

Report on Securitization

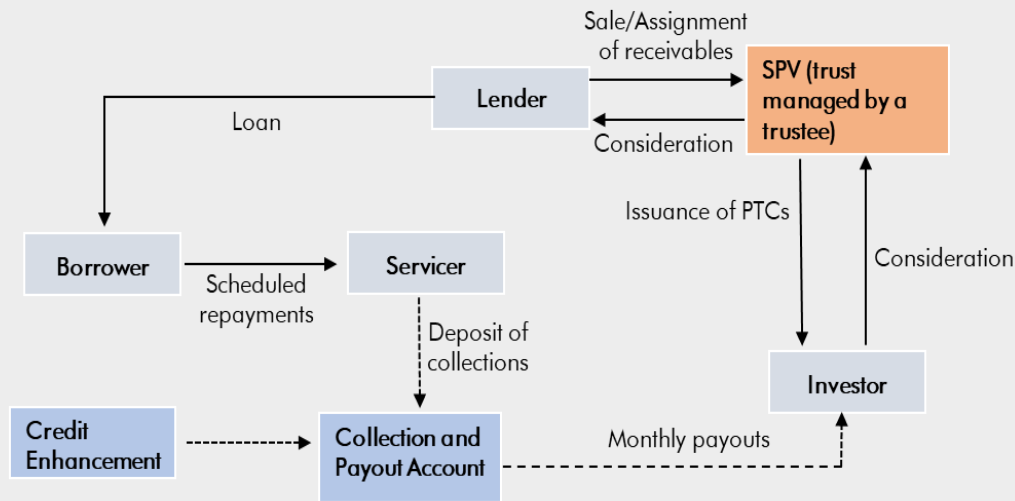
July 11, 2023

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Securitization is the process of pooling and packaging **Financial Assets**, usually relatively **illiquid**, into **liquid marketable securities**. Securitization allows an entity to assign (i.e., sell) its interest in a pool of financial assets (and the underlying security) to other entities



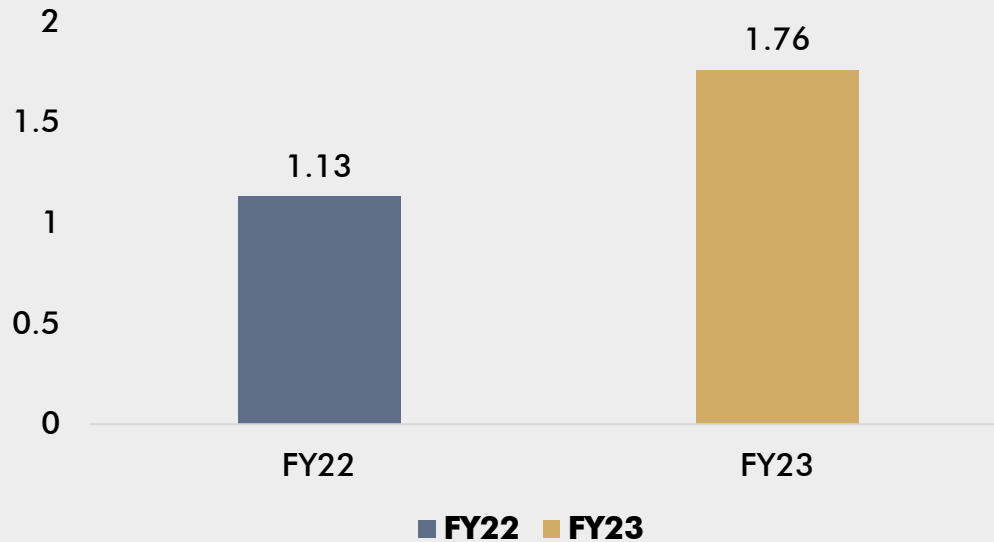
Main Stakeholders in Securitization

- ✓ **Originator** - It Creates pool of Financial Assets can be a **Bank/NBFC/HFC**
- ✓ **SPV** - It holds assets as collateral, issues assets to investors and manages cash flow
- ✓ **Investors** - The purchaser of securities. In India, investors are **typically banks, insurance funds, and mutual funds**
- ✓ **Rating Agencies** - It evaluates Credit risks and informs investors about **creditworthiness** of the securities
- ✓ **Servicer** - The entity collects installments, pays investors, follows up on delinquent borrowers, and provides performance updates to rating agencies

SOURCE : Crisil ratings/Press Release/Securitization

Brief

Market Volume
In Lakhs Crore

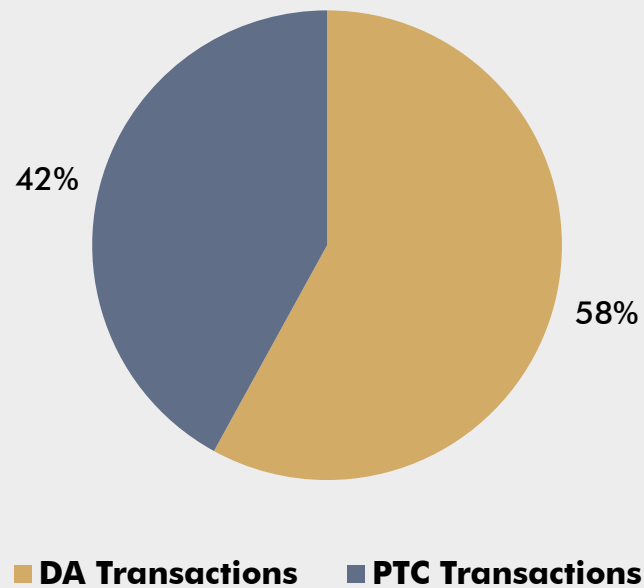


- ✓ The securitization market in India experienced strong growth in **FY23**, breaking a streak of disruptions.
- ✓ According to the CARE Ratings Report, the market volume exceeded **Rs. 1.76 lakh crores in 2023**, a significant increase from **Rs. 1.13 lakh crores in FY22**.
- ✓ The market witnessed a growth of around **30%** in the entry of new originators from various sectors such as **universal banks, small finance banks, NBFCs, and HFCs**. This growth can be attributed to increased demand for retail assets
- ✓ The 2 main drivers of growth for the securitization market continue to be the **Priority Sector Lending requirement** and the **need to expand the retail asset book**
- ✓ The volume data shows that **securitization and direct assignment** have recovered and are near their **Pre COVID-Levels**

SOURCE : Care Edge Ratings/News Files

Brief

Transactions By Percentage



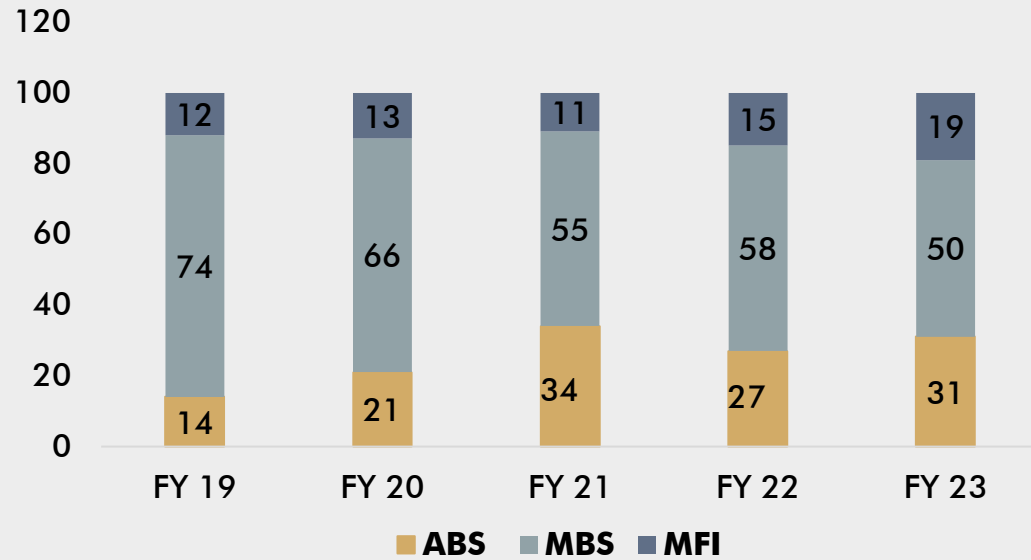
- ✓ DA transactions accounted for **58%** of the Indian Securitization Market, while PTC transactions constituted **42%**. This growth may be attributed to increased demand for retail assets and favorable interest rates.
- ✓ In FY23, several new transaction structures emerged, with turbo-amortization being prominently featured
- ✓ **15% of all PTC transactions** incorporated this feature.
- ✓ With **1,000** transactions executed by **160** originators and **110** investors, a leading **Public Sector Bank (PSB)** also participated in **PTC transactions** as investors. This marked a significant shift as their preferred mode of exposure primarily used to be through the DA route

SOURCE : Care Edge Ratings/News Files

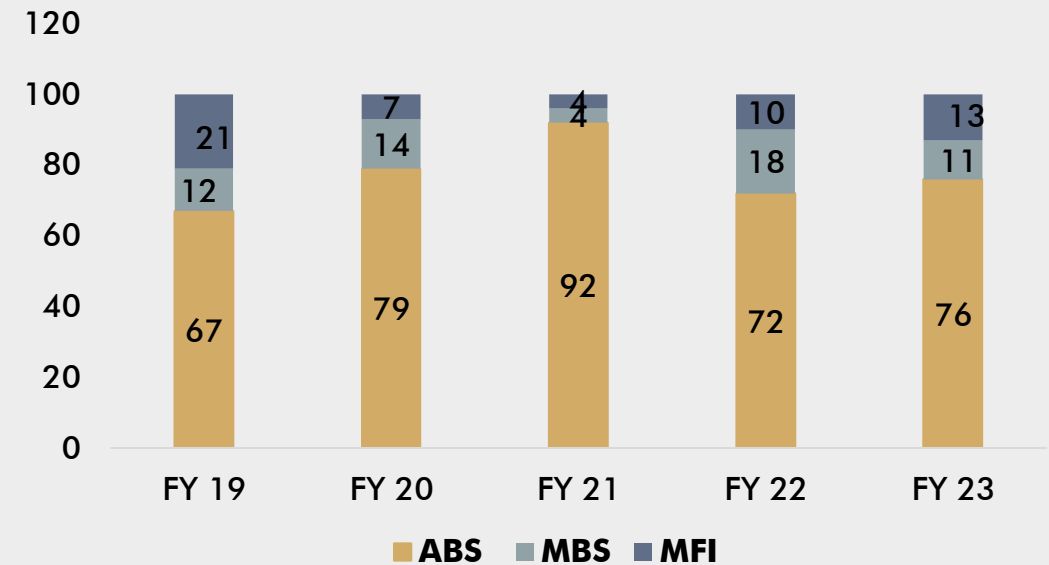
Last 5 years Asset wise breakup of PTC and DA Volume

DA transactions dominated the market volume, with MBS comprising **50%** of DA volumes, followed by ABS and MFI loans at **31% and 19%**, respectively. DA transactions witnessed a growth of around **49% in FY23** as compared to **FY22**. ABS contributed **76% of PTC** issuances, with vehicle loan financing making up **62%** of the total issuance, or around **₹42,500 crore**.

DA Asset Class wise breakup (in %)



PTC Asset Class wise breakup (in %)



SOURCE : Care Edge Ratings/News Files

Global Securitization Volume and Platform

The Global securitization market experienced a decrease in volumes in 2022 as compared to the record issuance volumes witnessed in 2021. The drop was attributed to various factors such as **inflation, unfavorable economic conditions, a lack of business confidence, and disruptions in the supply chain**. Additionally, the market was impacted by uncertainty resulting from the ongoing **conflict between Russia and Ukraine**.

Global Structured finance New Issue Volume					
(Billion \$)	2019	2020	2021	2022	2023F
US	582	452	783	595	507
Canada	19	11	14	17	21
Europe	102	69	114	81	80
China	334	432	485	299	310
Japan	61	60	61	45	45
Australia	31	22	38	32	31
Latin America	13	13	24	22	25
Total	1142	1059	1519	1091	1019

Global Platform for Securitization

- ✓ **Securitize** (<https://securitize.io/>)
Securitize specializes in digital asset securities, allowing investors to invest in security tokens for private market digital assets. They offer fully digital and compliant solutions using **blockchain technology**.
- ✓ **% Percent** (<https://percent.com/>)
Percent.com is an investment platform for alternative investments like **private equity, venture capital, and real estate**. Investors can browse and invest in various funds and deals starting at **\$10,000**.

SOURCE : S&P Global Structured finance 2023 Outlook

Benefits

- ✓ **Enhanced Liquidity** - Securitization unlocks capital and improves liquidity by converting **illiquid assets to marketable securities**, providing alternative funding sources.
- ✓ **Risk Management** - Securitization allows originators to transfer credit risk to investors by diversifying **risk across a pool of assets**. This reduces concentration risk and enhances risk management capabilities.
- ✓ **Lower Funding Costs** - Securitization **lowers funding costs** for originators based on the credit quality and risk profile of underlying assets.
- ✓ **Portfolio Optimization** - Securitization allows originators to transfer **non-strategic assets to investors**, improving their balance sheet.
- ✓ **Investor Opportunities** - Securitized products offer investors access to Diverse range of assets and **potential higher yields**.

Challenges

- ✓ **Credit risk Assessment** - Investors need to carefully assess the **credit Quality and underlying asset performance** before investing in securitized products
- ✓ **Market Transparency** - **Greater transparency, standardization** are needed in securitization. **Improved disclosure, standardized documentation and reliable data** sources can enhance efficiency and investor confidence.
- ✓ **Legal and regulatory Framework** - Regulations for securitization are in place, but **monitoring and adaptation** to market developments are necessary. Consistent regulations maintain the integrity and stability of the market.
- ✓ **Investor Education** - Investors require education and awareness about **securitization products and their associated risks**.

SOURCE : Crisil ratings/Press Release/Securitization

1

The fiscal year **22-23** showed stability compared to previous years as the effects of the pandemic diminished, resulting in a positive economic outlook.

2

During this period, securitization volumes increased as **NBFCs and HFCs** faced a greater need for funding to meet the growing demand for credit. This growth can be attributed to the entry of **new investors** into the market and increase **in the number of originators** participating in securitization.

3

Despite **rising interest rates**, the demand for credit remains strong. The recent decision by the **Monetary Policy Committee** to keep the **repo rate** unchanged is expected to maintain healthy disbursement trends for **NBFCs and HFCs** in the near future, supporting the growth of the securitization market across all asset classes. However, it is crucial to closely monitor macro-economic conditions as global economies may experience high inflationary pressures. This could potentially lead to reduction in securitization volumes in **FY24**