

Securitisation – The Indian Scenario

- Kalpesh Gada, ICRA

August 2014



Agenda

- **Indian securitisation market – typical features**
 - **Securitisation in India – key drivers**
 - **Regulatory framework – a quick flashback**
 - **Impact of recent RBI guidelines**
 - **Indian securitisation market- key trends**
 - **Securitisation market- looking forward**
-



Indian Securitisation – typical features

- **High influence of legal / tax / regulatory factors**
 - **Key Originator segment – NBFCs; Originators function as Servicers**
 - **Key investor segment – Banks; rising participation from NBFCs and HNIs; MFs avoiding securitisation on taxation concerns**
 - **Typically AAA ratings targeted, though wider ratings spread over past 2 years**
 - **Simple transaction structures; credit enhancement typically through cash collateral and subordination of EIS**
 - **Tenure**
 - RMBS: door-to-door 12 to 20 years (Average 6 to 8 years)
 - ABS: door-to-door 40 to 60 mths (Average 18 to 24 mths)
 - **Investor yield**
 - ABS – fixed yield
 - RMBS – floating yield, linked to pool yield or external benchmark
-

Indian securitisation – Key drivers

Transaction structures, choice of asset class etc driven by regulatory prescription

Originators

- Capital relief
- Pricing benefit
- Alternate funding source
- Managing exposure norms

Investors

- Plugging PSL shortfall
- Better credit quality than Originators in some cases
- Possibility of customising underlying loan pool



Regulatory / taxation framework...a quick flashback

■ RBI guidelines impacting securitisation

- **Feb-06:** Criteria for true sale, SPV requirements, capital treatment of credit enhancement
- **May-12 and Aug-12:** MHP, MRR, due diligence and stress test requirements, prohibition on credit enhancement in bilateral assignments
- **Jun-13 and May-14:** Release of external credit enhancement subject to meeting various criteria
- **May-14:** RIDF balance and other funds with NABARD to be part of indirect agriculture (counted towards priority sector target)
- **Jun-14:** NBFCs permitted to function as Business Correspondents

■ Distribution tax regime

- Introduced in Union Budget 2013-14; applicable from June 2013
 - To be levied at the time of distribution of income by the securitization trust
 - Significant impact on the post-tax returns for the investors
-



Impact of recent RBI guidelines

■ **Reset of credit enhancement**

- Capital benefit for Originators in the case of well-performing pools
- Checks and triggers prescribed to ensure credit quality of PTCs not impacted

■ **Treatment of RIDF balances**

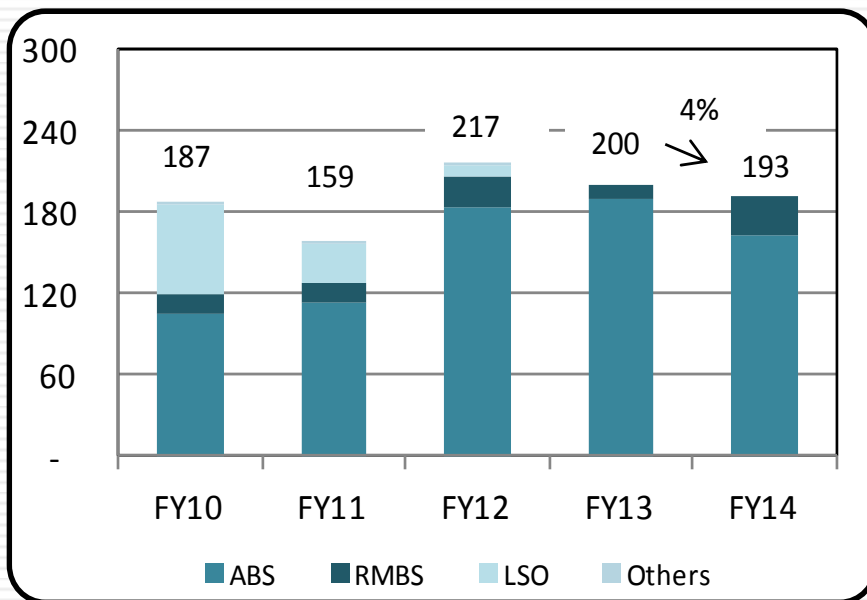
- Demand for PSL assets (other than direct agricultural exposures) to dwindle in FY15; securitisation issuance likely to significantly dampen in near term
- O/s deposits under the funds would result in rise in adjusted net bank credit
- Increase in direct agricultural lending target, but supply of such assets could be a constraint

■ **Permission for NBFCs to function as BCs**

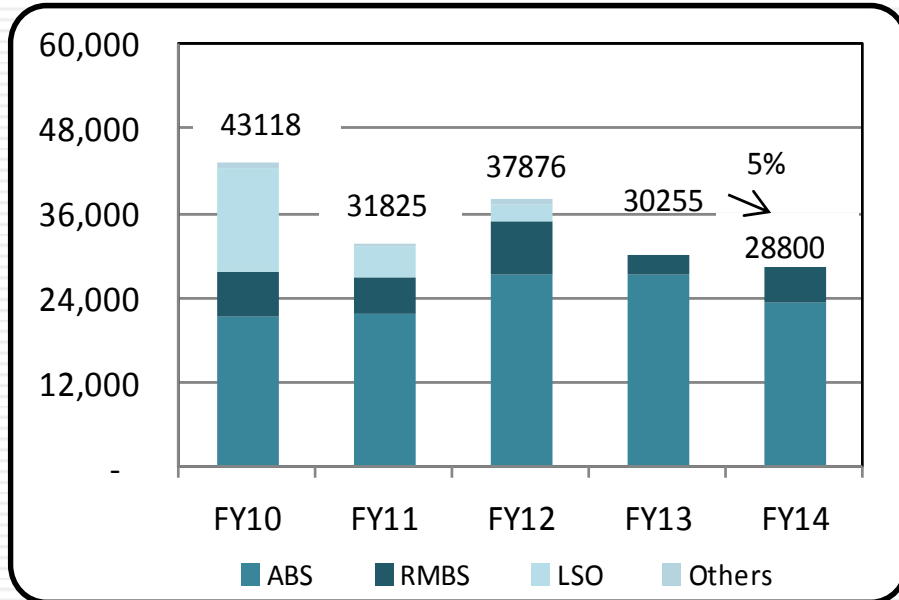
- Additional avenue for acquiring PSL assets for Banks – further dampener for securitisation in the long run
-

Indian Securitisation Market Scenario

Trend in Securitisation - by number



Trend in Securitisation - by value, in Rs. crore



Includes rated bilateral transactions

- Securitisation market fell 5% in FY14; mainly owing to distribution tax
- Number of transactions 4% lower in FY14 compared to FY13

Indian Securitisation Market Scenario

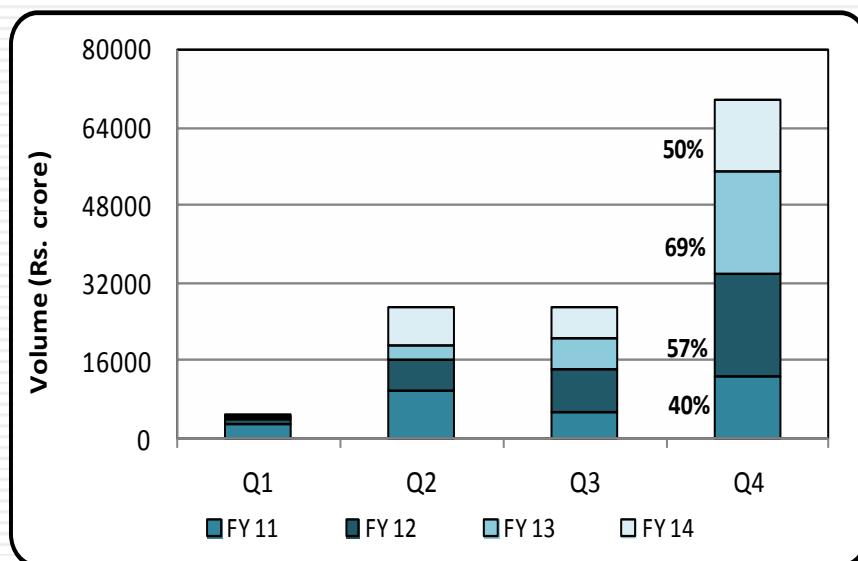
	FY 10		FY 11		FY 12		FY 13		FY 14	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
ABS	21,497	50%	21,819	69%	27,344	71%	27,230	90%	23,504	82%
RMBS	6,254	14%	5,029	16%	7,680	21%	3,025	10%	5,296	18%
Total Retail Securitisation	27,751	64%	26,848	84%	35,024	92%	30,255	100%	28,800	100%
LSO	14,581	34%	4,441	14%	2,217	6%	-	-	-	-
Others	787	2%	536	2%	635	2%	-	-	-	-
Overall total	43,118	100%	31,825	100%	37,876	100%	30,255	100%	28,800	100%
Growth	(20%)		(26%)		19%		(20%)			(5%)
Avg. Deal size	231		200		174		151			149

Includes rated bilateral transactions

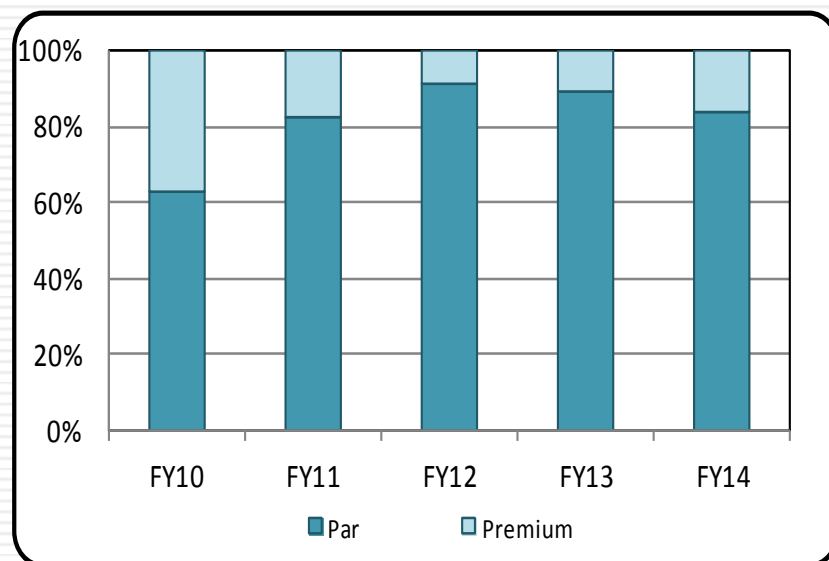
- **ABS dominant asset class in last 5 years**
- **Number and volume of ABS transactions declined by about 14% in FY14; number of RMBS transactions more than doubled (an increase of 75% in value terms)**

Indian Securitisation Market Scenario....ABS + RMBS

More even distribution across quarters

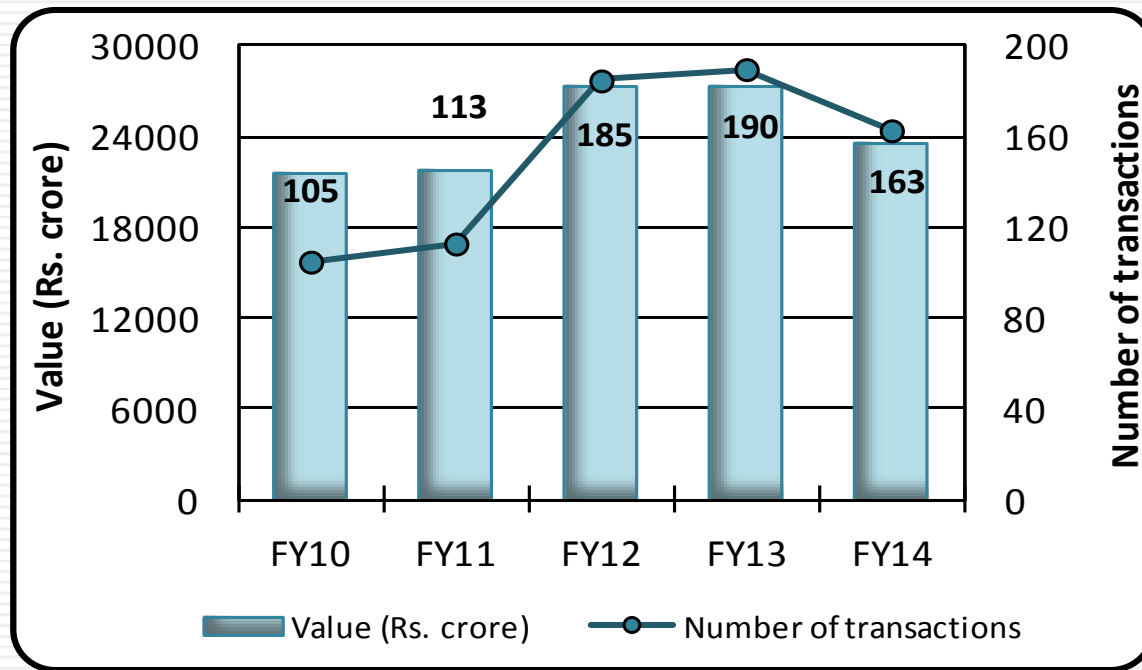


Preference for Par structures continues



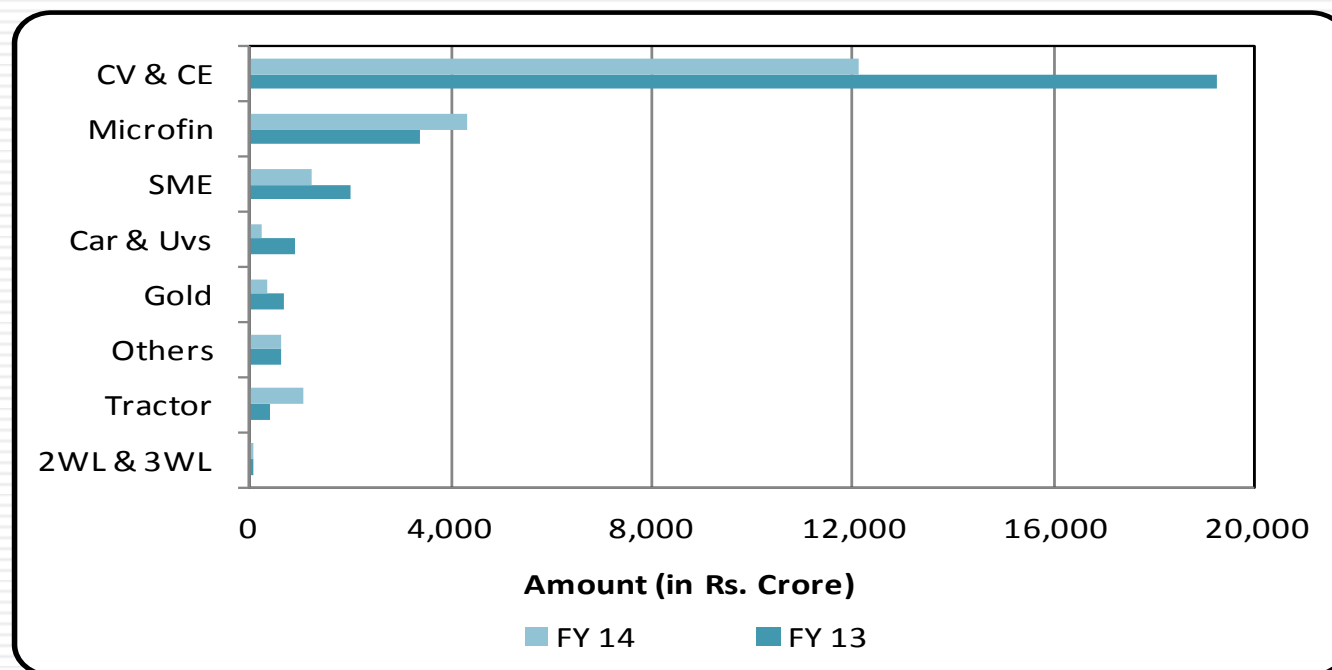
- More even distribution across quarters compared to previous years
- Single tranche par structures continue to be popular

Indian Securitisation Market Scenario....ABS



- Significant decrease in ABS transactions- 14% in number and value terms
- Average deal size at similar levels as in FY13
- Banks absent as Originators; though form key investor segment

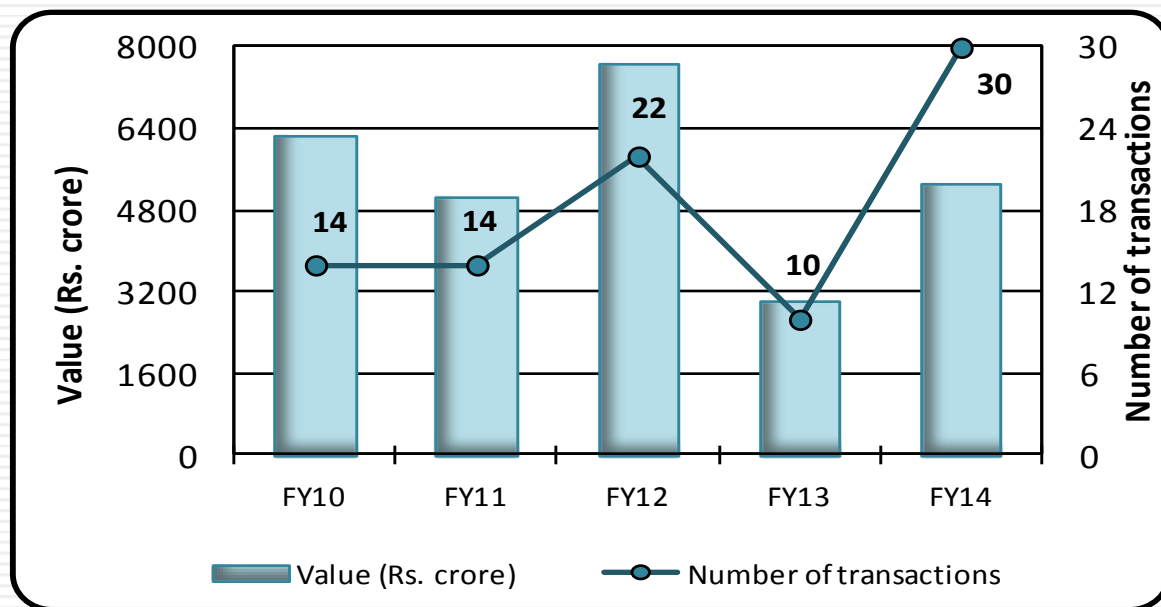
Indian Securitisation Market Scenario....ABS



- CV dominant asset class in ABS segment across years
- Share of Microfinance securitisation increased over last 2 years
- Choice of asset class linked with the PSL motive

Indian Securitisation Market Scenario.....RMBS

- RMBS volumes in FY14 up by more than 75% compared to FY13



- Entry of eight new originators (mostly in affordable housing space)
- Traditional obstacles to RMBS continue - long tenure, interest rate risk and tenure uncertainty, lack of secondary market liquidity
- Some investors prefer fixed rate while underlying loans are on floating rate



Securitisation Market – Looking Forward

■ Lot of concerns...

- ☐ Distribution tax regime
- ☐ New RIDF treatment
- ☐ BC guidelines
- ☐ Service tax issue
- ☐ IFRS implementation

■ But some bright spots....

- ☐ NHB's committee for alternative credit enhancement in RMBS
- ☐ First mortgage guarantee-backed RMBS issuance
- ☐ Listing of PTCs in 2 issuances

■ **Bilateral assignments likely to dominate, till corporate credit demand remains subdued**

■ **Growth of originators loan-book, and consequently availability of PSL compliant assets- key supply side factor**



Thank You
