Review of CRISIL-rated securitisation transactions

Executive Summary

CRISIL has analysed the collection performance of 75 asset-backed securities (ABS), 38 mortgage backed securities (MBS) and 2 commercial mortgage backed securities (CMBS), across 24 originators in the securitsation market. The ABS transactions are backed by commercial vehicle loans (CV), car loans, tractor loans, construction equipment (CE) loans, loans extended to small & medium enterprises (SME), two wheeler loans (TW), microfinance (MFI) loans, home loans (HL) and loans against property (LAP). Key observations as after September 2017 payouts are as below:

- **Stable monthly collection ratio of commercial vehicle pools. Recent vintages show better performance**

  Monthly collection ratio (MCR) of CRISIL-rated CV pools remained stable during the quarter ended September 2017 in spite of the rolling out of Goods and Services Tax (GST) early in the quarter. The median collection ratio was in the range of 96-97%. Performance of 2017 vintage pools is superior compared to pools of other vintages. 3 month average collection efficiency posted by 2017 vintage pools is in the range of 95-98% compared to 90-96% and 93-96% for 2015 and 2016 vintage respectively.

- **Collection ratio of microfinance pools stabilizing at a new normal.**

  With the exception of a few originators, collection ratio of CRISIL-rated microfinance pools with limited exposure to vulnerable states of Uttar Pradesh, Maharashtra, Madhya Pradesh and Karnataka is stabilizing in the range of 96% to 98%. Pools originated by certain MFIs continued to be under severe collection stress and subsequently defaulted in meeting investor payouts.

- **Prepayments in mortgage pools on a uptrend following bank base rate reductions**

  With decline in interest rates and growing balance transfers, the prepayments in mortgage pools continued their uptrend. Overall collection performance of mortgage pools remain stable.

- **Other asset-backed pools exhibit stable performance**

  Collections across other pools backed by receivables from asset classes such as SME, cars, CE, two wheelers and tractors remain stable in the range of 97-98%.

- **CMBS transactions continue to enjoy healthy interest coverage ratio**

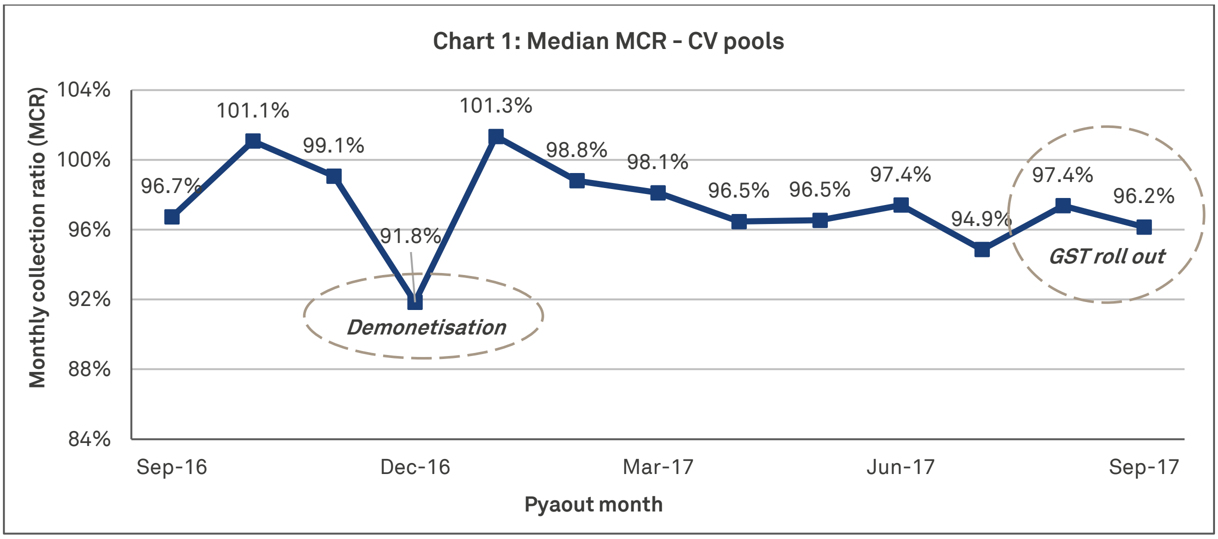
  For the two CMBS pools, DLF Emporio Limited and DLF Promenade Limited, CRISIL has received payout confirmations as of September 2017. The operating earnings before interest, depreciation, tax and amortization for both the transactions provide adequate cover to the rating category.

  So far (till December 31, 2017) in fiscal 2018, CRISIL has upgraded ratings on 32 instruments issued under securitisation transactions due to improving credit collateral cover on account robust collection performance and pool amortization. Ratings on 11 instruments baked by microfinance loan receivables have been either downgraded and/or placed on watch because of weak asset quality. Ratings on 15 instruments under 9 securitisation transactions that were earlier paced on negative watch (in March/June 2017) were removed from the watch due to no further deterioration in their performance and significant amortization resulting in improved cover for future investor payouts. Ratings on 4 instruments backed by microfinance loan receivables were downgraded to CRISIL D (SO) as collection from underlying contracts along with the credit enhancement was insufficient to meet investor payouts on due date.

Commercial Vehicles (CV)

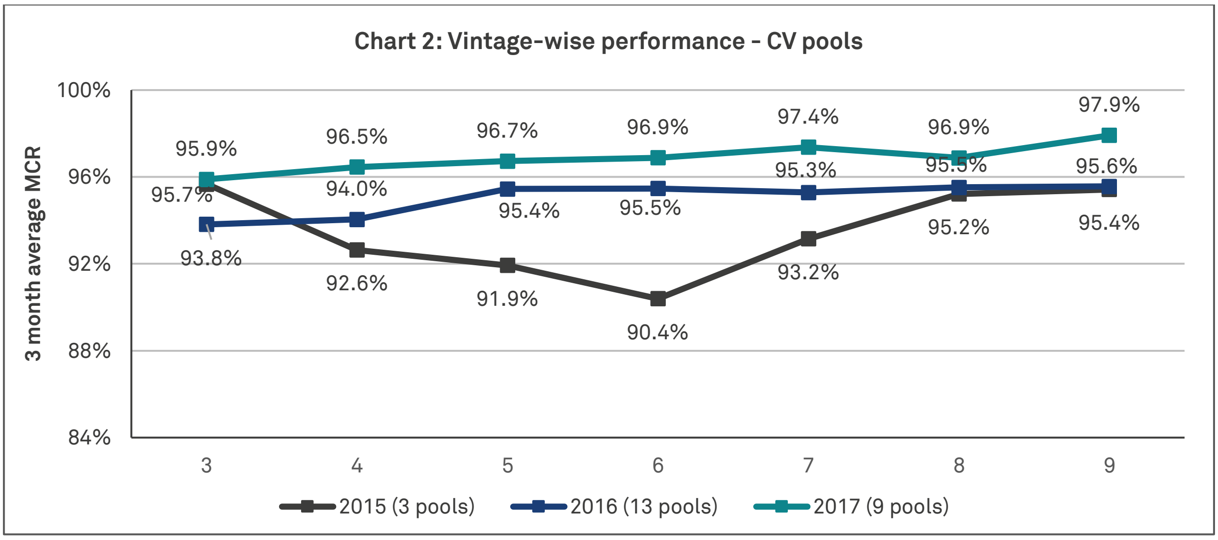
Minimal impact on performance due to GST roll out

Roll out of GST in July 2017 resulted in a transient dip in performance in the month of June (median MCR of 94.9%) that resulted from destocking and disrupted stock movement in anticipation of GST roll out. The collection performance of pools backed by CVs remained largely stable. As the stock movement normalized post-July 2017, the collection ratios rebounded and remained firmly above 96% in the subsequent months



Performance of 2017 vitage pools superior to that of the pools of earlier vintages

Vintage analysis of CRISIL-rated CV pools reveals the consistently better collection performance of pools rated in 2017 compared to pools of earlier vintages. CRISIL-rated securitisation transactions pertaining to 2015 and 2016 vintages were backed by pools with larger proportion of used assets, greater share of overdue contracts at the time of securitisation and non-priority sector loans. Whereas 2017 vintage pools have higher proportion of new assets and lower proportion of overdue contracts at the time of securitisation. These distinct characteristics in 2017 vintage has resulted in the superior performance of the pools.



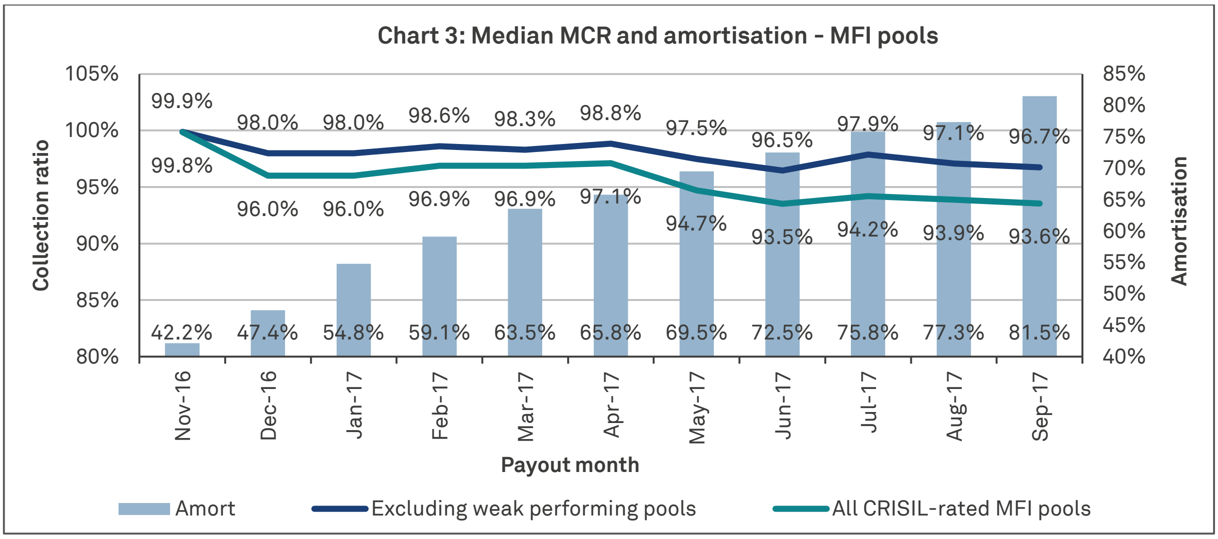
CRISIL has also analysed the overdue pattern for the pools on which rating was withdrawn during the half year ended September 2017. The observed median peak overdues was around 4.5% and final median overdues was around 2.8%, indicating some recovery of overdues from their peak levels by the end of loan tenure. Observed recoveries were in the range of 15% to-60% for the matured pools. Given the low level of ODs by the end of PTC tenure, the available credit enhancement for these pools remained unutilized by the end of their PTC tenure.

Microfinance

Collection ratio at new normal even as performance of certain pools continue to lag

CRISIL-rated microfinance pools (excluding weak performing pools) had a median MCR of 96.7% as of Sept 2017 payouts (Aug 2017 collections). Based on the analysis of CRISIL rated pools, the collection ratio has been in the range of 96% - 98% during May 2017 to September 2017, indicating stabilization in the collection ratio at a new normal compared to collection ratio in the range of 99%-100% in pre-demonetisation years.

The performance of the asset class is not uniform across geographies. States of Bihar, Odisha and the North-Eastern states continue to post collection efficiencies in the range of 94-101%. Collections in states such as Utter Pradesh and Madhya Pradesh, which were severely impacted post-demonetisation with collection efficiency less than 80%, have rebounded sharply posting collection efficiency above 90%. However, parts of Karnataka and the Vidarbha region in Maharashtra remain laggards even ten months post the demonetization announcement, collection efficiency in these regions has been still below 80%.



CRISIL-rated microfinance pools on which rating was withdrawn during the half year ended September 2017, showed final median overdues of around 1.2%.

CRISIL-rated pools are under continuous surveillance. Four CRISIL-rated instruments backed by microfinance pools were downgraded to CRISIL D (SO) in the recent months as collection from underlying assets and available credit enhancement was insufficient to cover future investor payouts.

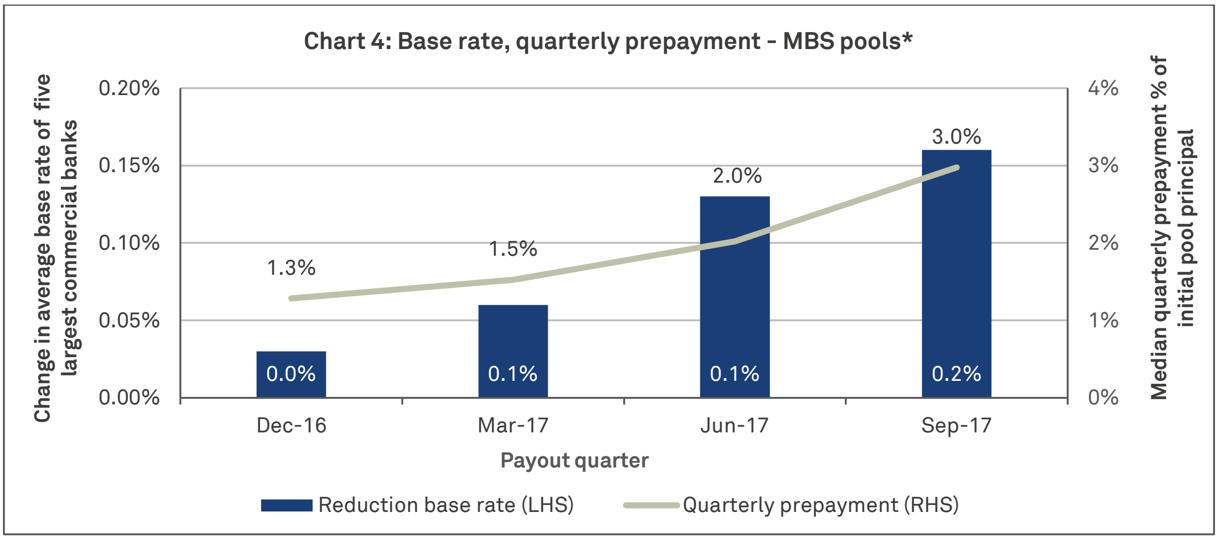
CRISIL
An S&P Global Company

Mortgages

Negligible overdues; prepayments on an uptrend

Performance of mortgage backed securities remained stable during the quarter-ended September 2017 with median 3 month average MCR at 98.8%. The overdue remain negligible.

With the fall in the bank base rate, prepayments have been on an uptrend over the last one year. As the average base rate of the five large commercial banks fell by 29 bps between April and September, the quarterly prepayments in CRISIL rated MBS pools (with amortization less than 80%, excluding pools with very high levels of amortization) further accelerated. In the falling interest rate scenario, balance transfer is one of the key reasons for prepayment.



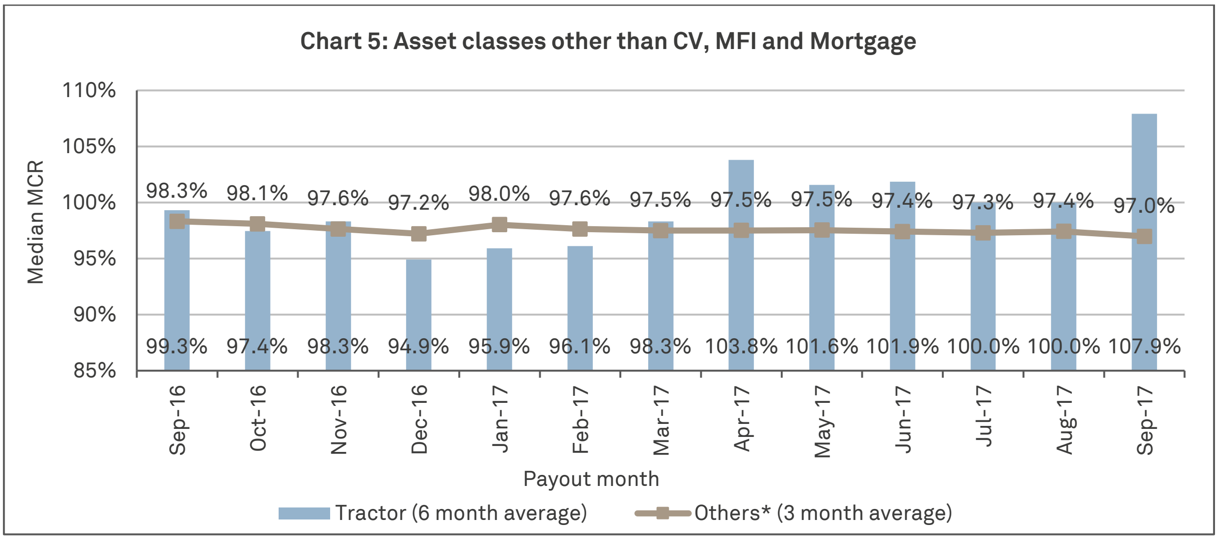
** Excludes pools with very high amortisation (>80% as of Sep-2016 payouts)*

Source: RBI database and CRISIL Ratings

Other asset class

Performance of other asset classes in line with expectations

CRISIL-rated PTCs backed by car, two wheeler, construction equipment and small business loan pools are performing in line with expectations with collection ratio above 95%. Supported by near-normal monsoons, performance of CRISIL-rated tractor pools has been robust with 6 month average collection performance steadily at or about 100% over the last six months. Analysis of tractor pools, on which rating was withdrawn during the half year ended September 2017, shows overdue recovery in the range of 30-60% by the end of PTC tenure from their median peak overdues of 3.4%. The recovery is in line with the expectations and as per cyclical nature of the industry.



Conclusion

CRISIL-rated CV pools are expected to continue the stable performance in medium term given the government's sharp focus on investment-led growth and operational ease post GST. Fuel prices and demand for freight services will be key monitorable in near term.

Performance of microfinance pools will be determined by twin factors – (i) the strength of policies and processes of originators including the extent/frequency of their connect with borrowers/employees and (ii) the regional socio-political environment in districts/geographies the pools are exposed to. CRISIL will be closely monitoring the political noise in states where assembly elections are slated to happen in the coming months.

CRISIL expects the performance of the pools backed by home loan receivables to be stable and prepayments to remain elevated. CRISIL believes the credit cover available in the outstanding mortgage pools is sufficient to withstand any emerging industry-wide stress in LAP asset class.

All rated pools are kept under surveillance by CRISIL until investor payouts are made in full. CRISIL disseminates the ratings/credit opinions through its quarterly publications and press releases in a timely manner. The ratings/credit opinions represent CRISIL's view on the transactions as on December 31, 2017.

NOTES

Structured Finance Ratings

Krishnan Sitaraman
Senior Director
Tel: +91 22 3342 8070
Email: krishnan.sitaraman@crisil.com

Rohit Inamdar
Senior Director
Tel: +91 124 672 2200
Email: rohit.inamdar@crisil.com

Divya Chandran K
Associate Director
Tel: +91 22 3342 3135
Email: divya.chandran@crisil.com

Shruti Bodhankar
Manager
Email: shruti.bodhankar@crisil.com

Apurva Sharma
Senior Rating Analyst
Email: apurva.sharma@crisil.com

Deepanshu Singla
Rating Analyst
Email: deepanshu.singla@crisil.com

Shanu Kumar
Rating Analyst
Email: shanu.kumar@crisil.com

Thara Varghese
Rating Analyst
Email: thara.varghese@crisil.com

Hitesh Lingwal
CCAP Associate
Email: hitesh.lingwal@crisil.com

Vikram Raj Iyer
CCAP Associate
Email: vikram.iyer@crisil.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is 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.

About CRISIL Ratings

CRISIL Ratings is India's leading rating agency. We pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we have a leadership position. We have rated/assessed over 100,000 entities, by far the largest number in India. We are a full-service rating agency. We rate the entire range of debt instruments: bank loans, certificates of deposit, commercial paper, non-convertible debentures, bank hybrid capital instruments, asset-backed securities, mortgage-backed securities, perpetual bonds, and partial guarantees. CRISIL sets the standards in every aspect of the credit rating business. We have instituted several innovations in India including rating municipal bonds, partially guaranteed instruments, microfinance institutions and voluntary organizations. We pioneered a globally unique and affordable rating service for Small and Medium Enterprises (SMEs).This has significantly expanded the market for ratings and is improving SMEs' access to affordable finance. We have an active outreach programme with issuers, investors and regulators to maintain a high level of transparency regarding our rating criteria and to disseminate our analytical insights and knowledge.

CRISIL Privacy Notice