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December 31, 2008

Mr. T.T.Srinivasaraghavan
Chairman
Finance Industry Development Council
222, Ashoka Shopping Centre, 2nd floor,
L.T. Road, Near G.T. Hospital,
Mumbai – 400 001.

Dear Sir,

Re : Asset class-wise performance of various retail loan portfolios

Please refer your letter dated December 17, 2008, on the aforementioned subject. We do find that within retail finance, the credit quality varies, and often varies widely, across different asset classes. This is also borne out to a large extent in the securitised loan pools of various banks and NBFCs, rated by ICRA. ICRA regularly monitors the performance of each pool, wherein the key parameters of pool performance include collection efficiency, losses booked and delinquency profile.

In response to your query, we share below a summary of the performance of many of these pools. In table 1 below, we have summarised the key performance indicators for most asset classes rated by ICRA across various originators. The analysis is organised based on the year of pool securitisation as we find some trend in performance across the years.

Table 1: Performance across asset classes for ICRA rated pools

Year of securitisation	**Loss cum 90+dpd[1]**				**Cumulative Collection Efficiency[2]**			
	Months post securitisation				Months post securitisation			
2005	***3***	***6***	***12***	***18***	***3***	***6***	***12***	***18***
Mortgages	0.11%	0.38%	0.83%	1.01%	98.5%	99.1%	99.0%	98.9%
New Cars	0.59%	0.73%	1.06%	1.12%	95.8%	97.3%	98.3%	98.6%
Comm Vehicles	3.07%	3.65%	4.44%	4.83%	81.7%	89.7%	93.2%	93.8%
Used Cars	1.60%	2.39%	3.49%	3.74%	93.2%	94.6%	95.0%	95.0%
Two Wheelers	1.65%	2.68%	3.81%	4.07%	93.1%	94.6%	94.9%	94.7%
2006	***3***	***6***	***12***	***18***	***3***	***6***	***12***	***18***
Mortgages	0.24%	0.37%	0.47%	0.77%	98.7%	99.2%	98.8%	98.5%
New Cars	0.46%	1.10%	1.75%	3.26%	96.3%	97.0%	97.2%	96.8%
Comm Vehicles	3.92%	7.09%	8.90%	7.98%	83.8%	87.7%	90.1%	91.8%
Used Cars	2.11%	2.95%	3.31%	3.97%	92.3%	95.3%	94.7%	94.0%
Two Wheelers	2.90%	3.93%	5.21%	5.90%	89.8%	94.1%	93.8%	93.1%
Personal Loans	0.70%	1.80%	3.78%	5.15%	95.9%	96.2%	96.0%	95.3%
2007	***3***	***6***	***12***	***18***	***3***	***6***	***12***	***18***
Mortgages	0.08%	0.27%	0.63%		98.4%	99.4%	99.6%	
New Cars	0.60%	1.19%	2.73%	2.63%	96.4%	97.0%	97.0%	97.2%
Comm Vehicles	1.10%	1.72%	2.10%	4.41%	94.4%	95.3%	94.1%	92.5%
Used Car	4.55%	6.99%	8.93%	10.71%	84.5%	87.4%	87.9%	85.1%
Personal Loans	1.22%	3.26%	9.80%		94.8%	94.7%	91.0%	
Constn Equipt	0.06%	0.14%	0.41%		98.8%	98.9%	99.0%	

[1] (Cumulative loss booked till date post repossession and sale on pre-terminated contracts + amount outstanding on contracts overdue for over 90 days) / initial pool size
[2] cumulative collections till date / (cumulative billings till date + opening overdues)

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In the above data, a key point to be noted is that the Originator mix is varied across the asset classes as well as across the years for the same asset class. Table 2 gives the year on year originator wise break up for all asset classes considered in Table 1.

Table 2: Break up of originators considered for performance analysis ^

	2005	2006	2007
MBS	1 IB+ 1 BH	1 BH+ 1 IB+ 2 SC	2 SC
Car	4 IB	4 IB + 1 HB	10 IB
CV	2 CF+ 1 GE + 3 IB+ 2 TM	2 GE+ 3 IB+ 4 SF+ 8 TM	4 Ch+7GE+ 7 SF+10 TM
Used Car	2 IB	6 IB	4IB
TWL	2 IB	7 IB+ 1 HB	
PL		3 IB	4 IB+ 3 Ch
CE			5SR

^*Abbreviations used:* IB- ICICI Bank; BH- BHW Home Finance; SC- Standard Chartered Bank; HB- HDFC Bank; CF- Citicorp Finance; GE- GE Capital Transportation Financial Services; TM- Tata Motors; SF- Sundaram Finance; Ch- Cholamandalam DBS Finance; SR- SREI Infrastructure Finance

As can be seen from Table 1, the performance of mortgage loan-backed pools is the strongest followed by that of New Car pools and it remains so across years. However, there is a substantial difference between the performance of other asset classes across the years. One factor influencing this variation is the different originator mix as illustrated in Table 2 above.

In the case of CV pools, we have observed a significant difference between pools securitised by different originators. This is on account of varied lending policies, target borrower segment, collection mechanisms in place as well as the vehicle model financed. We have done some detailed analysis for various securitised CV models and have observed the delinquency level for Heavy Commercial Vehicles (HCV) to be lower than that for Light Commercial Vehicles (LCV) for most originators, with the level for HCVs being anywhere between 20-70% lower than that for LCVs.

CE, Cars, PL, TWL and Used Cars pools are represented by very few originators, so the analysis presented above for them is originator biased. In the case of CE, data from some originators has not been included above because they form a very small part of a pool, which is majorly formed by some other asset class. However, a detailed analysis done by us has shown that CE as an asset class is stronger performing than New Cars though slightly weaker than mortgage loans.

In the case of PL, there is a sub category of Small Ticket Personal Loans (STPL) which is comparatively much weaker than PL. Amongst the asset classes rated by ICRA, STPL appears the weakest. We have observed 3 times higher delinquencies in STPL as compared to PL. STPL pools have not been included in the summary in Table 1, since ICRA has rated very few pools with these loans.

We would like to highlight that the performance of securitised pools is often different (usually better) than the overall portfolio performance given that the pools are subject to various selection filters. However, the asset class-wise difference in credit risk is unlikely to be altered significantly across securitised pools. ICRA also rates various NBFCs, HFCs and banks for their on-balance sheet debt. In that regard, our observation is that, overall, the analysis presented above—though actually a reflection of ICRA rated pools—is fairly representative of the overall retail loan portfolios of originators as well, in terms of relative credit quality across asset classes.

It may also be noted that ICRA has not rated any pools of loans against shares or IPO Financing exposures. ICRA has indeed rated 'immediate term debt' of certain NBFCs, in the past, wherein the end-use was IPO financing by those NBFCs. The credit quality in this line of business has been observed to be good, although it must be noted that this was the case when the capital market conditions were much more favourable.

In case you need any further clarification/ information, please feel free to get in touch with us.

With kind regards,
For ***ICRA Limited***

Kalpesh Gada
Head- Structured Finance Products