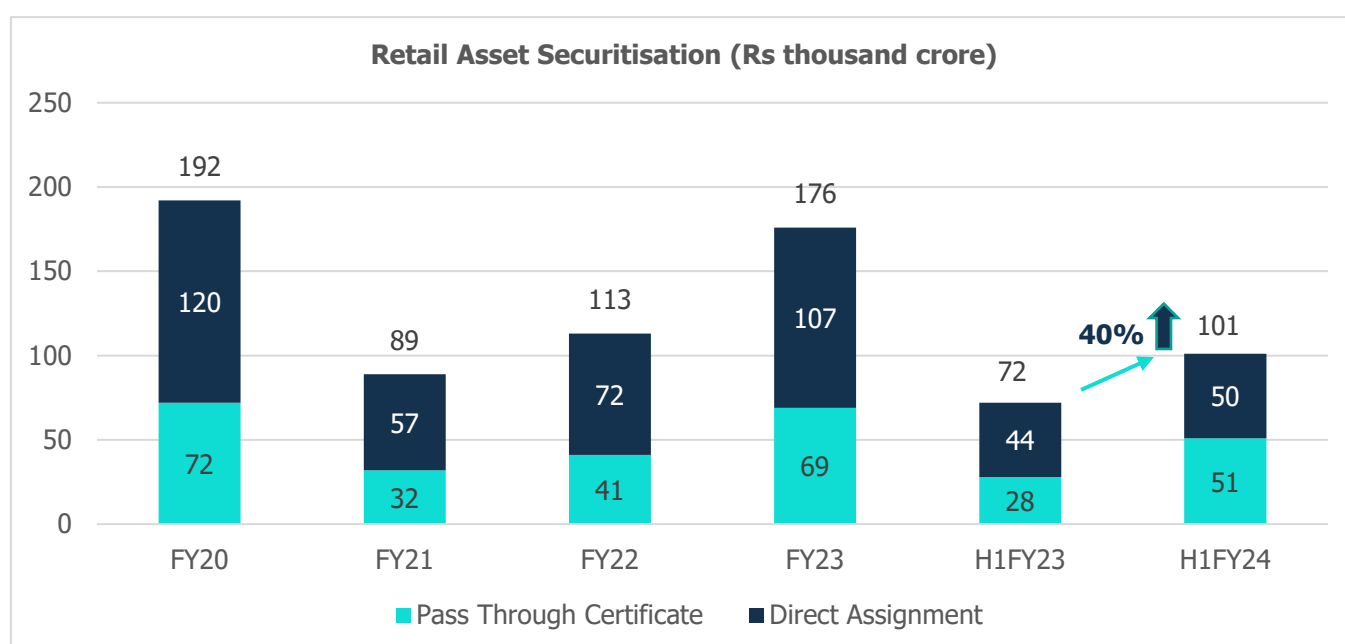


Story of India's Soaring Securitisation Market

December 06, 2023 | Ratings



The securitisation market (retail asset secondary market including direct assignment) surpassed Rs 1 lakh crore in the first half of FY24 due to increased credit availability and demand for PSL-compliant loans. Pass Through Certificate (PTC) issuances now account for over 50% of the market volume, surpassing Direct Assignment (DA) transactions. As opposed to the H1FY23, securitisation volume (including both PTC and DA transactions) has increased by over 40% in the first half of this financial year. The ratio between DA and PTC deals has shifted because of the merger of HDFC entities, with PTC issuances taking the lead for the first time in over a decade. For the Indian market, the total volume for FY24 is expected to surpass Rs 2 lakh crore, a record high.



Source: CareEdge Ratings

Indian Securitisation Market: Untapped Potential

Although the Indian market volume for H1FY24 has reached its highest level in recent times, its share in the global securitisation market remains negligible. While the PTC (Pass-Through Certificate) market in India is experiencing growth, it is crucial to note that the size of PTC issuances in India is very small, constituting only 0.04% of the GDP in CY2022, in stark contrast to the 9.61% in the United States. Even when compared to the size of the retail credit market, PTC issuances represent a minimal proportion at 1.69% in CY2022. This emphasises the substantial growth potential within the Indian securitisation market. The Indian PTC market constitutes less than 1% of the global securitisation issuances (based on approximate global volumes) which is lower than that of Australia, Canada, or Latin America.

CareEdge Rated PTCs: Resilient Performance

Over the past decade, PTCs have demonstrated consistent and resilient performance. Notably, when it comes to CareEdge Rated PTCs, senior tranches in over 99% of the rated transactions have either maintained their initial

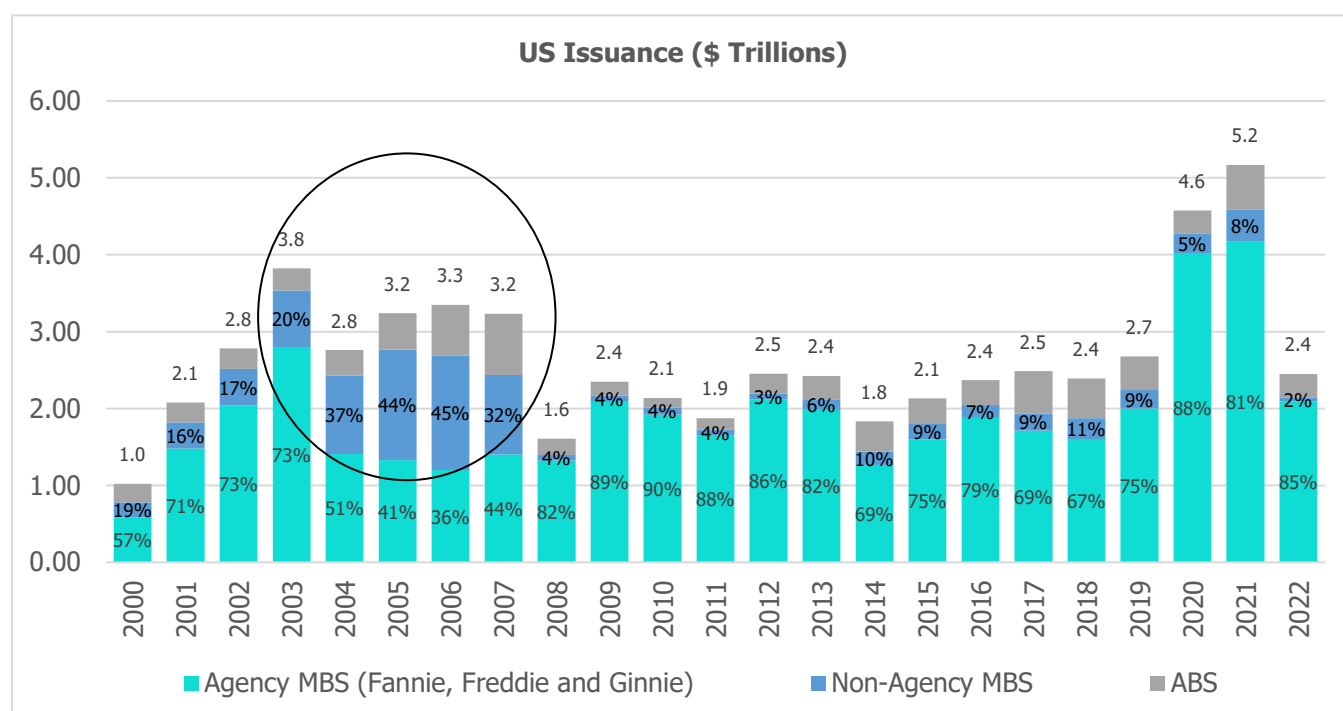
credit rating without any downgrades or, in cases of downgrades, have seen their ratings subsequently restored to their original levels or higher.

US Securitisation Market: A Dominant Player Despite Challenges

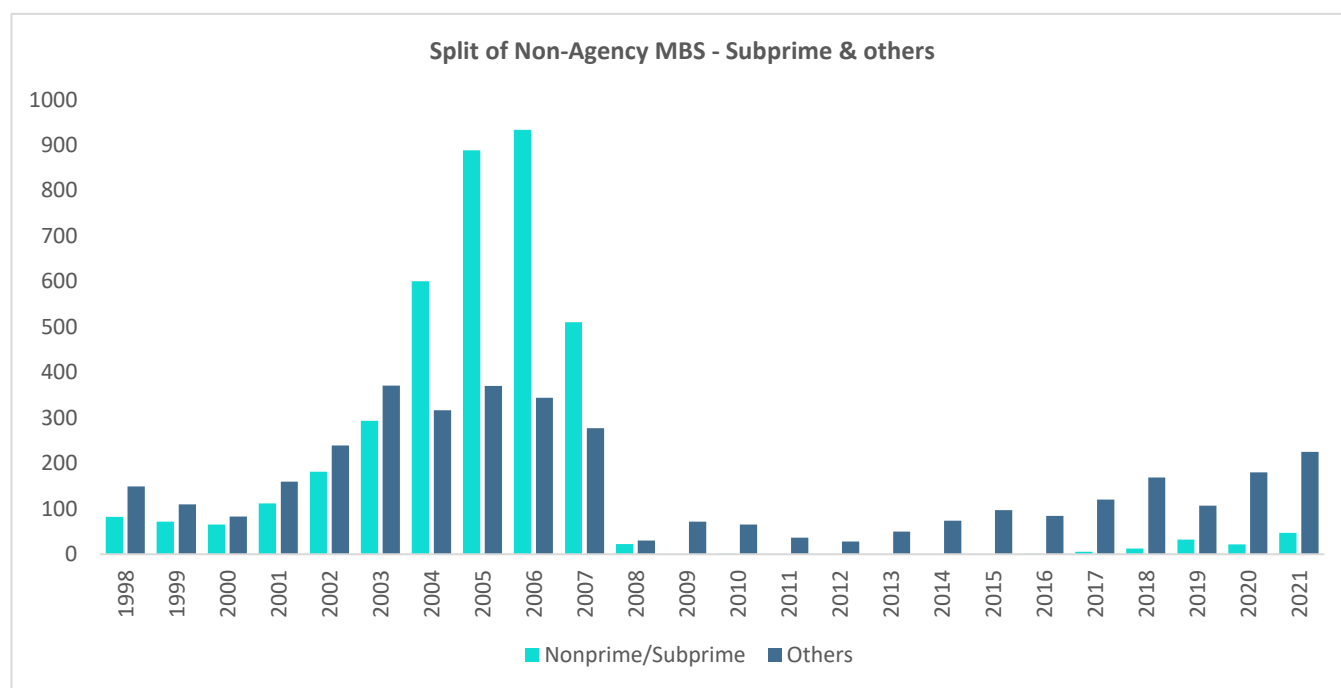
The US securitisation market faced challenges during the subprime mortgage crisis in 2008. The crisis can largely be contributed to lax underwriting standards (e.g., NINJA loans), adjustable-rate mortgages, fall in property prices etc. The interconnectedness of US markets to the world markets and high leverage made it truly global with trust deficit.

Non-agency MBS pools, considered riskier, constituted 55% of total MBS volumes in CY2006 at their peak. However, post the subprime crisis, their share plummeted significantly and has since remained a small segment of the market. The recent interest rate hikes in the US have led to mark-to-market losses and also caused some bank failures. The government policies have so far ensured that there is no significant impact yet on performance of mortgage loan and this will be a key monitorable.

The US continues to dominate the global securitisation market with a 54% share in CY 2022, and 85% of issuances in the US are backed by Agency MBS pools. In recent years, the US market has rebounded, experiencing growth with the outstanding reaching an all-time high of USD 13.8 trillion (CY 2021). Rating defaults and downgrades for securitised papers have normalised.



Source: SIFMA



Source: SIFMA

Indian Securitisation Market: Less Prone to a GFC-Like Crisis

Securitisation transactions in India are less complex than in the US, with fewer tranches and simpler structures. Originators have a skin in the game in form of MRR (minimum risk retention) and LTVs for home loans (a subset which was at the core of subprime crisis in the US) are generally regulated. Investors have a better understanding of the underlying assets and typically hold the PTCs till maturity. Regulatory changes which instituted MHP and MRR requirements along with credit bureau reporting ensure close monitoring of the credits. Additionally, restrictions placed on repackaging of the securities and credit derivatives backed by ABS / MBS have also ensured that transactions do not become too complex. Borrower ability to repay is rigorously assessed and regulatory oversight contains subprime-like lending in India.

In the webinar conducted by CareEdge Ratings titled "[The Story of India's Soaring Securitisation Market](#)", industry experts shared their opinions about the differences in practices between US and Indian securitisation markets. Vikas Jain, CFO of Hinduja Leyland Finance emphasises the importance of performance and credit quality in India, as these factors directly impact an originator's ability to raise resources in the future and influence pricing. He suggests that "an 'originate to distribute' approach without proper due diligence is unsustainable in the long term." He also suggests that in short-term securitisation will lead the show, but eventually co-lending will catch up in coming years once the initial hurdles like tech and API integrations are addressed, also, RBI's circular on Core Financial Services Solution (CFSS) for NBFC's, akin to the Core Banking Solution (CBS) adopted by banks will also add thrust to the co-lending model growth.

Deo Shankar Tripathi, Executive Vice Chairman, Aadhar Housing Finance Limited, while noting the difference between subprime lending in the U.S. and India said, "While the U.S. experienced NINJA loans and teaser rates, India's focus on microfinance and affordable housing is centered on productive, needs-based and repaying capacity based lending."

Vineet Jain, Senior Director, CareEdge Ratings, points out the contrast between the U.S. and India regarding lender recourse. "In many states in the United States, in case of default on home loans, lenders lack legal recourse to borrowers. This incentivises default should property prices fall. Whereas in India, the lender has full recourse to the borrower and has legal claim on the borrower towards any shortfall after recovery from liquidation of mortgaged assets. In India, there is no prevalence of loans without recourse to the borrower."

Outlook:

The Indian securitisation market is on track to achieve an all-time high volume in FY24, with the driving factors being strong credit expansion and the demand for Priority Sector Lending (PSL) assets. With recent regulatory changes on risk weights, securitisation of NPSL might find flavour. Furthermore, it is anticipated that the overall credit performance of transactions backed by retail credit portfolios will continue to be resilient.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91 - 81080 07676
Vineet Jain	Senior Director	vineet.jain@careedge.in	+91 - 22 - 6754 3623 / +91 - 99876 88674
Sriram Rajagopalan	Associate Director	sriram.rajagopalan@careedge.in	+91 - 22 - 6754 3652 / +91 - 98928 11172
Jitendra Meghrajani	Assistant Director	jitendra.meghrajani@careedge.in	+91 - 22 - 6754 1526 / +91 - 7718822054
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, and (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings Africa (Private) Limited in Mauritius, CARE Ratings South Africa (Pvt) Ltd, and CARE Ratings Nepal Limited.

Disclaimer:

This report is prepared by CARE Ratings Limited (CareEdge Ratings). CareEdge Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge Ratings has no financial liability whatsoever to the user of this report.

