

MICROFINANCE LOAN SECURITISATION MARKET

Microfinance loan securitisation dips in Q1 FY2025 after record volumes in FY2024; shift under way to innovative structures and higher-rated PTCs

AUGUST 2024



MICROFINANCE

The image shows a close-up of a document titled 'MICROFINANCE' written in large, bold, black letters on a grid-lined paper. The word is underlined with a thick blue line. Below the title, there is a hand-drawn illustration of a stack of yellow coins with a green plant sprout growing from the top. The background of the document is a grid pattern. The document is placed on a surface with scattered US dollar bills and a pair of glasses.



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Microfinance loan securitisation volumes reached an all-time high in FY2024 (~Rs. 36,000 crore) with share of the asset class also increasing to ~19% of overall volumes.

While the market continues to be dominated by direct assignment (DA), share of pass-through certificates (PTC) has been increasing, touching ~33% in FY2024. There has been a preference for higher-rated PTCs (AA-category) while divergence between higher-rated and lower-rated PTCs and originators has been increasing.



The share of microfinance loans bounced back sharply post the pandemic, touching an all-time high both in terms of volumes as well as share in the overall securitisation volumes in FY2024. While there has been some moderation in Q1 FY2025 volumes on a YoY basis, ICRA expects microfinance loan securitisation volumes to remain healthy in FY2025 at ~Rs. 40,000 crore.



An increasing number of entities have been tapping the market, including small finance banks (SFBs) in FY2024 and securitisation continues to be a key funding tool for entities contributing ~26% to disbursements for NBFC-MFIs¹ in FY2024 vis-à-vis ~24% in FY2023.



There has been a shift towards higher-rated PTC transactions (AA-category) with better rated originators (A-category and above) increasingly tapping the PTC route. While banks still dominate the investor side, there has been a rising share of NBFCs and even AIFs² investing in PTC transactions.



Along with broadening of originator and investor bases, there has been a shift towards newer structural features in PTC transactions like time-tranching and conditional triggers leading to turbo amortisation.



Higher-rated pools of better rated originators have seen improvement in yields and the divergence in yields between lower and higher-rated PTCs and originators increased in FY2024 as investors continue to differentiate between quality of originators.



The increase in lending rates and ticket sizes seen in the industry has also translated to the pools. While delinquencies in rated pools continues to be low as investors have maintained a better filtering criteria, concerns of overleveraging in certain pockets of the country could lead to further tightening of selection filters for pools.

¹ Non-banking financial company – micro finance institution

² Alternative investment funds



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