

Press release

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Securitisation volume surges 60% to first-quarter peak

Banks drive ~Rs 55,000 crore deals; robust collection trend, NBFC credit growth tailwinds

Securitisation volume soared ~60% on-year to ~Rs 55,000 crore this April-June, the highest ever in a fiscal first quarter, on strong demand for retail assets from banks coupled with increased use of securitisation as an alternative funding route by NBFCs¹.

The participation demographic continued to be broad-based like last fiscal, with over 80 originators and 50 investors. The number of transactions have gone up from ~160 in the first quarter of fiscal 2023 to over 250. Private and public sector banks continued to be the dominant investors, followed by foreign banks.

Says Krishnan Sitaraman, Senior Director & Chief Ratings Officer, CRISIL Ratings, “Securitisation is allowing banks to do two things: keep driving their credit growth without impacting their direct exposure limits to NBFC balance sheets, and diversify exposure to granular retail loans, which are showing robust collection performance. With the momentum in NBFC credit growth and investor interest in retail loan pools, annual securitisation volume can exceed the previous peak of Rs 1.9 lakh crore this fiscal.”

The share of vehicle loan securitisation (including commercial vehicles and two-wheelers) in overall first-quarter volume surged 900 basis points (bps) to ~37%, primarily driven by the top originators in the commercial vehicle segment that have relied on securitisation as an alternative funding tool to support their strong credit growth. This rise, along with continued momentum in other asset classes, has led to a relative decline in the share of retail mortgage-backed securitisation (MBS) by 1,300 basis points (bps) to ~34% in the first quarter. Microfinance securitisation cornered 10% and gold loans 8% of the market, in sync with their share in the first quarter of last fiscal.

The share of direct assignment (DA) transactions fell to ~50%, compared with 55-65% in the past three fiscals, on account of the drop in the share of MBS, which are largely undertaken via the DA route. So far, DAs have largely been dominated by mortgages and gold loans given the relatively higher safety in these asset classes, while pass-through certificates (PTCs) found greater acceptance in the vehicle, microfinance and unsecured loan segments.

Among investors, while foreign banks focused on investing in PTCs, public sector banks preferred DA pools. Private sector banks invested in a mix of DAs (mostly mortgage and gold loan pools) and PTCs.

The share of mortgages and DA in securitisation volume will reduce further, given the merger of a large originator in the housing finance space with a bank. Consequently, PTCs will gain share in the market.

Says Ajit Velonie, Senior Director, CRISIL Ratings, “PTCs have facilitated cautious entry for investors into new originators and asset classes, given the presence of credit enhancement, which increases investor protection. PTCs also offer structuring flexibility that enables better alignment of issuances with investor needs. For instance, those with replenishing structures have continued to pick up in the first quarter of this fiscal, enabling longer-tenure PTC issuances to be backed by shorter-tenure loans.”

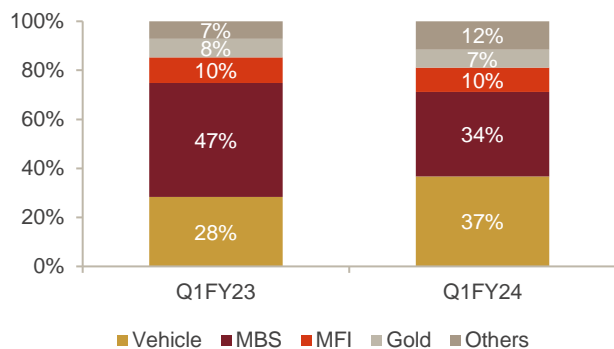
Last fiscal, CRISIL-rated PTCs had median monthly collection ratios (MCRs) of ~98-100% in secured asset classes and microfinance, while unsecured asset classes saw MCRs in the range of ~94-96%.

The robust collection performance of securitised pools and innovative structures to suit investor needs should continue to bolster market participation and volume this fiscal.

¹ NBFCs include non-banking financial companies and housing finance companies but exclude Government owned NBFCs

Annexure

Asset-class-wise split

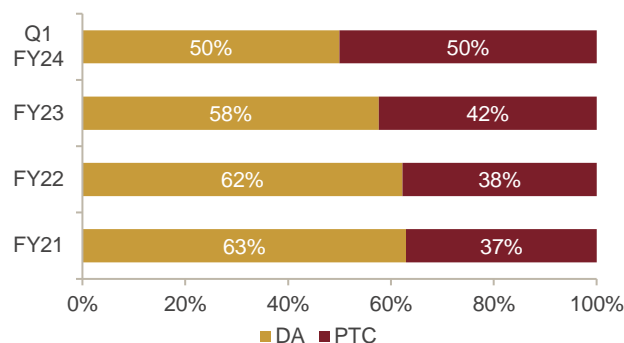


Source: CRISIL Ratings estimates

Note: Others include ~4% of wholesale loan securitisations

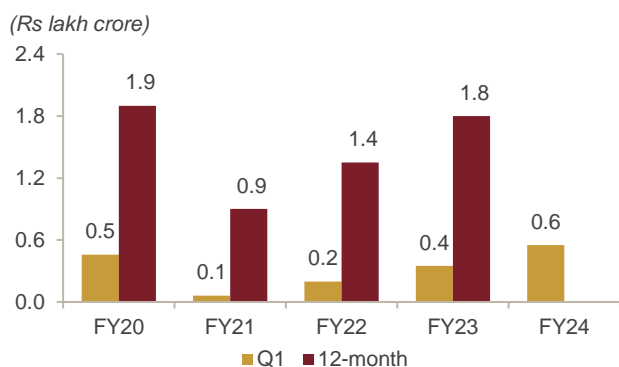
MFI: Microfinance institutions

DA-PTC split in retail securitisation



Source: CRISIL Ratings estimates

Securitisation volume



Source: CRISIL Ratings estimates

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