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## Exploring the Structure, Process and Market of Securitization in India

Dr. Samrat Jadhav

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### Introduction

Securitization is a process of pooling and repackaging of homogenous illiquid financial assets into marketable securities that can be sold to investors. The transaction of securitization has three important drivers viz. the Originator, the Special Purpose Vehicle (SPV) and the Investor. There are three distinctive steps in a securitization transaction. The first step is to create a SPV to hold the financial assets underlying the securities. The second step is to sale the financial assets to the SPV which will hold the assets and realize the same. The last step is to issue the security to investors. In case of banks, financial institutions and Non-Banking Financial Corporations assets which may be securitized are housing loan, vehicle loans, export credit loan, term loans, bill receivables, etc.

### Historical Background

Securitization in India is in nascent stage though it has been in existence for over two decades from early 1990. The first securitization deal took place in India between Citibank as originator and GIC Mutual Fund as Special Purpose Vehicle (SPV) in the year 1991 for Rs.160 mn. by securing few auto loans.

The process on 'securitization' in India is governed by Securitization and Asset Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 and RBI Guidelines. The objective behind enactment of laws, amendments and guidelines was the sale

or securitization of Non-Performing Loans (NPL) by banks and financial institutions in favour of Assets Reconstruction Companies (ARCs) registered with RBI under SARFAESI.

### Objectives of the Study

This study is intended to explore the volume of Indian securitization market, securitization structure prevalent in India, process of securitization and the retail asset securitization volume by Priority Sector Lending (PSL) and Non Priority Sector Lending (NPSL) eligibility.

### Discussion: Data Analysis and Interpretations Securitization structure prevalent in India

In India, there are two structures of securitization transactions. First, is bilateral Sales or Direct Assignments and the second, is Special Purpose Vehicle (SPV) structure. In India, 80% of securitization is in form of bilateral sales or direct assignment. It is between Banks and Financial Institutions (FIs). So, direct assignments have dominated Indian securitization market. SPV is a trust or a company created for the purpose of securitization. It buys assets from originators (Banks) and packages them into security for further sale to investors. The financial structure of securitized product is a function of the type of the instrument to be issued i.e. Pass through Certificate (PTC)

### Process of securitization

The process of securitization is based on the motives of improvement in Capital adequacy, reduction in Non-Performing Loans (NPL or NPA) and generating liquidity. There are three parties which provide fuel to complete the process of securitization in three stages. Firstly, the Originators (i.e. Banks, NBFCs and Mutual Funds) having pool of such assets sells or assign them to SPV against cash. Secondly, SPV has to do the credit rating for the securitized. Thirdly, the SPV converts these assets into divisible securities to enable it to sell them to investors through private placement or stock market in return for cash.