PRESS RELEASE

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Decline in collection efficiency for unsecured asset classes visible in ICRA-rated securitised pools: ICRA

- ***Collections of microfinance pools dropped to ~90% in Q3 FY2025 from previous highs of ~97% at the beginning of the fiscal***
- ***Collection efficiency in unsecured SME and personal loan segment also moderates in current fiscal***

ICRA-rated securitised pools for secured asset classes have shown healthy performance, with collection efficiencies ranging from 91% to 104% in 9M FY2025, aided by rigorous efforts, and adoption of digitised processes. However, the collection efficiency trend for unsecured asset classes, such as microfinance loans, personal loans and unsecured SME loans has seen weakening performance in the last few months as slowdown in economic activities, coupled with overleveraging of borrowers, has been a cause for concern.

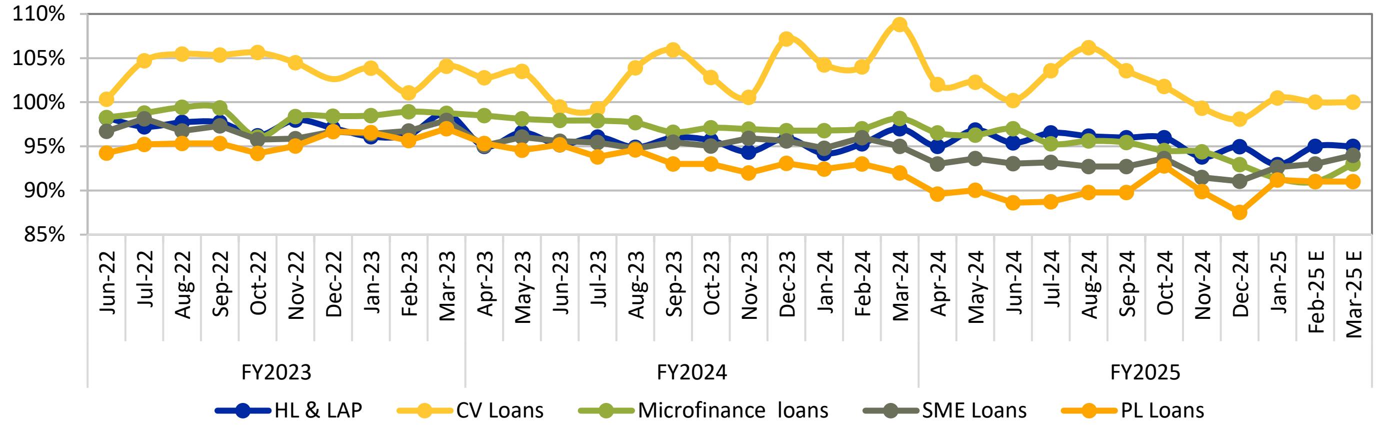
The collections of the microfinance pools dropped to ~90% in Q3 FY2025 from previous highs of ~97% at the beginning of the fiscal. The collections in the SME segment also weakened in FY2025, especially in the unsecured asset class where the efficiency ranged between 85-92% for 9M FY2025. The secured SME pools, however, continue to report robust asset quality with collection efficiency above 95%. For personal loans, the collections have seen a slight downward trend in the past two quarters due to higher festive season spending by the customers and the relatively low priority of personal loans repayment, being unsecured in nature. The collection efficiency reduced to 88% in December 2024 from 92% seen in March 2024 in ICRA-rated pools.

Abhishek Dafria, Senior Vice President and Group Head - Structured Finance Ratings at ICRA said: *"Post the Covid-19 pandemic, the country witnessed a period of high economic growth and healthy performance in lenders' loan books. This led to securitised pools also showing increased collections and low delinquencies. However, the current fiscal has seen headwinds across all asset classes, but primarily in the unsecured asset classes, which are facing more pressure in terms of asset quality. Collection efficiency of pools backed by microfinance, unsecured SME and personal loans has seen a decline, although the impact is lower than that seen in the overall portfolios of such originators. This once again highlights the safety of securitised pools as they consist of cherry-picked borrowers with better repayment track records and lower propensity to default. Further, the credit enhancements in the transactions should be enough to meet the investor pay-outs and absorb unexpected shocks of lower collections, barring any drastic unforeseen events."*

Housing Loans (HL) and Loans Against Property (LAP) pools have showcased steady collections in FY2025. This can be attributed to the critical nature of the underlying collateral for the borrowers and advances in online collection methods. The recent reduction in the RBI policy repo rate by 25 basis points in February 2025 will also ease the cash flow burden for borrowers and support healthy collection efficiencies. For vehicle loan pools, there has been a marginal decrease in the collection efficiency in Q3 FY2025, a trend usually seen every year as lenders typically increase collection efforts in the last quarter of the financial year.

The collections of the **microfinance pools** have remained under pressure, though green shoots are visible as microfinance lenders have reported better collections, especially from the non-delinquent contracts, from December 2024 onwards. The industry may again witness a period of stress in Q1 FY2026 as more stringent guardrails are proposed from April 2025, which will lead to entities cutting down on disbursements, thereby elevating the risk of non-payment by highly leveraged borrowers. Meanwhile, ICRA-rated pass-through certificates (PTCs) continue to have adequate credit enhancement to protect against the drop in collection efficiency.

EXHIBIT 1: Monthly collection efficiency of ICRA-rated securitised pools



Source: ICRA Research; Monthly collection efficiency = (current collections + overdue collections)/current billing

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