

# Review of CRISIL-rated securitisation transactions

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## Executive Summary

CRISIL has analysed the collection performance of 82 asset-backed securities (ABS), 37 mortgage backed securities (MBS) and 2 commercial mortgage backed securities (CMBS), across 28 originators in the securitisation market. The transactions are backed by commercial vehicles (CV), cars, tractors, construction equipment (CE), secured business loans, two wheeler loans (TW), microfinance (MFI) loans, home loans (HL) and loan against property (LAP). CRISIL has analysed the performance of the pools at the asset class level. Key observations after the June 2017 payouts are as below:

- **Collection performance of CV pools remain resilient**

In spite of increased fleet availability and slower economic growth, truck rentals remained resilient between March 2017 and May 2017 supported by the healthy movement of agricultural produce given the near-record rabi output. Consequently, collections in CV pools were healthy during the first quarter of fiscal 2018. Performance of newer vintage pools is superior to that of the pools belonging to earlier vintages. Median 3-month average monthly collection ratio (MCR) for the quarter ended June 30, 2017 was at ~97%.

- **Performance of microfinance pools vary based on geographic exposure; a few pools undergoing severe collection stress**

Collection efficiencies in microfinance pools, which have limited exposure to poorly performing geographies of Uttar Pradesh, Maharashtra, Madhya Pradesh and Karnataka, have bounced back from the lows posted in the immediate aftermath of demonetisation. However, pools originated by certain NBFC-MFIs remain under severe collection stress, even several months post-demonetisation. MCR of these pools have remained persistently low at 70%-75%.

- **Prepayments on an up-trend in mortgage pools**

Higher levels of prepayments were observed in mortgage pools in the first quarter of fiscal 2018 compared to earlier periods. Overdues remain negligible.

- **Other asset-backed pools show stable performance**

Collections across other asset backed pools like small business loans, car, CE and tractor remain stable.

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

So far in fiscal 2018, CRISIL has upgraded ratings on 22 instruments issued under securitisation transactions due to improving credit collateral cover with higher amortization. Ratings on 15 instruments backed by microfinance loan receivables have been downgraded / placed on watch, because of weak asset quality and stressed performance.

## Commercial Vehicles (CV)

**Table 1: Overdues in CV pools exhibit an improving trend**

Vintage	3 MPS	6 MPS	12 MPS	24 MPS
2013 (24 pools)	0.9%	1.4%	2.1%	3.0%
2014 (9 pools)	0.8%	1.2%	2.2%	1.9%
2015 (3 pools)	1.2%	2.5%	2.8%^	2.4%
2016 (13 pools)	1.3%	2.0%	2.2%	-
2017 (6 pools)	0.5%	-	-	-

*^Adjusted for the volatility from low number of pools in the vintage*

Despite pre-buying in March on account of Bharat Stage-IV regulations and slower economic growth, truck rentals remained resilient between March 2017 and May 2017. The rentals were supported by the healthy movement of agricultural produce given the near-record rabi output. Consequently, performance of CRISIL rated CV pools exhibited a favorable trend in the first quarter of fiscal 2018 (payouts pertaining to April 2017 to June 2017 or collections pertaining to March 2017 to May 2017).

Delinquencies in pools originated in 2015 continued to fall during the quarter and stood at 2.3% at 26 months post securitisation (MPS). Incremental overdues between 6 MPS and 12 MPS for 2016 vintage pools, which had seen a jump in overdues post-demonetisation, are significantly lower than that observed in pools from earlier vintages. Additionally, the early performance of pools from 2017 vintage is far superior to the pools evaluated since 2013 and comparable to the initial delinquencies of 2009-2012 vintages.

The distinctly better performance of 2017 vintage pools is because of two reasons:

- (1) Higher proportion of loans backed by new vehicles in the underlying pools – four of the six pools evaluated in the year and having performance during the quarter were predominantly new vehicle financing pools, compared to just three pools out of thirteen evaluated in 2016.
- (2) Lower proportion of overdue contracts in underlying pools at the time of securitisation – percentage of delinquent contracts in 2017 pools (median) was 3.5%, while the figure for 2016 vintage was 8%.

## Microfinance

### Performance remains varied across originators

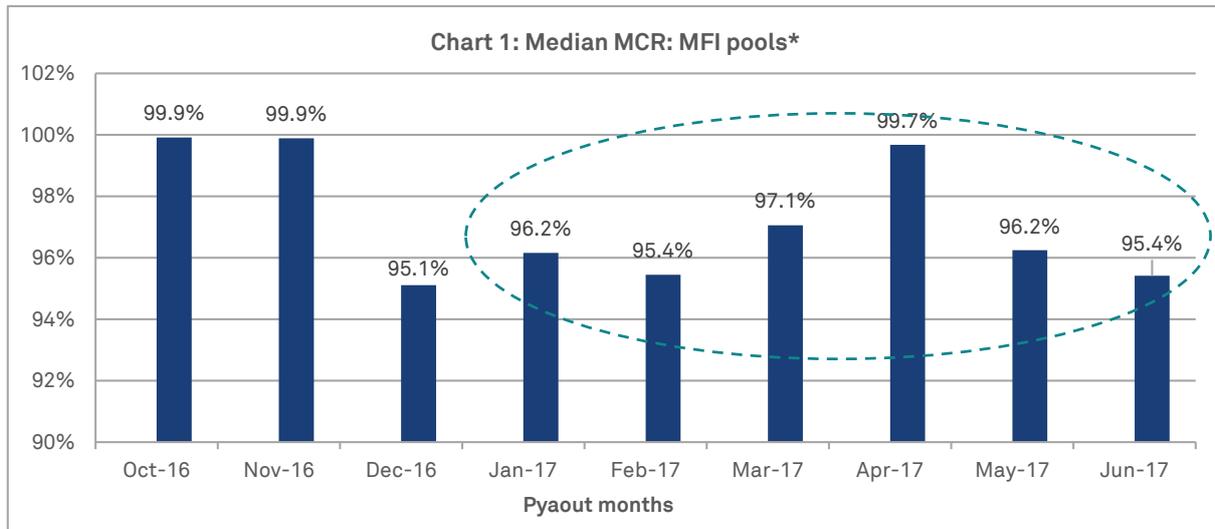
Collection performance of microfinance pools, which were in a very narrow band close to 100% for several years before the demonitisation, now vary widely depending on the originator and geographic spread of the underlying contracts.

**Table 2: Monthly collection ratios (MCRs) across microfinance pools**

Payout month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Max. MCR	101.3%	103.7%	105.9%	112.8%	104.2%	101.3%
Min. MCR	68.0%	68.7%	66.1%	71.8%	74.4%	72.9%

A few pools with limited exposure to vulnerable states, such as Uttar Pradesh, Maharashtra, Madhya Pradesh and Karnataka, continued to post near 100% MCRs. However, MCRs of pools originated by certain NBFC-MFIs remain persistently weak at less than 75% collection efficiency. CRISIL analysed in detail the performance pools from across originators under surveillance (bottom ~33 percentile of the pools were kept out of the scope of this study as these were not representative of

the industry). Based on the analysis, the median collection performance of the industry is currently stabilising around a new normal, well below the 99.9% collection efficiency of the industry in the pre-demonetisation era.

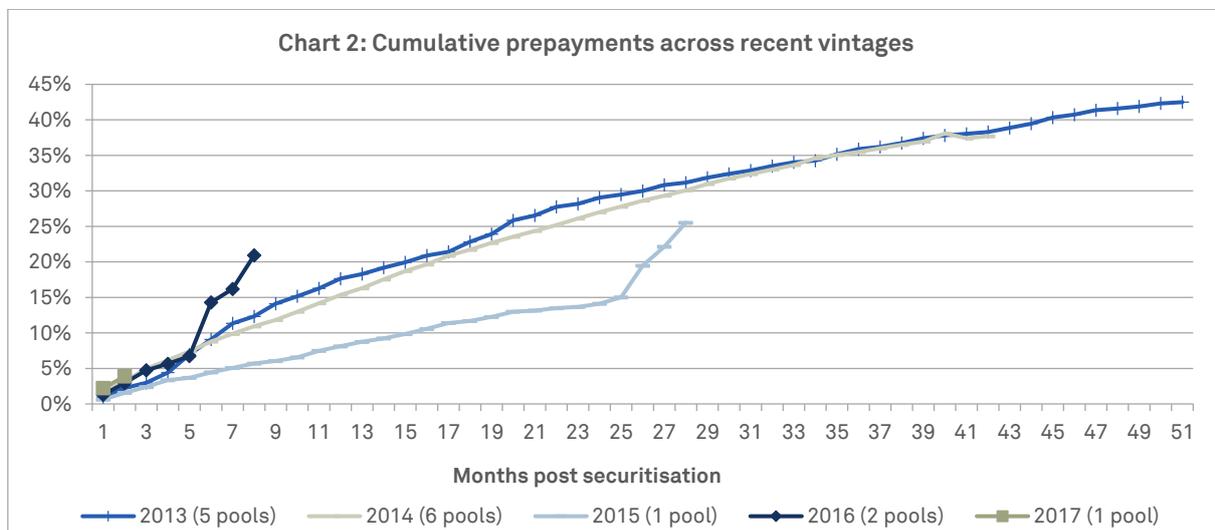


\*Adjusted for the non-representative pools

## Mortgages

*Performance of mortgage-backed securities (MBS) remains robust; prepayments on an up-trend*

Collections in CRISIL-rated MBS transactions are healthy. The median MCR for the current quarter was above 99% and overdues are negligible. However, prepayments rose sharply in the recent months for mortgage pools from 2015, 2016 and 2017 vintages given the falling interest rate environment and increasing competitive pressure from banks.



## Other asset class

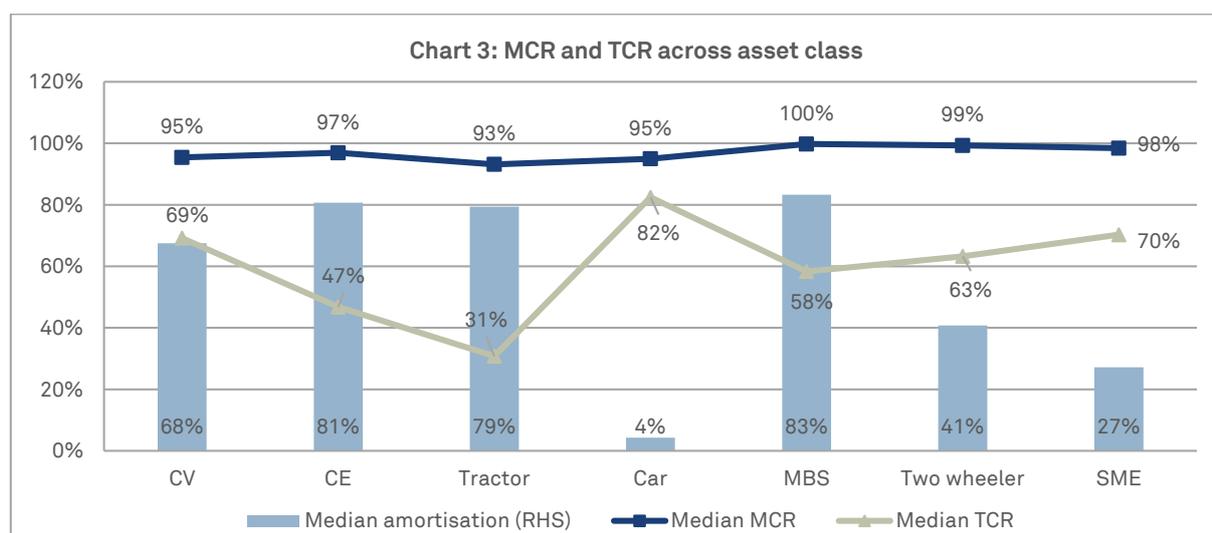
*Performance in line with expectations*

Collections across other pools backed by small business loans, car loans, CE loans and tractor loans are on expected lines. For CMBS instruments issued by DLF Emporio Limited and DLF Promenade Limited, the healthy operating profits and interest coverage, comfortable loan-to-value ratio and structural features of the transactions provide support to the ratings.

## Conclusion

*Healthy cover for CRISIL-rated transactions, with the exception of certain microfinance transactions*

CRISIL-rated securitisation transactions backed by all asset classes, except microfinance loans, have healthy credit covers commensurate with the outstanding ratings. Median threshold collection ratios (TCR; defined as the minimum cumulative collection ratio required on a pool's future cash flows to be able to service investor payouts on time) after June 2017 payouts are low and below median MCRs. The relatively high TCR for car pools denotes the low amortisation of the pools and not a weakness in performance.



Credit cover available to certain microfinance-backed transactions rated by CRISIL is, weak as indicated by successive downgrades in ratings of PTCs issued under these transactions. PTCs issued under three of the transactions backed by microfinance loan receivables are currently rated CRISIL C (SO) or CRISIL D (SO) signifying a very high risk of default on the instrument or CRISIL's expectation of default on the instrument, respectively.

## Outlook

The monsoon, while only 5% deficient compared to the long period average, was uneven in spatial and temporal distribution and resulted in loss of crops in several parts of the country. Consequently, production of kharif crops is estimated to be lower than that in the previous year. The estimated lower crop output could have a bearing on the near-term collection performance of agriculture and rural economy dependent asset classes such as tractors and CVs involved in transportation of agricultural produce.

In addition to the kharif output, the level of industrial activity in the economy is a key determinant of performance of pools backed by CV loans. Truck rentals, which are in turn dependent on industrial output, normalization of stock movement post GST rollout, agricultural output and fuel prices, will be a key monitorable.

With respect to microfinance loan pools, performance of a few of the vulnerable states and districts, which were severely impacted by socio-political issues after the demonetisation, have started showing improvement in the past few months. Even so, CRISIL does not expect the collection performance of the industry to reach the pre-demonetisation levels in the near-term. Additionally, CRISIL believes that the difference in performance across originators will persist and will be governed by the relative strengths of their ground-level operating processes, including group formation policies and repayment frequency.

Given successive downward revisions in repo rate and the recent regulatory push with regard to housing loans through rationalisation in risk-weights, balance-transfers will remain high in the mortgages segment. Consequently, prepayments on mortgage-backed pools will continue to be elevated. GST impact would be a key monitorable in the medium term as asset quality challenges could arise in the LAP segment as Small & Medium Enterprises (SMEs) align their business processes to conform to the GST regime.

CRISIL closely monitors the performance of all the rated pools until investor payouts are made in full, and 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 September 30, 2017.

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## About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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CRISIL Ratings is India's leading rating agency. We pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we have a leadership position. We have rated/assessed over 100,000 entities, by far the largest number in India. We are a full-service rating agency. We rate the entire range of debt instruments: bank loans, certificates of deposit, commercial paper, non-convertible debentures, bank hybrid capital instruments, asset-backed securities, mortgage-backed securities, perpetual bonds, and partial guarantees. CRISIL sets the standards in every aspect of the credit rating business. We have instituted several innovations in India including rating municipal bonds, partially guaranteed instruments, microfinance institutions and voluntary organizations. We pioneered a globally unique and affordable rating service for Small and Medium Enterprises (SMEs). This has significantly expanded the market for ratings and is improving SMEs' access to affordable finance. We have an active outreach programme with issuers, investors and regulators to maintain a high level of transparency regarding our rating criteria and to disseminate our analytical insights and knowledge.

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