

Press Release

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Securitisation heads for the best year yet

First-half volume rockets 95% to Rs 67,700 crore

Securitisation volume soared 95% on-year to Rs 67,700 crore in the first-half of fiscal 2019, driven by a surge in direct assignments (DA); or direct purchase of loan receivables of non-banks [including non-banking finance companies (NBFCs) and housing finance companies (HFCs)], usually by banks.

Volume in pass-through certificates (PTCs) also rose impressively despite headwinds caused by a change in treatment of transactions under the new Indian Accounting Standards (IND-AS) Rules, 2015.

While the recent tightening of liquidity has meant access to conventional funding sources has reduced – at least temporarily – for non-banks, healthy appetite for securitisation among banks and other investors should lead to transaction volume rising materially this fiscal.

DA volume doubled to Rs 42,700 crore on-year in the first half, driven by demand from banks seeking retail assets, and originators preferring DAs over PTCs because of the difference in accounting treatment under IND-AS.

Within DAs, mortgage-backed loans remained the preferred asset class, accounting for 74% of DA volume and 46% to total securitisation volume (*see chart in annexure*).

“Off-book treatment and upfront income booking under IND-AS will lead to more supply of assets for DA transactions,” said Krishnan Sitaraman, Senior Director, CRISIL Ratings. **“On the other hand, investors are seeking higher yields on PTCs compared with DAs, which has muted the growth of PTCs. This trend should continue and hence, in the coming months, the market would skew further towards DAs.”**

Despite the accounting related headwinds, PTC volume surged 61% to Rs 25,000 crore on-year in the first half, helped by surprisingly resilient demand for priority sector lending (PSL) assets – despite the growing popularity of priority sector lending certificates (PSLCs) – and robust demand for non-PSL-backed securitised instruments from mutual funds.

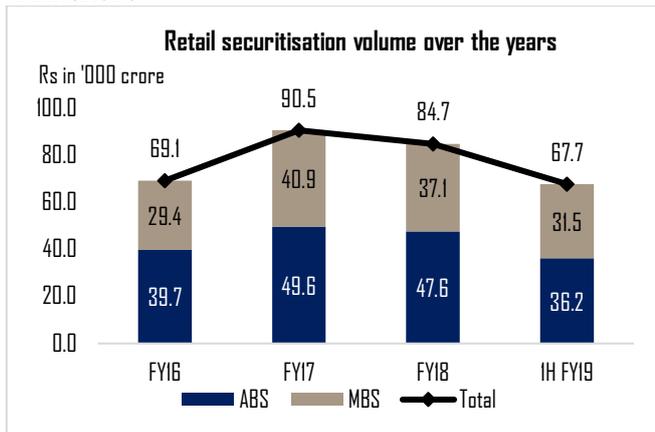
Non-PSL securitisation accounted for 60% of the total volume in the first half.

PSLCs continue to gain traction with total volume rocketing to Rs 177,500 crore in the fiscal to date, or more than twice the volume in the corresponding period of last fiscal, and 95% of the fiscal 2018 volume. PSLC – Small and Marginal Farmers, and PSLC-General continued to have the largest share of traded PSLCs. Demand from foreign banks, private banks and a few public sector banks, coupled with the low cost of acquisition, took segment volumes up (*see chart in annexure*).

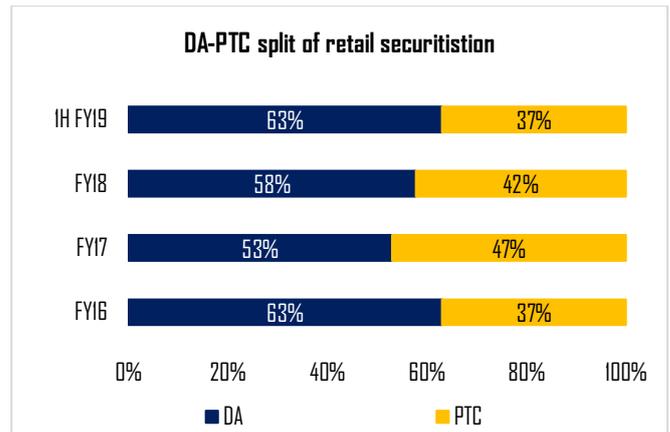
“Despite many transformative changes in the recent past – such as the implementation of the Goods and Services Tax, a turn in the interest rate cycle, changes in accounting standard, and the recent liquidity crunch, non-banks will continue to depend on securitisation, especially since there are no negative asset-liability maturity mismatches in such funding,” said Rohit Inamdar, Senior Director, CRISIL Ratings. **“Overall, the securitisation market is having its best run in recent years, and volume should rise significantly this fiscal.”**

Securitisation volume is expected to gain currency for two more reasons: narrowing access to conventional forms of funding for non-banks at least temporarily, and increasing comfort among banks to buy portfolios from non-banks. For example, the State Bank of India recently announced it would purchase Rs 45,000 crore of securitised assets this fiscal, or thrice what was expected. All that should augur well for transaction volume.

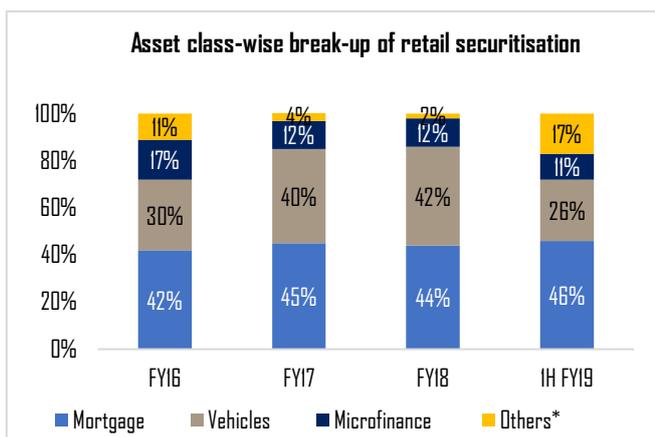
Annexure



Source: CRISIL estimate

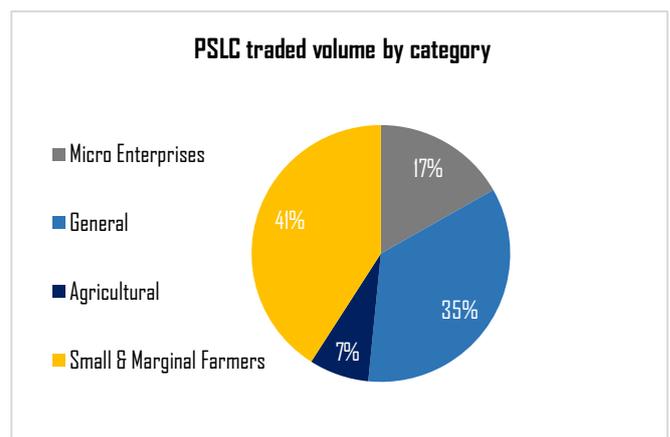


Source: CRISIL estimate



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*Others includes SME, tractor, cash loans, gold loans, education loans, among others



Source: CRISIL estimate

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