Press Release

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Securitisation market gets a leg-up from GST clarity, demand for non-priority sector loan receivables

The GST Council's clarification that securitised assets are not liable to Goods and Services Tax (GST), and robust demand for non-priority sector lending (PSL) securitisation should bring back participants and support transaction volume after the deceleration seen last fiscal.

Some frequent issuers have been staying away from the market because of ambiguity on GST applicability.

While most originators continued to transact, relying on opinion from independent market participants, a few large ones, which had accounted for a fifth of retail securitisation transactions in fiscal 2017, shied off in the second half awaiting clarity.

"After growing at a breakneck pace between fiscals 2015 and 2017, the volume of retail assets securitisation shrunk last fiscal primarily because of the ambiguity on GST applicability," said Krishnan Sitaraman, Senior Director, CRISIL Ratings. "A host of other headwinds also coalesced, such as widespread adoption of priority sector lending certificates (PSLCs) and hardening of interest rates towards the fiscal end."

Despite this, overall volume had dropped only 6% last fiscal as strong demand for non-PSL assets helped *(refer to charts 1 & 2 in annexure)*.

Both, public sector banks and the newer non-bank investors (mutual funds, non-bank treasuries, foreign portfolio investors, and insurers), with differing risk appetites and returns aspirations, chased non-PSL-compliant asset classes.

Demand for non-PSL mortgage receivables was primarily from public sector banks, whereas demand for non-PSL vehicle loan securitisation originated from mutual funds and insurers *(refer to chart 3 in annexure)*.

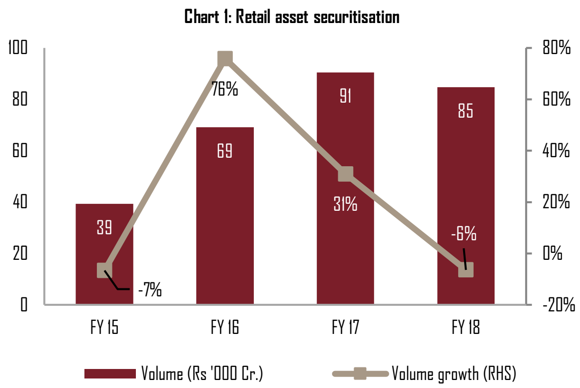
Transactions backed by education loan receivables and consumer durables loan receivables debuted during the year, and transactions backed by personal loan receivables returned after several years.

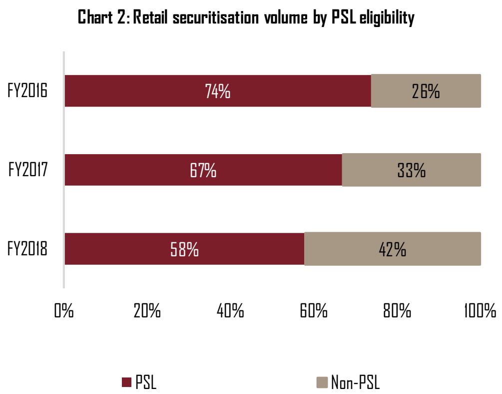
Although these account for a small volume, demonstrated investor interest in them improves the long-term prospects of the securitisation market.

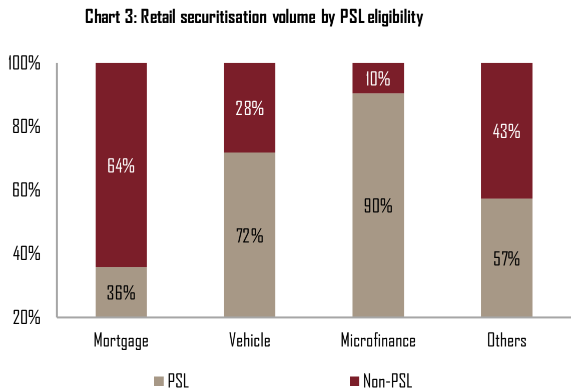
"Going forward, we expect non-PSL assets to steer the growth in securitisation," said Rohit Inamdar, Senior Director, CRISIL Ratings. "This will be driven by an enlarging investor base that's keen to tap the pass-through certificates market because of the premium it offers over comparable vanilla instruments."

But PSL assets securitisation will continue to be the chunk of transactions given the demand from banks, which are averse to depending exclusively on PSLCs (because of the 'expense' nature of these papers and pricing volatility) to meet their mandated lending goals.

Annexure







For further information contact:

Media relations	**Analytical contacts**	**Customer service helpdesk**
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 M: +91 95 940 60612 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 M: +91 90 040 84769 B: +91 22 3342 3000 naireen.ahmed@crisil.com **Jyoti Parmar** Media Relations **CRISIL Limited** D: +91 22 3342 1835 M: +91 97 690 06711 B: +91 22 3342 3000 jyoti.parmar@crisil.com	**Krishnan Sitaraman** Senior Director - CRISIL Ratings **CRISIL Limited** D: +91 22 3342 8070 krishnan.sitaraman@crisil.com **Rohit Inamdar** Senior Director - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 2985 rohit.inamdar@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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