

Retail Asset Securitisation: All Time High at ₹2.05 Lakh Crore

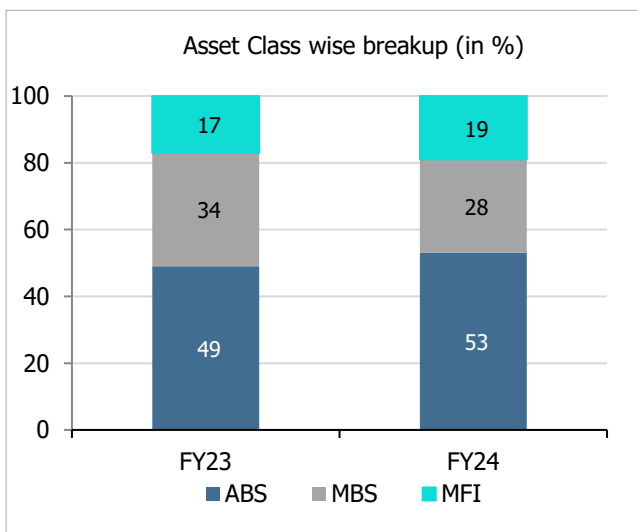
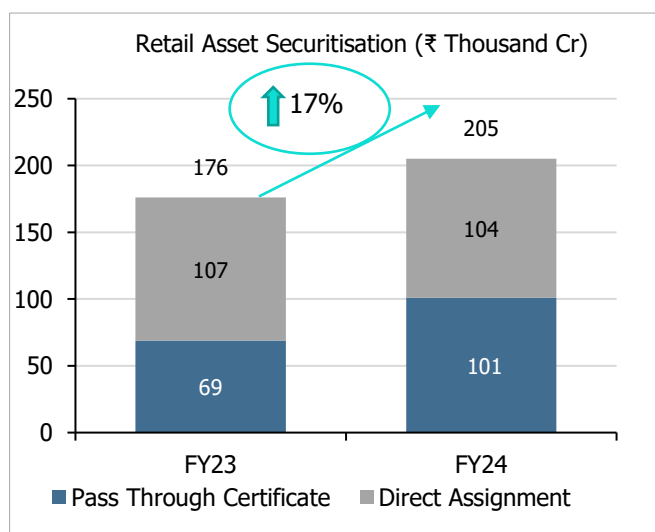


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The retail asset secondary market volume (including pass through certificate [PTC] issuance and direct assignment [DA] transactions) for FY24 touched an all-time high of ₹2,05,000 crore (CareEdge Ratings estimate) registering a growth of around 17% compared to FY23. The volume in the last quarter could have been higher if not for the impact of a preference for balance sheet lending and mismatch in pricing expectations between originators and buyers. The merger of the HDFC entities also led to a drop in volume and consequently impacted the market growth. The securitisation market also saw the entry of around 40 new originators in FY24. Typically, the last quarter has almost always witnessed the highest volumes historically, and FY24 was no different.

“We predicted the market in FY24 to cross ₹2 lakh crore to achieve an all-time high market volume. The resilient performance of securitisation transactions and the preference of banks to grow retail assets / meet PSL lending norms ensured the market crossed ₹2 lakh crore. We expect a higher level of activity in the RMBS space in this financial year. CareEdge Ratings expects the market momentum to continue in FY25.”, said Vineet Jain, Senior Director at CareEdge Ratings.

The merger of HDFC entities has adversely impacted the DA volume which constituted 51% (around 61% in FY23) of the overall volume for FY24. PTC transactions accounted for the remaining 49% (around 39% in FY23).



Source: CareEdge Ratings

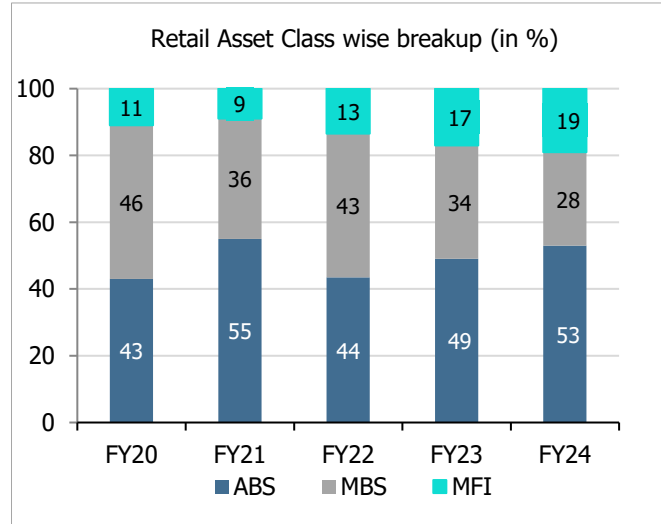
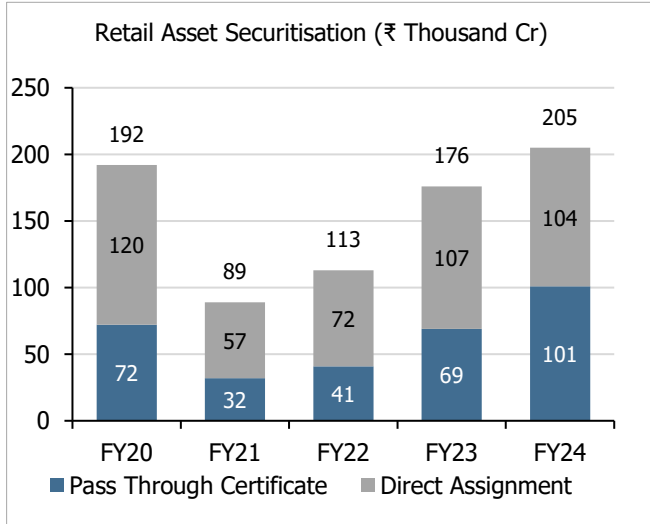
Asset Class-wise Break-up

Mortgage-backed securitisation (MBS) transactions comprised 42% of DA volumes during FY24, followed by Asset-backed securitisation (ABS) transactions at 33%. The big change is that microfinance (MFI) loan transactions contributed around 25% of the DA volume for FY24, up from 19% in the previous year. The share of MBS in the overall volume (PTC + DA) shrank by around 6% as a natural effect of the aforementioned merger.

As expected, ABS pools constituted approximately 74% of the total PTC issuances followed by MBS loans and MFI loans, contributing around 14% and 12%, respectively. Vehicle loan financing (includes pools backed by loans

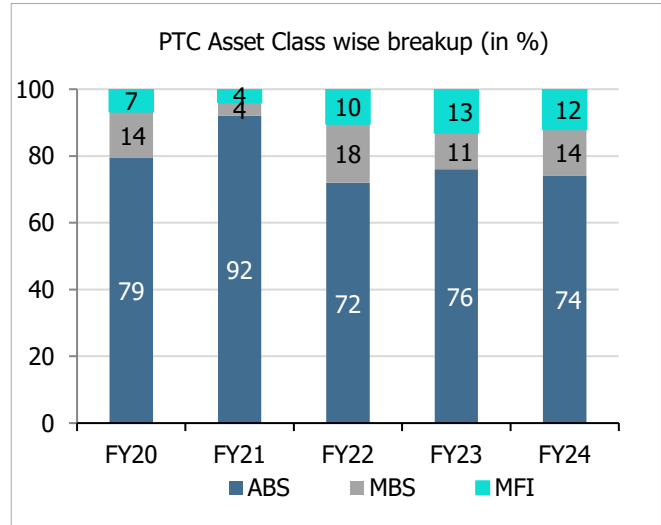
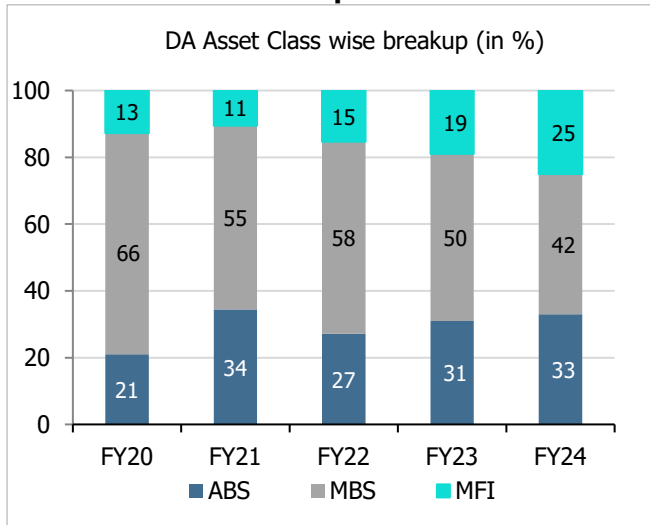
against commercial vehicles, cars, two-wheeler construction equipment, tractors, etc.) accounted for around ₹63,000 crore (63% of PTC issuance).

Retail Securitisation Volumes and Asset Class-wise Breakup



Source: CareEdge Ratings

Asset Class-wise Breakup of PTC and DA Volume



Source: CareEdge Ratings

According to Sriram Rajagopalan, Associate Director at CareEdge Ratings, “It is interesting to note the increase in the share of MFI loan pools in DA transactions. The market also witnessed the entry of around 40 new originators. The broadening of the originator base bodes well for the future expansion of the Indian securitisation market as a whole.”

Outlook

The overall volume for FY24 grew in line with CareEdge Ratings’ prediction of ₹2 lakh crore. The credit growth continues to be robust and size of co-lending market has also grown. We expect market for residential mortgages to gain traction over next couple of years. These factors will have a large role to play in shaping the retail securitisation market in India in FY25.

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