

Indicative Illustration to calculate the valuation floors for Securitisation Notes

Notes Outstanding	End of Year 1 (20%)					End of Year 2 (40%)					
	RW	Unamortised notes amount	Total Provisioning	Exposure Weighted RW	Provisioning Amount (distributed on the basis of Exposure Weighted RW) (A)	RW	Unamortised notes amount (B)	Unprovided Unamortised Notes (B-A)	Total Provisioning	Exposure Weighted RW	Incremental Provisioning to be made at end of year 2 (C)
Senior	100%	50	80	5000%	1.58	100%	30	28.42	72.00	2842%	1.14
Class A	300%	200		60000%	19.01	350%	200	180.99		63347%	25.42
Equity Tranche	1250%	150		187500%	59.41	1250%	150	90.59		113243%	45.44
Total		400		252500%	80.00		380	300			72

Year-1:

- Issued Securitisation Notes: ₹ 400 crores in three tranches viz. Senior Tranche (₹50 crores), Class A-Mezzanine Tranche (₹200 crores) and Equity Tranche (₹150 crores)
- Year-1 write down, which will need to be provided for: 20% of INR 400 crores = INR 80 crores
- Exposure Weighted RW for each tranche: RW of Tranche * Unamortised value of Tranche at end of year
Example: For senior tranche, this number would be = 100% (RW) * 50 (Unamortised notes amount) = 5000%
- Provisioning for each tranche: Total Provisioning * (Exposure Weighted RW for each tranche / Total Exposure Weighted RW for all tranches)
Example: For senior tranche, this number would be = ₹80 crores (total provisioning for the year) * {5000%/252500%} = ₹80 cr * 0.019 = ₹1.58 cr.

Year-2:

- Now, let's assume that there is total recovery of ₹20 crores in year 01 against the securitisation notes of ₹400 crores. This recovery will reduce the unamortised notes amount of senior tranche by the same amount resulting it to be ₹30 crores (₹50 crores at the beginning of year 1 - ₹20 crores recovery during year 01). Unamortised notes amount of other tranches will remain same as in year 01. This implies that total unamortised notes amount is reduced to ₹380 crores in year 2 against ₹400 crores in year 1.
- Accordingly, the provision for year-2 (20% of unamortised amount) will be ₹72 crores (20% * ₹380 crores).

- *Let's also assume that because of lower recovery in first year, the risk weight of mezzanine tranche has increased from 300% to 350% in second year.*
- *Finally, exposure weighted RW is again calculated for year 2 based on revised risk-weights for year 2 and unprovided unamortised notes amount. This weight will be used to calculate proportionate distribution of total provisioning for year 02 among all the three tranches.*

It is also important to note that since RW is used as a proxy to distribute provisioning amount, it is possible that at some point of time, equity and mezzanine tranches (those which do not amortise and have 8-12 times RW of senior tranches) will be allotted provisioning amount more than their outstanding notes. This anomaly will be rectified using following principle: (a) If the required provisioning amount > outstanding notes amount, then the provisioning amount to the extent of outstanding amount is allotted to that tranche (b) The remaining amount, instead of re-distributing in all tranches, gets allotted to the tranche just above following the principle of risk-sensitivity. In scenario where even that tranche doesn't have sufficient capacity, the provisioning amount gets allotted upwards till it is allotted completely.