

STRUCTURED FINANCE

Rating transition study for the period FY2015-FY2024: Minimal defaults seen in ICRA-rated PTCs

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During FY2015-FY2024, ICRA-rated securitised pools witnessed a far higher propensity of upgrades and reaffirmations than downgrades, due to cherry-picked underlying borrowers and availability of support in the form of credit enhancements.



The minimal downward rating transitions for ICRA-rated pass-through certificates (PTCs), especially in the investment grade categories, signify the credit stability of securitised transactions due to cherry-picked pools and availability of adequate credit enhancements.



The defaults in ICRA-rated PTCs have been limited to transactions of five different originators in the last 10-year period (FY2015-FY2024).



In the ICRA-rated portfolio, only 12 senior tranches have seen any default on the PTC payouts in the past 10-year period. Of the same, only nine senior tranches witnessed losses as the default on the other three tranches was due to operational reasons, which were subsequently corrected.



ICRA's cumulative default rates for PTCs over 10-year period indicate that the defaults across all investment grade rating categories have been on the lower side.



The defaults in PTCs have largely been due to macro events such as demonetisation, which affected microfinance pools. Few other defaults have been due to weakening in credit quality of the servicer.



After the default, some transactions witnessed payout to the investors due to continued collections from the underlying borrowers. Hence, the crystallised losses to the investors have been lower than the outstanding payout at the time of default.



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