Retail Asset Securitisation: Q1 Volumes Surge Over Two-fold

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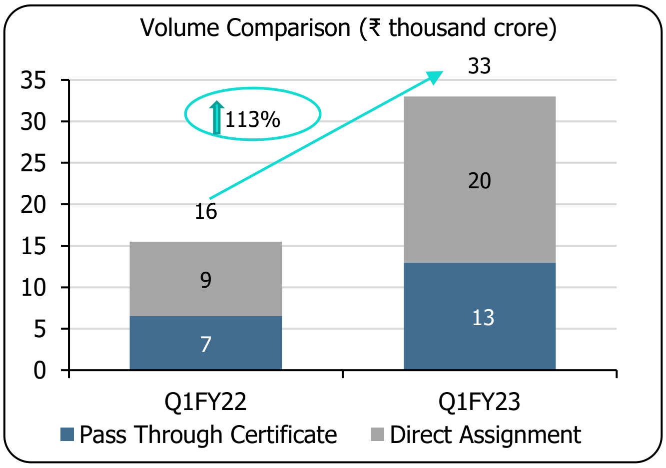
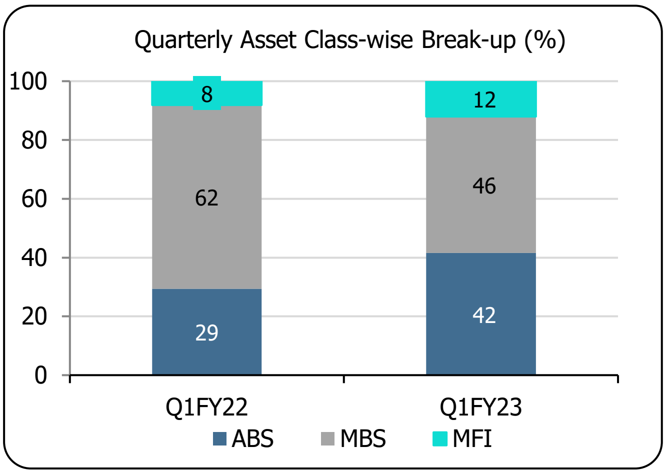
Improved Securitisation Volumes

After suffering due to the Covid-19 pandemic in the first quarter of the past two years, securitisation volumes witnessed a surge of 113% in Q1 FY23 against the year-ago period amid a business-as-usual scenario. Although a rise in Covid cases in some geographies caused a momentary blip, no significant curbs on the movement of people or goods allowed the economic activity to continue and aid the gradual improvement in credit uptake. The total retail securitisation volumes for Q1FY23 stood at around ₹33,000 crore (CareEdge estimate) across securitisation (pass through certificate [PTC]) and direct assignment (DA) transactions vis-à-vis around ₹15,500 crore in Q1FY22.



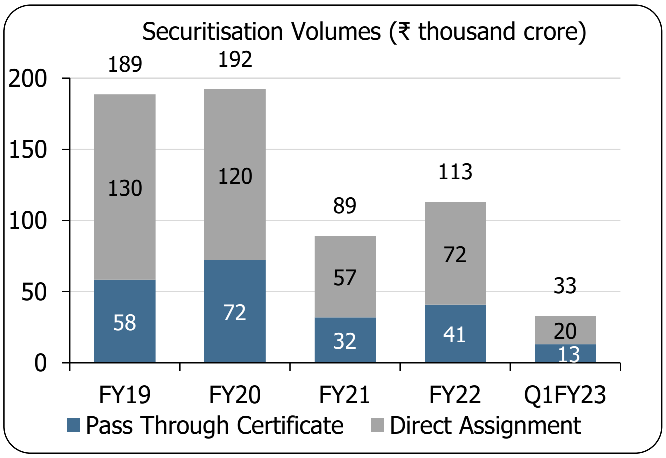


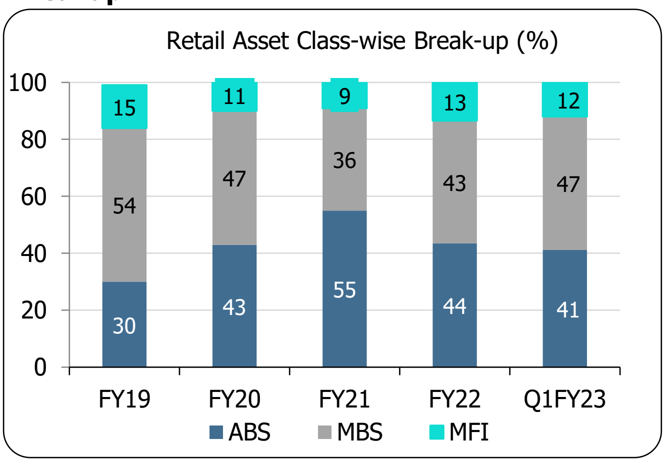
Source: CareEdge

Piquing Investor Interest

The stable performance of the rated transactions even in the wake of the pandemic with very few transactions exhibiting stress underlined the robustness of securitisation as a viable avenue for investment.

Retail Securitisation Volumes and Asset Class-wise Breakup





Source: CareEdge

Usual Suspects Dominate

Mortgage loans contributed around 47% of the DA transactions carried out in Q1FY23, while vehicle loan pools (~59%) dominated PTC volumes. The other major asset classes included microfinance loans (~12%), gold loans (~7.5%) and unsecured business loans, personal loans and consumer finance loans (cumulatively ~6.2%).

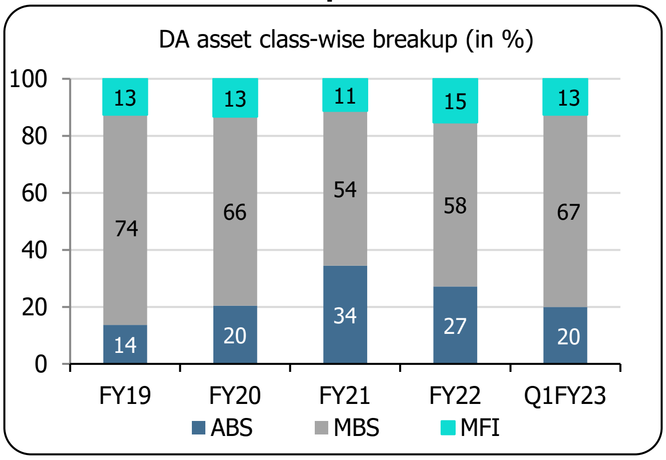
Asset Class-wise Break-up

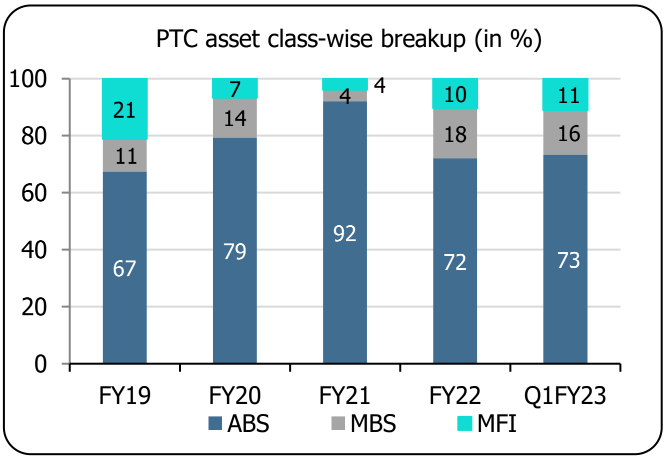
The retail market volume was again driven by DA transactions, which had a lion's share of 61% of the overall size, while the remaining share was that of PTC deals.

Within DA, the dominant asset class was mortgage-backed securitisation (MBS) with an aggregate size of around ₹13,000 crore, followed by asset-backed securitisation (ABS) at around ₹4,000 crore, which includes pools backed by all the asset classes (except mortgage loans and microfinance [MFI] loans). MFI loans made up around 13% of the DA volume.

PTC volume was mainly driven by ABS pools contributing around 73% of the total issuances. The leading asset class driving PTC issuances was vehicle loan financing at around ₹7,600 crore accounting for around 59%.

Asset Class-wise Breakup of PTC and DA Volumes





Source: CareEdge

Outlook

There is an expectation of headwinds on the horizon with fears of a global recession, in addition to ongoing challenges brought on by the volatility in oil prices as well as the supply chain issues caused by the periodic resurgence of the pandemic. However, there are signs of overall improvement in the level of economic activity and we expect strong growth in disbursements by NBFCs sector backed by rising credit uptake. This coupled with the focus on retail loan book expansion through inorganic channels and increased pressure to meet PSL requirements for banks augurs well for the securitisation market as a whole. Given these factors and the fact that the overall volumes have been strong in Q1, CareEdge believes that this will lead to around 40% increase in overall retail volumes in FY23 as compared with FY22.

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