Press Release

August 27, 2018 | Mumbai

Securitisation volume doubles in Q1, driven by non-PSL deals

PSL volumes dogged by priority sector lending certificates

Securitisation transactions doubled to Rs 31,500 crore on-year in the first quarter (Q1FY19) as deals backed by loan receivables that do not qualify for priority sector (non-PSL) rocketed (*see Chart 1 in annexure*) following clarity on the applicability of Goods and Services Tax (GST).

Says Krishnan Sitaraman, Senior Director, CRISIL Ratings, "Till now, PSL receivables had ruled the securitisation market roost. But due to a rise in transactions involving non-PSL receivables, and increase in demand for priority sector lending certificates (PSLCs), non-PSL share increased to 64% on-year in first quarter of fiscal 2019 from 40%."

Mortgages continued to be the driver of non-PSL securitisation. The GST Council's clarification that securitised assets are not liable to pay tax spurred some large mortgage players to tap the securitisation market once again (*see Chart 2 in annexure for asset class-wise securitisation*).

Newer non-PSL asset classes – such as personal and consumer durables loan receivables, lease rentals and gold loan receivables– saw a significant increase in momentum in the first quarter and transactions surged to Rs 2,800 crore.

Demand for non-PSL asset-backed securitisation was driven by private banks, mutual funds, non-bank treasuries and insurers, which took advantage of attractive yields of 8.5% to 11.5% for instruments rated in A (SO) category or higher.

While non-PSL securitisation had a good outing, PSL securitisation continued to be impacted by rising popularity of PSLCs.

Overall, PSLC volume touched Rs 86,000 crore in the quarter, or 46% of the number for the whole of last fiscal (*see Chart 3 in annexure*). Average PSLC pricing across segments dropped by 49% on-year. The sharp rise in volume and the drop in PSLC pricing meant banks were less interested in taking the PSL securitisation route to meet their PSL mandate.

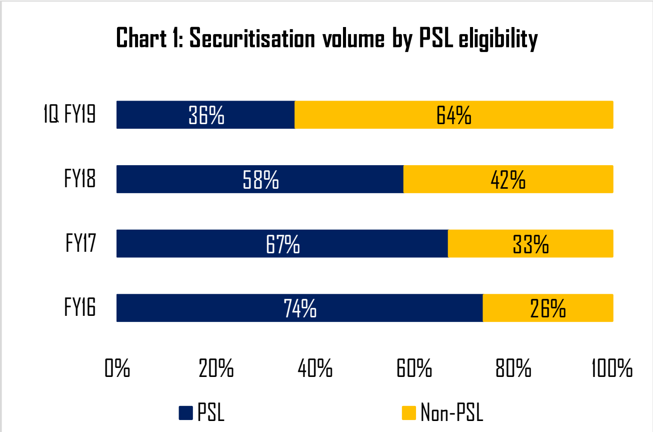
Consequently, in an environment of rising interest rates, the ask in terms of yield on PSL securitisation rose. The yield on PSL-backed pass-through certificates (PTCs) during the quarter was in the range of 7.25% to 7.9%, compared with 5.9% to 7.2% seen in fiscal 2018.

As the spread between PSL-backed PTCs and other vanilla instruments narrowed, major PSL-supplying non-banking financial companies (NBFCs) also trimmed their securitisation ambitions.

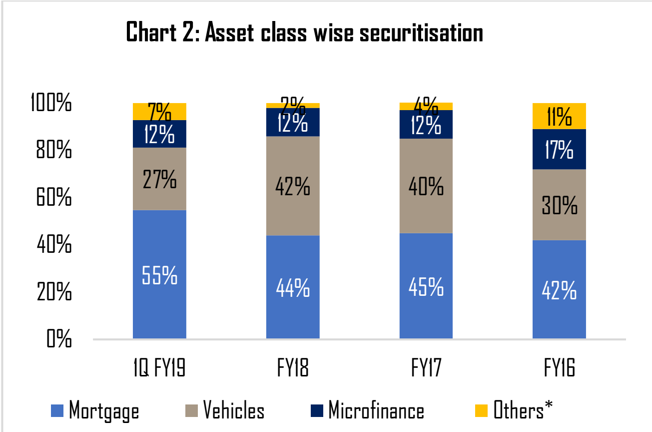
Said Rohit Inamdar, Senior Director, CRISIL Ratings, "Given that NBFCs are staring at a yield compression of 50-75 basis points[1], even at higher yields, securitisation will remain attractive to NBFCs as PSL securitisation would still be 100 to 150 basis points cheaper than comparable vanilla issuances. Hence they are unlikely to stay away from the securitisation market indefinitely. On the demand side, the ease and convenience of PSLCs notwithstanding, due to the interest earning nature of securitised assets, at the right yield, banks should emerge as buyers."

[1] *Refer to CRISIL's press release dated July 10, 2018*

Annexure

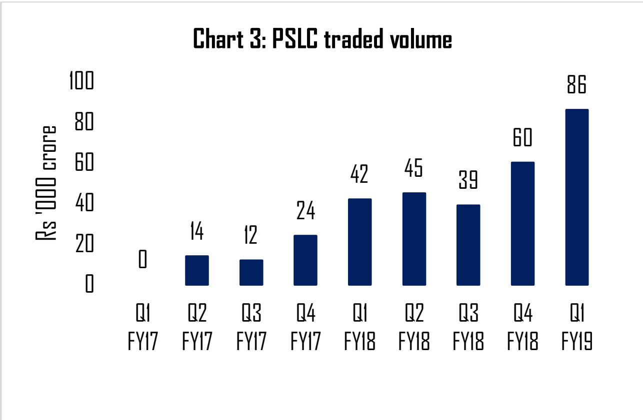


Source: CRISIL estimate



Source: CRISIL estimate

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



Source: CRISIL estimate

For further information contact:

Media relations	Analytical contacts	Customer service helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 M: +91 95 940 60612 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 M: +91 90 040 84769 B: +91 22 3342 3000 naireen.ahmed@crisil.com	**Krishnan Sitaraman** Senior Director - CRISIL Ratings **CRISIL Limited** D: +91 22 3342 8070 krishnan.sitaraman@crisil.com **Rohit Inamdar** Senior Director - CRISIL Ratings **CRISIL Limited** D:+91 22 4040 2985 rohit.inamdar@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK

About CRISIL Ratings
CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 110,000 MSMEs have been rated by us.