

STRUCTURED FINANCE

Small finance banks tap the securitisation route; volumes to cross Rs. 10,000 crore in FY2024

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Small finance banks (SFB) have been tapping the securitisation market in recent times as a source of funding.

ICRA expects the amount of funds raised through securitisation by SFBs to exceed Rs 10,000 crore in FY2024, as against Rs. 6,400 crore in FY2023, including both pass-through certificate (PTC) issuances as well as direct assignments (DA).



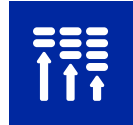
The small finance banks (SFBs) have witnessed healthy growth in their advances over the last 3-4 years. While deposits have been their largest source of funds, the increased competition for deposit mobilisation is likely to drive the SFBs towards funding sources like securitisation.



There has been a sharp growth in the SFBs looking at the securitisation route in FY2023 and 9M FY2024 on the back of high assets under management (AUM) growth. The share of SFB-originated loans crossed 10% of the overall market volumes for the first time in Q3 FY2024.



ICRA expects that given the high credit growth and comparatively higher cost of deposits for the SFBs (vis-à-vis banks), they will continue to rely on securitisation as a source of fund-raising.



While the number of SFBs tapping securitisation as a funding route has increased in the last few quarters, one large originator continues to drive the market volumes.



Vehicles continue to be the predominant asset class being securitised due to high share of one SFB, which securitises vehicle loans. However, other asset classes like mortgage loans and the MSME loans have seen traction, which bodes well for the overall market.



In line with macro-economic conditions, the yield for PTCs has increased over the last few quarters.



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