



Indian Securitisation Market- impact of distribution tax

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Agenda

- Overview of Indian securitisation market
- Performance of ICRA-rated transactions
- Securitisation Market- Way Forward

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Overview of Indian securitisation – Key Drivers

Originators (mainly NBFCs)

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

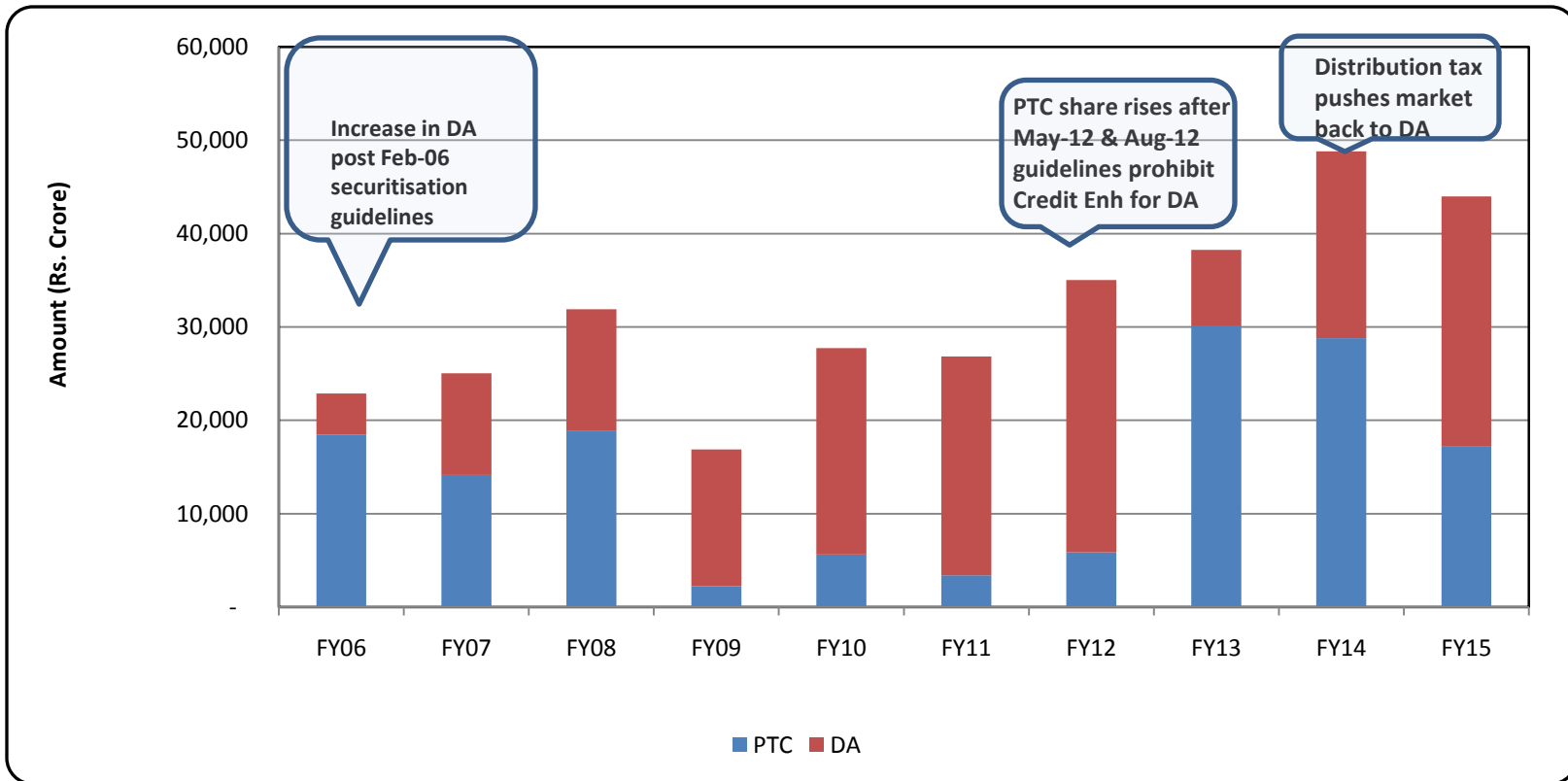
Investors (mainly Banks)

- Plugging PSL shortfall
- Better credit quality than direct exposure to Originators (in some cases)
- Possibility of customising underlying loan pool

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

Overview of Indian Securitisation – A Dual Structure Market

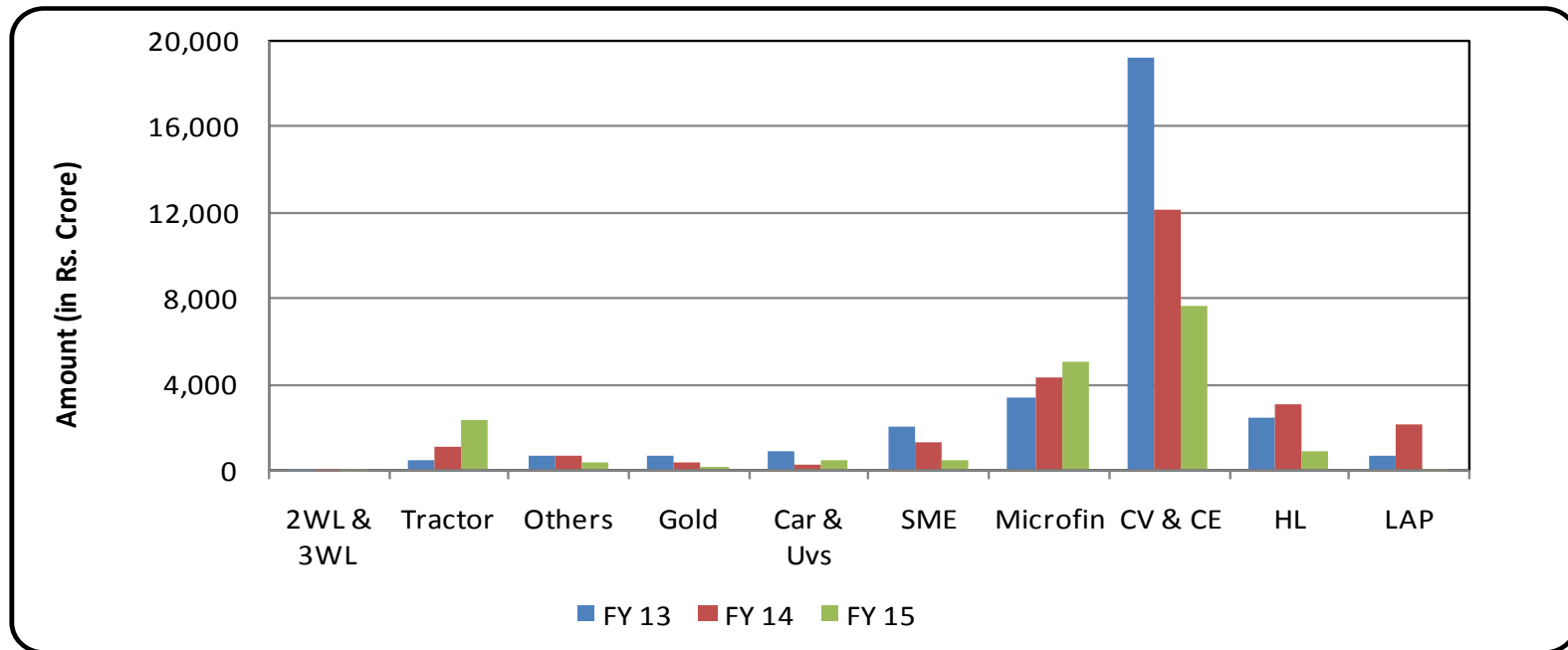
Trends in retail loan securitisation in India



Source: ICRA Estimates

- Guidelines have been a key driving factor in deciding the preferred securitisation route—through DA or PTC
- Significant decline in rated securitisation transactions in last 2 years; unrated assignments gaining in popularity

CV loans most common asset class



Source: ICRA Estimates

- CV dominant asset class in retail securitisation across years
- Share of micro loans securitisation increasing; ~33% share in FY15
- Popularity of tractor loans increased in FY15
- Choice of asset class linked with the PSL motive

Overview of Indian Securitisation - Impact of Distribution Tax

Scenario Pre Distribution Tax

- **Securitisation transactions dominant (80% in FY13)**
- **Both private and public banks participants in securitisation transactions**

Scenario Post Distribution Tax

- **Volume of securitisation transactions down by ~5% and ~40% in FY14 and FY15**
- **Surge in Bilateral Assignment transactions (↑by ~150% in FY14)**
- **PSU banks actively acquiring even non-PSL portfolio through DA route**

Securitization versus Assignment Transactions

Investor's Perspective	Securitisation Transactions	D. A. Transactions
Pricing	Less attractive	Yield relatively more attractive (Base Rate or small premium over Base Rate)
Motive	Usually for meeting PSL target	Balance sheet growth and/ or meeting PSL target
M-T-M losses	Applicable	Not applicable
Credit Risk	Low since credit enhancement available	Moderate to high, as no credit enhancement available
Provisioning Cost and Capital Requirement	Provisioning usually not required; capital requirement also low as the instrument rating is usually high	Higher capital requirement and provisioning cost

Securitization versus Assignment Transactions

Investor's Perspective	Securitisation Transactions	D. A. Transactions
Due Diligence Requirement	Less stringent; due diligence usually on sample basis; scope limited	More stringent; generally much wider scope of due diligence
IT / MIS Capability Required	Low; single line entry for the entire transaction is done	High; contract-wise accounting preferred as NPA recognition at account level is mandatory
Stress Testing/ Monitoring Requirement	Moderate as available credit enhancement provides relief under a stress situation; rating of transaction monitored by rating agency on a continuous basis	High; as credit risk is borne entirely by the investor; also no monitoring done by the rating agency subsequently

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Performance of ICRA Rated CV Transactions

	Year of securitisation							
	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14
Cumulative Collection Efficiency								
After 6 months	93.87%	97.17%	98.09%	103.64%	98.46%	97.39%	95.30%	96.09%
After 12 months	93.34%	96.55%	99.30%	104.04%	98.44%	97.24%	95.81%	95.27%
After 24 months	93.28%	98.57%	99.59%	102.61%	97.99%	97.10%		
After 36 months	92.61%	97.63%						
Loss-cum-90+ dpd ratio								
After 6 months	4.76%	3.42%	0.58%	1.15%	0.05%	0.36%	1.29%	0.49%
After 12 months	3.11%	6.06%	0.36%	2.07%	0.61%	1.51%	2.29%	1.56%
After 24 months	3.51%	4.00%	0.49%	1.90%	1.12%	2.06%	1.52%	
After 36 months	4.29%	2.34%						
Loss-cum-180+ dpd ratio								
After 6 months	0.74%	0.45%	0.08%	0.03%	0.00%	0.00%	0.01%	0.01%
After 12 months	1.29%	1.72%	0.06%	0.29%	0.01%	0.22%	0.64%	0.39%
After 24 months	2.17%	1.76%	0.21%	0.36%	0.29%	0.96%	0.74%	
After 36 months	3.31%	0.97%						

Source: ICRA Analysis

Based on 110 CV loan pools assigned between CY07 and CY14

- Relatively weaker performance of CY13 and CY14 pools compared to those in previous years; decline seen in performance of CY12 pools in recent times
- CC utilisation in transactions have been low owing to availability of other forms of credit enhancement

Performance of ICRA Rated CV Transactions

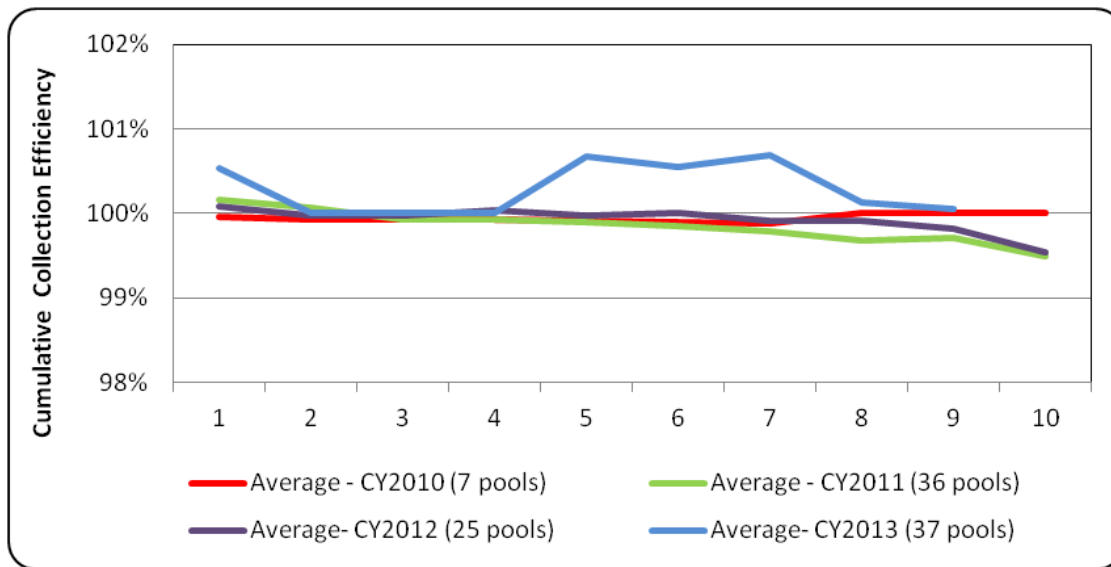
		Months post securitisation							
		<=6	7-12	13-18	19-24	25-30	31-36	>36	Total
Credit Enhancement Cover (times)	2-5				1				1
	5-10		1						1
	10-20								
	>20	6	3		23	12	2	7	53
	Total	6	4		24	12	2	7	55

Source: ICRA Analysis

Based on 55 CV loan pools live as on March 2015

- CE cover is the ratio of CE available (Cash + EIS + principal Subordination) to principal outstanding on 90+ dpd contracts
- It gives a quick measure of the protection available to the senior investors in a pool against likely future shortfalls in the pool.
- CE cover comfortable to high for all pools- more than 2 times for most pools

Performance of ICRA-rated Micro loan Transactions



- Collection efficiency of ICRA rated pools robust
- Average cumulative collection efficiency more than 99%.
- Individually also, collection efficiency at least 95%

Source: ICRA Analysis

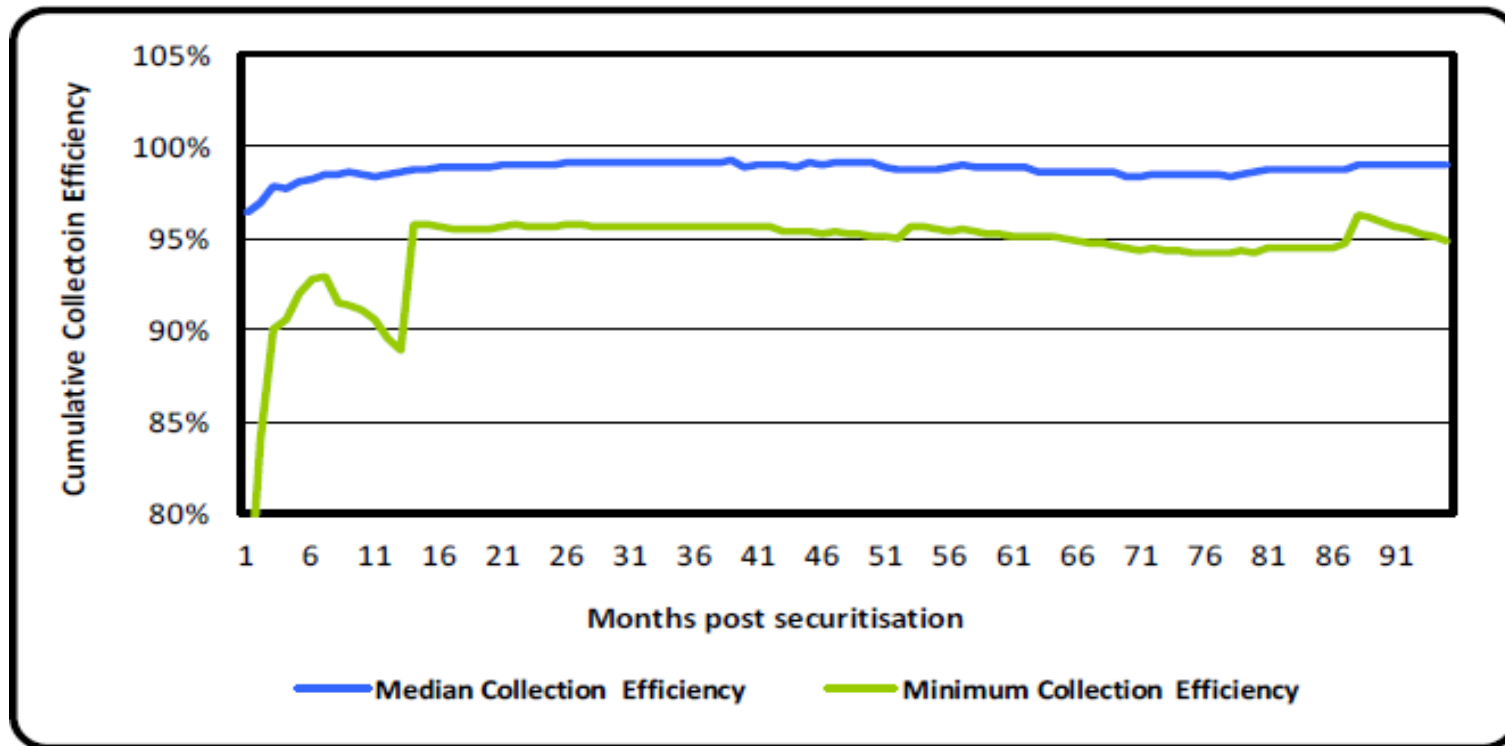
- Most transactions have nil delinquency
- The average loss cum 30+ dpd has been below 0.3%
- Low credit enhancement utilisation; CC utilisation nil

Loss Range	Number of transactions	
	Loss -cum- 0+ dpd	Loss -cum- 30+ dpd
0.00%	126	131
0.00%-0.50%	18	13
0.50%-1.5%	0	1
>1.50%	3	2
Total	147	147

Source: ICRA Analysis

Based on 147 micro loan pools assigned between CY11 and CY14

Performance of ICRA Rated MBS Transactions



Source: ICRA Analysis

Based on 54 HL/LAP pools assigned between 2003 and 2014

- Strong performance with median collection efficiency after 8 years, being > 99%; minimum collection efficiency also typically > 95%
- Delinquencies in LAP pools observed to be 1.5 times higher than that in HL pools

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Securitisation Market – Way Forward

Revised PSL guidelines largely negative for securitisation issuance volumes

- 👎 Introduction of new PSL segments (medium enterprises, social infra, renewable energy etc) could help banks in meeting PSL organically to a greater extent
- 👎 IBPCs and PSLCs alternate avenues (though guidelines awaited)
- 👍 Sub-target for small and marginal farmers, and new target for micro enterprises
- 👍 Foreign banks to meet PSL in a phased manner

Distribution tax continues to be a dampener

- 👎 Appetite from Mutual Funds likely to remain muted till tax issue gets resolved

Assignment Market may continue to show good volumes

- 👍 Public Sector Banks may continue to have appetite for DA, depending on
 - Extent of revival in corporate credit off-take
 - Experience in past DA transactions



Any Questions

Thank You!