

Securitization

The Indian retail asset securitization market volumes grew 38.7% to Rs.267.8 bn in FY10. In FY09 volumes had declined due to global credit crisis and the resulting liquidity crunch in the Indian market. With global recovery backed by stimulus packages and improvement in credit flow in the financial market, the securitization activity gained momentum in FY10. The retail asset finance growth and demand for priority sector loans further propelled the growth of retail asset securitization market in India.

Typically in India, the originators or sellers are Banks, NBFCs and HFCs. The underlying assets are mainly secured loans like housing loans, auto loans, commercial vehicle loans, construction equipment loans, two-wheeler loans, tractor loans, three-wheeler loans and unsecured loans like personal loans, consumer durable loans etc.

Securitisation is the process in which the underlying pool of assets are structured or packaged and sold as financial instruments to investor(s) either directly or through a Special Purpose Vehicle (SPV). The Securitization process de-links the risk of underlying pool of assets from the lender, who originated the assets.

The analysis of underlying asset pool involves evaluating the originator's sourcing process, credit appraisal system / underwriting standards and collection & monitoring mechanism and studying the originator's historical performance for that asset. Based on the historical data analysis, actual pool characteristics and prevalent & expected economic environment, the cash inflow from underlying asset pool is estimated in base-case and stress-case scenarios. The transaction structure is analyzed to assess its impact on the cash flows. CARE also takes into account the effect of market variables, the counterparty's experience and credit worthiness and legal soundness of the transaction. The cash inflows from underlying asset pool are compared with cash outflows to

investor(s) in both base-case and stress-case scenarios to assess the sufficiency of given credit enhancement.

Benefits

Securitization provides a key source of funding to the originators, especially NBFCs in the Indian market. CARE is the preferred rating agency for investors as well as issuers and is the market leader in securitization transactions with about 33% market share in FY10. CARE has also rated the largest securitization transaction in India and has rated more than 50 securitizations till date with diverse set of issuers.