Press Release

September 07, 2020 | Mumbai

Securitised pool collections rebound from lows of April

However, continue to be well below business-as-usual levels

The collection performance of securitised pools of retail-loan receivables has been improving over the past three months from the lows of April, when India saw the world's strictest lockdown.

The median monthly collection ratio (collections excluding prepayments as a percentage of estimated pre-moratorium billing for the month) has risen to above 50% across major asset classes *(see annexure)*, after falling to near-zero in many pools in April.

Collections for pools of microfinance and commercial vehicle loan receivables, which had seen the sharpest drop after the lockdown, clawed back above 50% in June, and reached ~65% and ~55% in July, respectively. In line with expectations, mortgage receivables, with property as collateral, were the most resilient with median collection ratio over 70% – despite a dip in July.

Says Krishnan Sitaraman, Senior Director, CRISIL Ratings, "With the gradual restart of economic activity from June, cash flows of borrowers have been improving, enabling more of them to move out of the moratorium. The uptick in collections has also been supported by the relative buoyancy of the rural economy. Further, proactive steps by many originators through leveraging of newer technological platforms aided overall collections."

Non-banking financial companies (NBFCs[1]), many of which were dependent on cash collected by field staff, sharpened focus on digital modes of collections. Additionally, many NBFCs are now offering a wider array of payment channels to ensure that physical distances do not materially impede collection activities. Physical collections, wherever permissible within the restrictions, continue as a channel, albeit with reduced frequency and length of meetings and added social distancing norms.

NBFCs have also been educating borrowers on the hidden costs of moratorium – the additional interest cost incurred over the loan tenure. Many borrowers who had opted for moratorium purely to conserve liquidity, resumed repayments post this intervention.

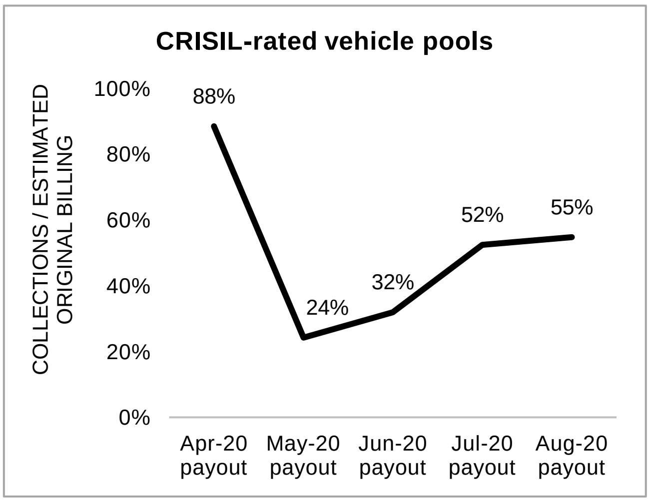
Says Rohit Inamdar, Senior Director, CRISIL Ratings, "While there is a clear improvement in collection ratios, they still remain way off pre-Covid-19 levels of over 95%. In the near term, nascent recovery could come under threat because of the flood situation in parts of the country and imposition of localised lockdowns to contain the infection rate. Over the medium term, economic activity has to return to normal for collections to return to business-as-usual levels."

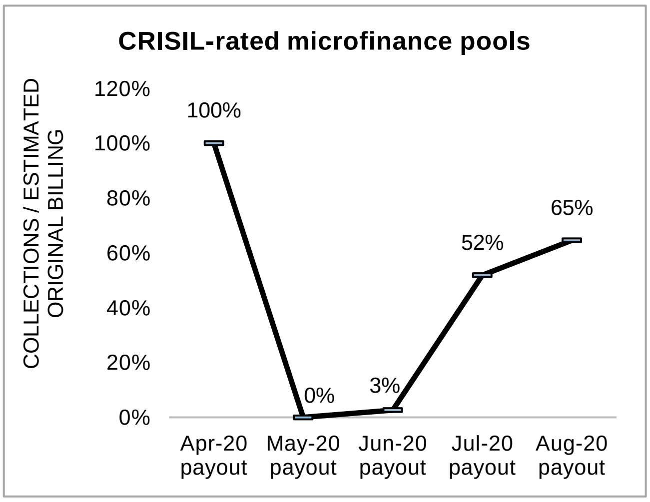
Despite collections from securitised pools being lower than in the past, ratings on pass-through certificates (PTCs) have been resilient till now because of sizeable credit enhancements in the structures and the redrawing of PTC payout schedules in most cases in line with moratorium granted to the underlying borrowers and with investor consent,.

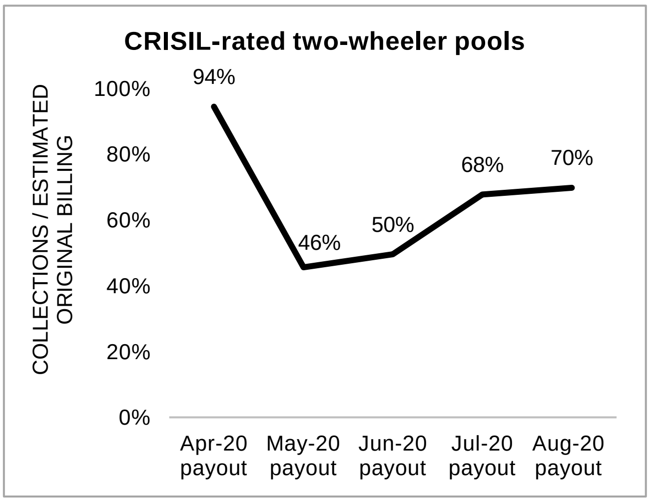
CRISIL will continue to closely monitor the collection performance of all securitised pools under its surveillance, the pace of recovery and the implications of one-time restructuring for the contracts underlying securitised pools, and take appropriate rating actions, in the event of recovery in collections over the next few months being lower than the currently anticipated levels.

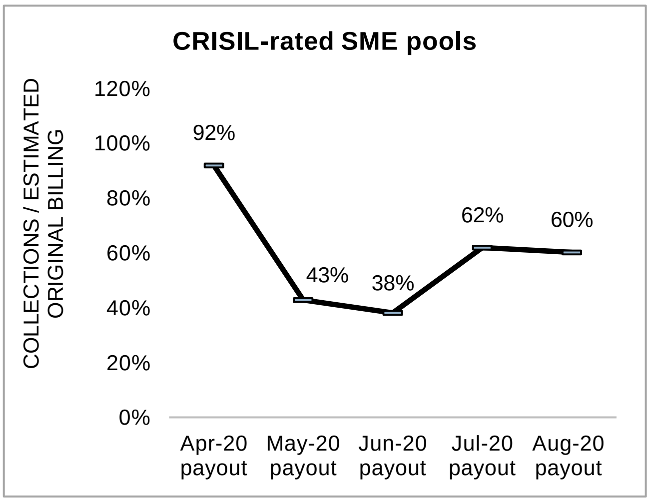
[1] *NBFCs includes housing finance companies (HFCs) and micro-finance institutions (MFIs)*

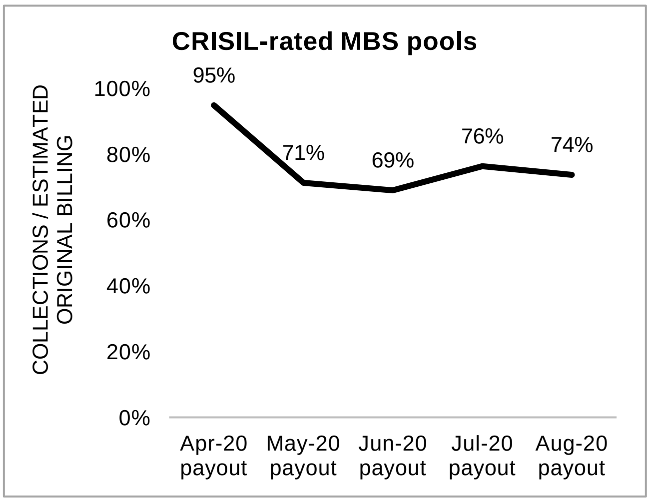
Annexure - Collection efficiency trends in CRISIL rated securitisation transactions











Note: Payout months are typically at a lag of 1 month to the collections month. Consequently, payouts in Aug-20 pertain to collections in Jul-20.

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