Retail Asset Securitisation: H1 Volumes ~2x of last year

Overall Volumes for H1FY22 up but still well below pre-pandemic levels

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Retail Asset Securitisation[1] has grown to ~Rs. 42,000 crore in H1FY22 which is 1.9x the volumes seen in H1FY21. Direct Assignment transactions continue to have over 57% share and mortgage loans continue to dominate the market. The uncertainty around impact of pandemic on retail assets severely impacted the market in H1 last year. While most asset classes have witnessed higher delinquencies during pandemic induced lockdowns, the delinquencies retreated from the peak and are stabilising. CARE Ratings believes that more than the pandemic itself, it is the resultant lockdowns which have impacted the performance of asset classes. With COVID-19 caseloads dropping and subsequent relaxation in lockdown related restrictions across large parts of India, the economic activities have swiftly picked up. This has led to improvement in the general performance of the retail portfolio across asset classes with better collection efficiencies and higher confidence levels. We believe that in H1FY22 the volumes were also impacted by shortage of stock of assets available for securitisation. Also, with recent regulatory changes (specifically changes in MHP & MRR, removal of restriction on securitisation of single loan & loans acquired from third party, recognition of RMBS and replenishment structures), the market is likely to see significant growth opportunities as market participants digest the changes.

Improved securitisation volumes in H1FY22

Just like FY21, the current fiscal also began with the resurgence of the COVID-19 pandemic across the country leading to extensive lockdowns and strict restrictions leading to significant constraints on economic activity, especially in April and May 2021. This in turn affected the securitisation volumes for Q1FY22 as well. As the restrictions were gradually relaxed across large parts of India, it led to an improvement in the general performance of the retail portfolio across asset classes. Hence, Q2FY22 saw an improvement in deal volumes as well, with Securitisation (PTC) and Direct Assignment (DA) transactions aggregating to ~Rs. 24,000 crore. The total volume was ~Rs. 42,000 crore in H1FY22 which is almost twice the volume of H1FY21 which stood at ~Rs. 22,000 crore.

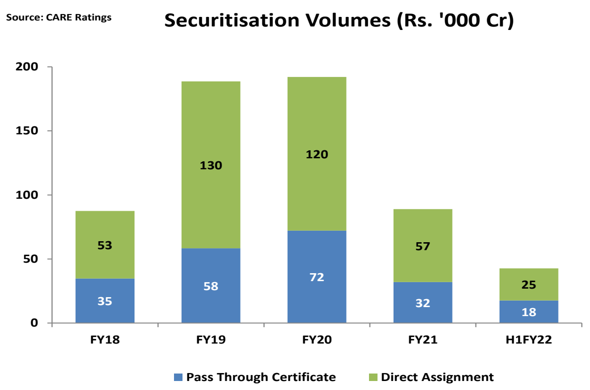
Change in Regulations

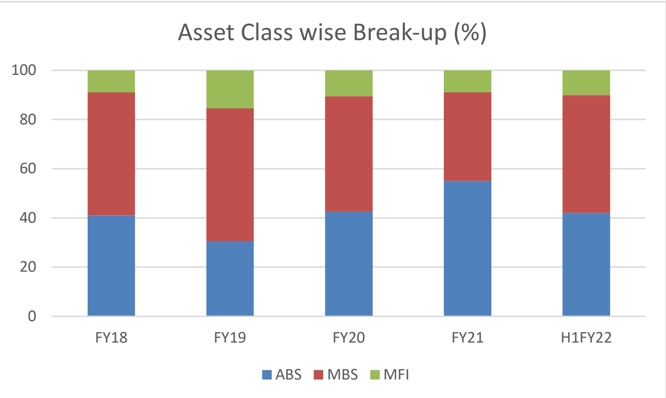
The RBI issued new Master Directions on September 24, 2021, which replaced the earlier guidelines on securitisation and transfer of loans. The new regulations put the market on pause briefly as the participants scrambled to understand the implications of the changes while ensuring that their transactions would remain compliant. CARE Ratings sees these new regulations as an enabler for the securitisation market. While there are a few issues which will need deliberation, the new set of regulations will help the market to grow. These new regulations have enabled securitisation of loans acquired from third party in addition to allowing securitisation of single loan assets. These measures would afford more liquidity to the balance sheet of lenders. Recognition of RMBS as separate asset class, reference to replenishment structures and introduction of concept of STC Securitisation will go a long way in development of securitisation market in India.

Mortgage Loans rule the roost in H1FY22

Mortgage loans contributed around 48% of the combined volume of PTC and DA transactions done in H1FY22. The proportion of mortgages had reduced to 36% in FY21 from around 50% in the previous three years. It remains to be seen, if this is just a temporary blip. Vehicle loans (29%), Microfinance loans (10%) and Gold loans (5%) were the other major asset classes.

In Q1FY22, PTC and DA volumes were more or less equal. However, the DA volumes in Q2FY22 outstripped the PTC issuances and DA transactions made up 57% of the overall volumes for H1FY22.

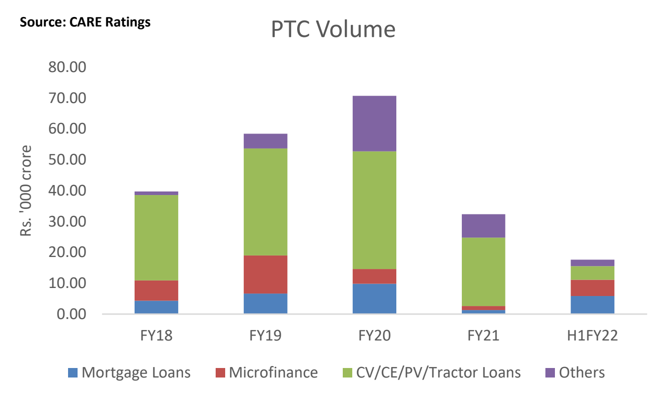


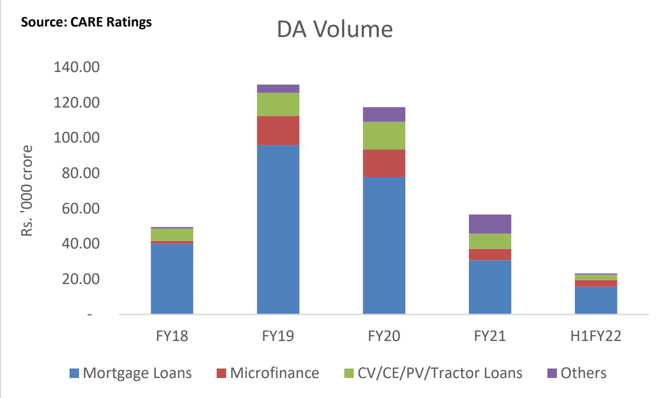


Volume Trends

PTC volume was severely affected in H1FY21 due to the lockdown and loan moratorium extended to borrowers till August 2020. While the start of the current fiscal was also challenging due to the second wave of the pandemic, PTC volume has witnessed a heartening increase since June 2021. The PTC volume stood at ~Rs.18,000 crore for H1FY22.

DA contributed ~57% of the half yearly volume with bilateral mortgages accounting for a dominant share (68% of DA volume). Microfinance loans and Vehicle loans contributed 16% and 13%, respectively to the DA volumes. Understandably, a majority of the DA transactions (63%) happened in Q2FY22.





Outlook

CARE Ratings expects that there would be a period of uncertainty in the immediate future regarding ambiguities with respect to the new regulations. However, once those ambiguities are ironed out, the regulations would be a positive force in the long run. While the performance of securitised pools witnessed stress during the height of the second wave, the subsequent relaxation of restrictions allowed the performance to bounce back with improved collection efficiencies. The rated transactions have shown resilient performance with minimal impact on their credit profiles.

With a higher proportion of the population getting vaccinated and the boost from the upcoming festival season, there is cautious optimism for improvement in the level of economic activity. This could drive credit growth which had stagnated for over 6 quarters, and could aid increase in securitisation volumes going forward. Typically, the third and more importantly the fourth quarter of the fiscal, has always witnessed the most action in the securitisation market in India. We expect that trend to continue in FY22 as well.

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[1] Includes direct assignment