



Press Release

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Securitisation volume doubles in Q1, driven by non-PSL deals

PSL volumes dogged by priority sector lending certificates

Securitisation transactions doubled to Rs 31,500 crore on-year in the first quarter (Q1FY19) as deals backed by loan receivables that do not qualify for priority sector (non-PSL) rocketed (*see Chart 1 in annexure*) following clarity on the applicability of Goods and Services Tax (GST).

Says Krishnan Sitaraman, Senior Director, CRISIL Ratings, "Till now, PSL receivables had ruled the securitisation market roost. But due to a rise in transactions involving non-PSL receivables, and increase in demand for priority sector lending certificates (PSLCs), non-PSL share increased to 64% onyear in first quarter of fiscal 2019 from 40%."

Mortgages continued to be the driver of non-PSL securitisation. The GST Council's clarification that securitised assets are not liable to pay tax spurred some large mortgage players to tap the securitisation market once again (see Chart 2 in annexure for asset class-wise securitisation).

Newer non-PSL asset classes – such as personal and consumer durables loan receivables, lease rentals and gold loan receivables– saw a significant increase in momentum in the first quarter and transactions surged to Rs 2,800 crore.

Demand for non-PSL asset-backed securitisation was driven by private banks, mutual funds, non-bank treasuries and insurers, which took advantage of attractive yields of 8.5% to 11.5% for instruments rated in A (SO) category or higher.

While non-PSL securitisation had a good outing, PSL securitisation continued to be impacted by rising popularity of PSLCs.

Overall, PSLC volume touched Rs 86,000 crore in the quarter, or 46% of the number for the whole of last fiscal (see Chart 3 in annexure). Average PSLC pricing across segments dropped by 49% on-year. The sharp rise in volume and the drop in PSLC pricing meant banks were less interested in taking the PSL securitisation route to meet their PSL mandate.

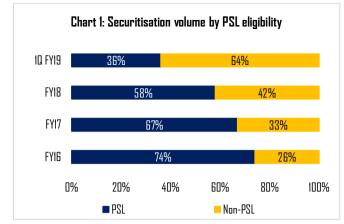
Consequently, in an environment of rising interest rates, the ask in terms of yield on PSL securitisation rose. The yield on PSL-backed pass-through certificates (PTCs) during the quarter was in the range of 7.25% to 7.9%, compared with 5.9% to 7.2% seen in fiscal 2018.

As the spread between PSL-backed PTCs and other vanilla instruments narrowed, major PSL-supplying nonbanking financial companies (NBFCs) also trimmed their securitisation ambitions.

Said Rohit Inamdar, Senior Director, CRISIL Ratings, "Given that NBFCs are staring at a yield compression of 50-75 basis points¹, even at higher yields, securitisation will remain attractive to NBFCs as PSL securitisation would still be 100 to 150 basis points cheaper than comparable vanilla issuances. Hence they are unlikely to stay away from the securitisation market indefinitely. On the demand side, the ease and convenience of PSLCs notwithstanding, due to the interest earning nature of securitised assets, at the right yield, banks should emerge as buyers."

¹ Refer to CRISIL's press release dated July 10, 2018

Annexure



Source: CRISIL estimate

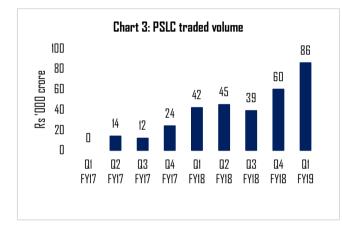


Chart 2: Asset class wise securitisation 100% 12% 12% 12% 80% 17% 27% 42% 40% 60% 30% 40% 55% 44% 42% 20% 0% FY16 1Q FY19 FY18 FY17 Vehicles Others* Mortgage Microfinance

Source: CRISIL estimate

*Others includes SME, tractor, cash loans, gold loans, education loans, among others

Source: CRISIL estimate

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