CARE Ratings
Professional Risk Opinion

Retail Asset Securitisation – Post Pandemic Blues

Overall Volumes for FY21 down by over 54%

April 18, 2021 | Structured Finance

Cumulative volumes (Retail & Non-Retail) fall in FY21

The year began with the COVID-19 pandemic taking a huge toll with millions affected and fatalities in hundreds of thousands. The Government of India implemented a strict lockdown which was unprecedented. The disruption caused by the lockdown prompted the RBI to declare a moratorium on repayments for those customers who were not delinquent at the end of February 2020, for a period of three months starting March 2020 which was later extended by another three months till August 2020.

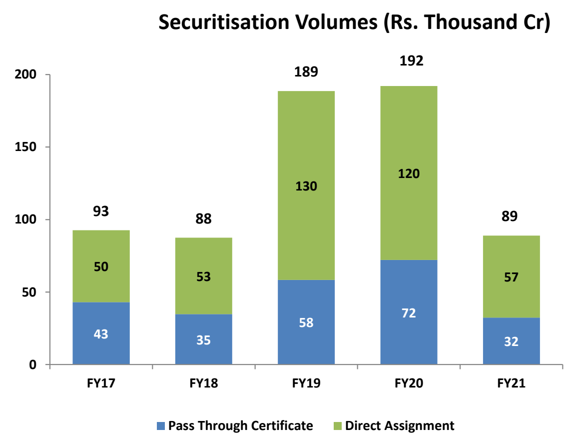
Lenders opted for different routes in extending moratorium to their customers. While some extended a blanket moratorium, others chose to extend it only to those customers who sought to avail the moratorium. There were still others who chose to extend the moratorium automatically to those customers who did not pay the EMIs on time.

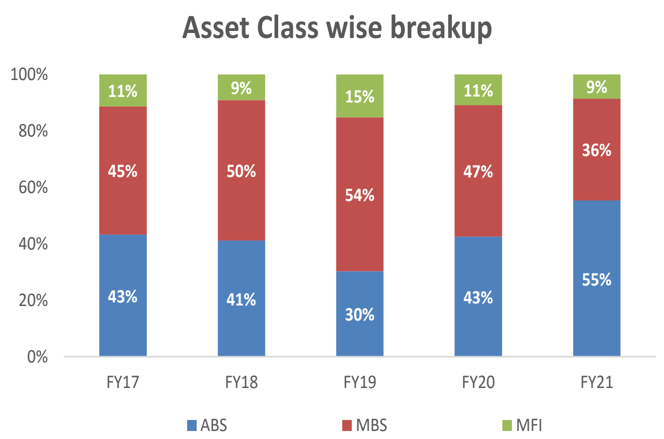
Most of the larger originators saw their securitisation volumes shrink, while at the same time many smaller originators failed to tap the securitisation market altogether.

The Fall: The pandemic and the ensuing lockdown along with the moratorium led to a contraction in the securitisation market in FY21, with volumes falling by more than half as compared to the previous two years. The nationwide lockdown severely impacted the income generation capability of large number of borrowers. This made investors wary of investing in fresh securitisation transactions given the possible deterioration in the loan repaying capability of retail borrowers. The PTC volume for H1FY21 was close to Rs.8,800 crore was very low as compared to around Rs.46,700 crore for the same period in the previous year.

The Rise: Since Sep'20, securitisation volume has seen uptick. The main reason for the increase in volume post Sep'20 was cessation of the moratorium. Economic activity began clawing back and collection efficiencies started to improve. H2FY21 saw a rebound in the securitisation market with improved investor confidence leading to a positive response for investing in securitised papers. The entry of multiple originators in the market, demand for secured assets and stability in pool collections in the post-moratorium period, spurred the investors' appetite for fresh exposures in the retail asset securitisation sector.

Though there was a drastic fall in the overall volumes, the bounce back witnessed in H2FY21 augurs well for the future of the securitisation market. The PTC volume continued to increase on a quarterly basis with Q3 and Q4 of FY21 witnessing transactions aggregating to around Rs.10,300 crore and Rs.13,200 crore, respectively.





Volume Trends – PTC

The overall PTC volume for FY21 saw a drastic decline as compared to FY20. The main reasons for reduction in the volume as discussed above was the COVID-19 pandemic which hit the Indian economy hard which was followed by the moratorium announcement by RBI. The overall PTC volume reduced to close to half of the previous year's volume.

The volumes in FY21 were mostly driven by the ABS transactions. Provisional CARE estimates for the total PTC volumes are around Rs.32,000 crore. After the weak traction in H1FY21, increasing investor confidence post lifting of the moratorium by

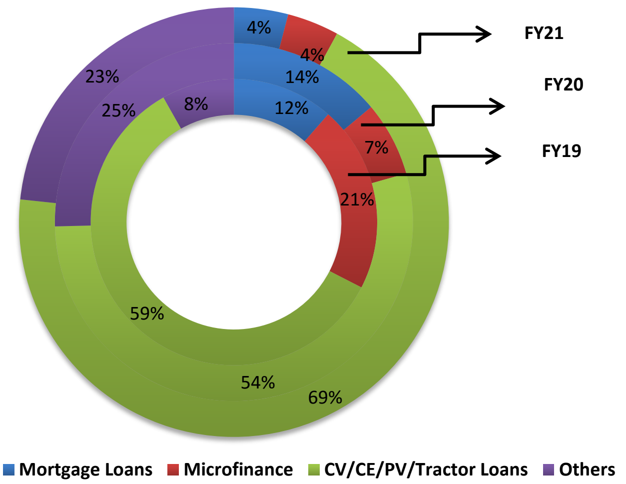
RBI led to a minor resurgence in volumes. Several new originators have also entered the market this year.

The single largest asset class in terms of value was vehicle finance loans, including asset classes such as Commercial Vehicles, Two-Wheelers, Four-Wheelers and Construction Equipment.

The flavour of the market immediately post moratorium was the securitisation of gold loan receivables where investors posed most faith in securitised papers backed by gold loan receivables. Gold loan securitised papers accounted for around Rs.2,500 crore in FY20, which almost tripled to over Rs.7000 crore in FY21. Gold being the most liquid asset coupled with gold loan prices being at all-time highs in May'20 and Jun'20 drove investor confidence. Other significant factors in the increase in gold loan-backed securitisation are the relatively short tenure of the loans and their strong performance over the past few years in an environment of rising gold prices. The number of gold loan originators too, has risen.

Microfinance backed securitisation this year lost its gleam due to the volatility in the collection performance and susceptibility of the target borrowers to any significant external stimuli.

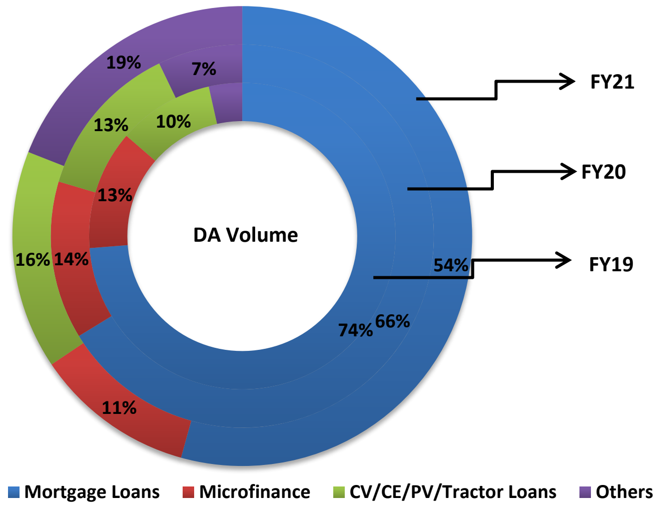
The share of each asset class in the overall PTC volume over the past three years is given in the chart below:



Source: CARE Ratings

Volume Trends – Direct Assignment

Direct Assignment volumes also witnessed a drop of more than 50% in FY21 to close the year with provisional volume of around Rs.57,000 crore. The direct assignment (DA) route, being the most preferred way of funding for securitisation of MBS deals, accounted for almost 54% of total DA Volume as compared to around 66% in FY20. The partial credit guarantee scheme for direct assignment transactions announced by the government did not gain a lot of traction in FY21, as total Rated Direct assignment transactions stood close to Rs.4,000 crore. The share of other asset classes which includes gold loans, education loans, personal loans, unsecured business loans, etc. increased in FY21. The main focus of the market was gold loan backed DA transactions in Q2 and Q3 of FY21, which accounted for over half the DA volume at over Rs.2,500 crore.



Source: CARE Ratings

CARE Rated Pool Performance: Post Pandemic/Moratorium Impact:

Pursuant to RBI notification dated March 27, 2020 permitting all lending institutions to allow a three month moratorium on payment of instalments of term loans falling due between March 1, 2020 and May 31, 2020, which was further extended till

August-20 vide press release dated May 22, 2020, the originators had sought moratorium on the corresponding payouts due. Investors in all the CARE rated transactions (barring one) had agreed to grant moratorium for the PTC Payouts.

Post moratorium i.e. after Sep-20 payout, almost all the transactions were impacted in terms of low/moderate collection efficiencies (compared to the pre-moratorium period) and moderate increase in overdues (as % of initial pool principal). The reason for the rise in overdues and low collection efficiencies could be attributed to the moratorium momentum, since Sep'20 was first month with regular collections after lifting of moratorium. Expectedly, overdues in the 0+DPD bucket went up the following month i.e. Oct'20 for most of the pools. Collection performance has stabilised over time and the collection efficiencies across transactions have steadily been coming back to normal.

Structured Products: Flavour of the market going ahead

Apart from the Retail Asset Securitisation, FY21 also saw the growth of other structured products as well, namely Covered Bonds / Loans, transactions with Replenishment Structures and Pooled Loan Issuances. Investors are keen on diversifying their investment portfolio from the traditional plain vanilla bonds and securitisation and similar structured products offers attractive alternatives while also providing additional support in the form of external credit enhancements in most cases. The underlying asset classes in this segment are mostly non-mortgage loans i.e. gold loans, vehicle loans, microfinance loans and small business loans which typically have shorter tenures.

Outlook

CARE does not expect long term fundamentals of the market deteriorating significantly. The collections across most asset classes have picked up well post lifting of moratorium and have stabilised.

India is witnessing a resurgence of the Coronavirus pandemic in the midst of the largest vaccination drive. Various State Governments have put in place limited restrictions to contain the spread. The development over the current quarter needs to be watched carefully.

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