Retail Asset Securitisation – Momentum Continues

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Overall Volumes Up by 28% for Retail Assets

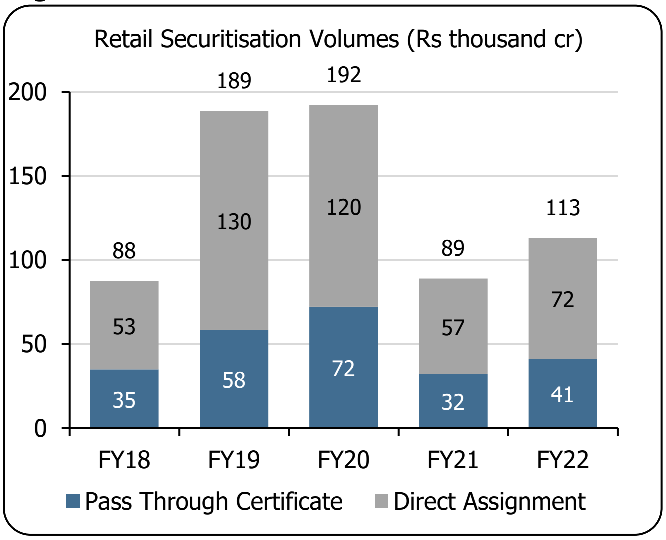
The retail securitisation market witnessed a growth of around 28% in FY22 from the previous fiscal. The total market volume (including direct assignment [DA] transactions) for FY21-22 was around Rs 113,000 crore (CareEdge estimate) – up from around Rs89,000 crore in FY20-21. The split between pass-through certificate (PTC) and DA transactions has remained largely at the same level, with DA transactions comprising around 64% of the overall volume. In addition to retail asset securitisation, the year also witnessed an aggregate securitisation volume (excluding DA transactions) of around Rs 15,000 crore for corporate assets.

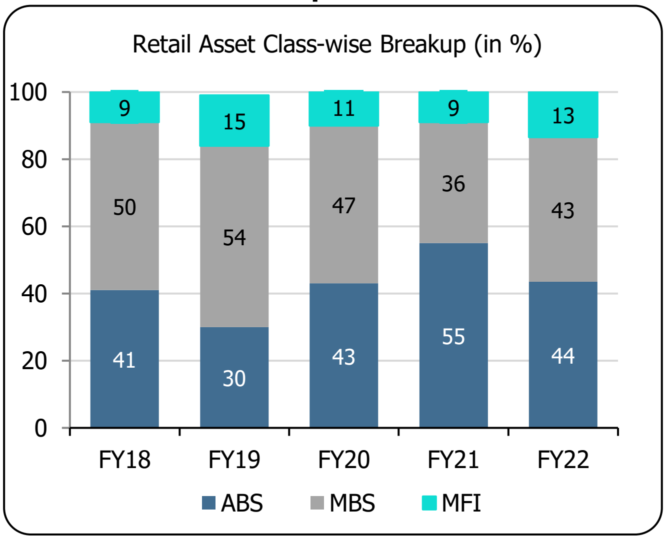
Effects of the Pandemic and Regulatory Changes on Securitisation Market

The resurgence of the Covid-19 pandemic marked the start of FY22 in India. The second wave was more severe than the first and led to widespread disruptions, which affected the disbursements and collection performance across asset classes. This led to stagnation or even degrowth in the portfolios of many originators, thus shrinking the available stock for securitisation. The notification of new guidelines for securitisation and transfer of loans towards the last week of September 2021 gave pause to the market participants. Consequently, the combined effect of the pandemic and the new regulations led to retail securitisation volumes being muted in H1FY22, with the estimated overall volume of Rs 43,000 crore. It was still higher than the H1FY21 figure of around Rs 22,000 crore.

The market witnessed an uptick in deal momentum from Q3FY22 and surged in Q4FY22 for a cumulative H2FY22 volume of around Rs 70,000 crore (CareEgde estimate).

Figures 1 & 2: Retail Securitisation Volumes and Asset Class-wise break-up





Source: CareEdge

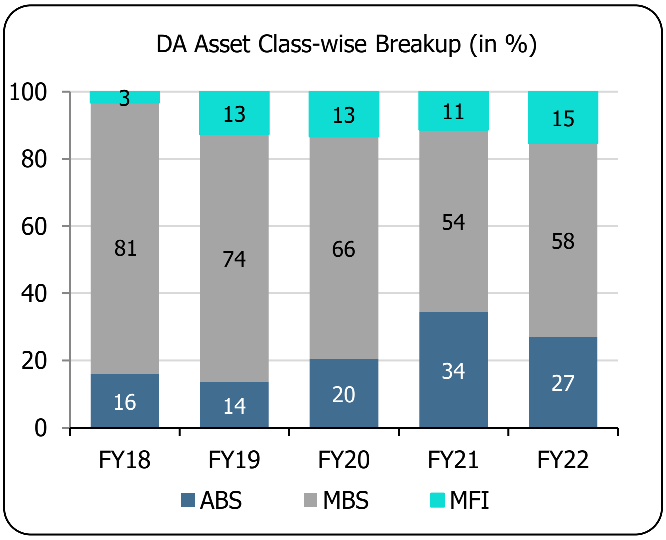
Asset class-wise break-up

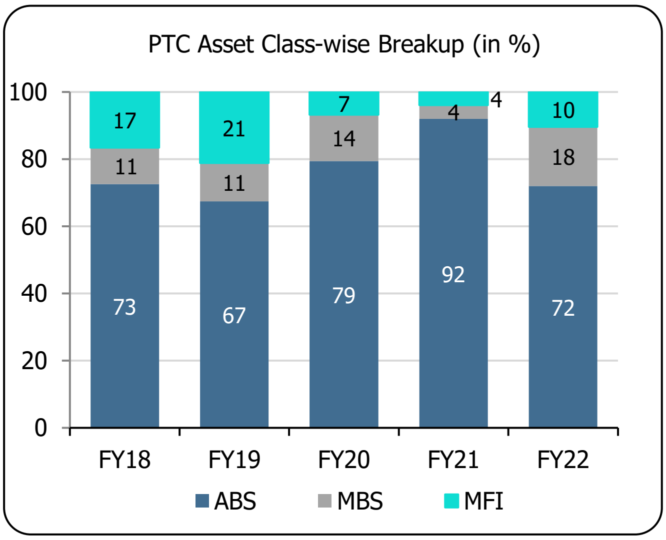
The retail market volume was again driven by DA transactions, which had a lion's share of 64% of the overall size, while the remaining share was that of PTC deals.

Within DA, the dominant asset class was mortgage-backed securitisation (MBS) with an aggregate size of around Rs 41,000 crore, followed by asset-backed securitisation (ABS) at around Rs 19,500 crore, which includes pools backed by all the asset classes (except mortgage loans and microfinance [MFI] loans). MFI loans made up around 15% of the DA volume.

PTC volume was mainly driven by ABS pools contributing around 72% of the total issuances. The leading asset class driving PTC issuances was vehicle loan financing at around Rs.25,000 crore accounting for around 61%.

Figures 3 & 4: Asset Class-wise Breakup of PTC and DA Volumes





Source: CareEdge

Outlook

The changed operating landscape due to the after-effects of the pandemic along with the shift in the regulations notified by the Reserve Bank of India in September 2021 were the key components that shaped the contours of the securitisation market in FY22. The expected bounce-back of the volumes, on the back of stable ratings of rated transactions and demand for PSL compliant assets, goes a long way to confirm the importance of securitisation as a resource raising tool and in asset/liability management.

The high-profile merger of one of the largest housing finance companies with the largest private sector bank will have an impact on the size of the DA market. The regulatory framework around priority sector status for on-lending to non-banking financial companies will continue to be an important factor impacting priority sector lending related sell downs. While these factors will have their impact on volumes in FY23, CareEdge believes the market volumes will continue the uptrend in the coming fiscal.

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