investor payouts are low and below median MCRs.



Outlook

CRISIL-rated CV pools have shown robust performance during the quarter ended December 2017. CV pools will continue their strong performance in the medium term as the rolling out of e-way bill and improved road infrastructure are expected to increase efficiencies. The scrappage policy for CV and commissioning of dedicated freight corridors will be key monitorable in the mid-to-long term.

The tractor industry is expected to grow at 8-10% compound annual rate from fiscal 2017 to fiscal 2022. With the government's focus on increasing land productivity and farm income, the performance of tractor pools is expected to remain stable. Tractor usage now spreading to other farming applications apart from land preparation and haulage will increase overall efficiency.

CRISIL rated pools backed by MFI loan receivables are expected to deliver stable performance given their recent vintage. Moreover, older and weaker pools are fully amortised. CRISIL rated pools are under continuous surveillance and any socio political interventions across geographies are being closely monitored. Further, the credit enhancement stipulated by CRISIL is commensurate with the ratings.

CRISIL expects the performance of the pools backed by mortgage loan receivables especially LAP may witness increase in overdue and delinquency levels in the near term. Credit cover available for these pools is sufficient to withstand any stress arising in the near-to-medium term. Pools backed by HL receivables from salaried individuals are expected to deliver steady performance, however, overdue level may increase in HL receivables from self-employed borrowers as overall delinquencies in this segment are rising.

All rated pools are kept under surveillance by CRISIL until investor payouts are made in full. CRISIL disseminates the ratings/credit opinions through its quarterly publications and press releases in a timely manner. The ratings/credit opinions represent CRISIL's view on the transactions as on March 31, 2018.

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