

**FOR IMMEDIATE RELEASE**

October 5, 2010

ICRA assigns conditional LAAA(SO) to the Purchaser Payouts in six transactions backed by commercial vehicle and passenger vehicle loan pools originated by Shriram Transport Finance Company Limited

ICRA has assigned conditional LAAA(SO) rating to the Purchaser Payouts in six transactions backed by receivables from new and used commercial vehicle (CV) and passenger vehicle (PV) loans originated by Shriram Transport Finance Company Limited (STFC) as mentioned in the table below. LAAA is the highest-credit-quality rating assigned by ICRA. The rated instrument carries the lowest credit risk. ICRA has also assigned conditional LBBB(SO) rating to the Second Loss Facility of the credit collateral under these transactions[†].

Table 4: Transaction details

| Transaction name | Description | Principal (Rs. Crore ¹) | Maturity | Rating | Credit Collateral ⁴ |
|---|----------------------|-------------------------------------|-----------|-----------|--------------------------------|
| STFC Vehicle Loan Pool D.A. Sep-10 I | Purchaser Payouts | 197.88 | July 2016 | LAAA(SO)! | 9.0% |
| | Second Loss Facility | 8.90 | July 2016 | LBBB(SO)! | |
| STFC Vehicle Loan Pool D.A. Sep-10 II | Purchaser Payouts | 85.21 | Apr 2016 | LAAA(SO)! | 11.00% |
| | Second Loss Facility | 4.69 | Apr 2016 | LBBB(SO)! | |
| STFC Vehicle Loan Pool D.A. Sep-10 V | Purchaser Payouts | 242.77 | Sep 2016 | LAAA(SO)! | 9.75% |
| | Second Loss Facility | 11.83 | Sep 2016 | LBBB(SO)! | |
| STFC Vehicle Loan Pool D.A. Sep-10 VI | Purchaser Payouts | 400.00 | Jun 2016 | LAAA(SO)! | 10.75% |
| | Second Loss Facility | 21.50 | Jun 2016 | LBBB(SO)! | |
| STFC Vehicle Loan Pool D.A. Sep-10 VIII | Purchaser Payouts | 199.98 | Aug 2016 | LAAA(SO)! | 8.75% |
| | Second Loss Facility | 8.75 | Aug 2016 | LBBB(SO)! | |
| STFC Vehicle Loan Pool D.A. Sep-10 IX | Purchaser Payouts | 294.83 | Aug 2016 | LAAA(SO)! | 10.00% |
| | Second Loss Facility | 14.74 | Aug 2016 | LBBB(SO)! | |

The conditional ratings are subject to the fulfilment of all conditions under the structure, review of documentation pertaining to the transaction by ICRA and STFC's furnishing to ICRA of an independent legal opinion and due diligence audit certificate on the transaction.

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

⁴ Expressed as percentage of initial pool principal



The conditional ratings are based on the strength of cash flows from the selected pool of contracts, STFC's established track record in the CV loan business; credit collateral (as mentioned in the table above) in form of an unconditional and irrevocable guarantee by a bank acceptable to ICRA; subordination of opening overdues in the pool; subordination of the excess interest spread (EIS); the structural features of the assignment transaction and the integrity of the legal structure. The credit collateral in each transaction will be split into First Loss Facility (FLF) and Second Loss Facility (SLF). The SLF would be utilised only after the FLF is exhausted. The sizing of the split of the credit collateral into FLF and SLF has been such that the SLF in each transaction qualifies for an LBBB(SO) rating.

In each transaction, the loan pool receivables will be transferred to the Purchaser at "par value". The monthly Excess Interest Spread (EIS)—on account of the spread differential between the pool yield and the Purchaser yield—would be retained by STFC (as Servicer), in trust for the benefit of the purchaser and shall be available for any future shortfall in the Purchaser payouts. The EIS in all the above transactions is sizeable, although it is subject to compression owing to prepayments and delinquencies. Additional support for meeting shortfalls in Purchaser Payouts is envisaged through the credit collateral provided by STFC.

Based on the analysis of the past performance of STFC's vehicle loan portfolio and its expected future performance, ICRA believes that the credit collateral provided in the transaction would ensure that the expected loss on the instruments listed in the Table 1 above is comparable with that on other instruments of similar average maturity similarly rated by ICRA.

Key characteristics of the underlying pools are presented in the table below.

Table 5: Key pool characteristics

| Transaction name | Asset class | Average Seasoning (months) | Overdue profile (Current : 1 month) |
|--|---|-----------------------------------|--|
| STFC Vehicle Loan Pool D.A. Sep-10 I | New CV: 40.3%, Used CV: 40.8% New PV: 14.8%, Used PV: 4.1% | 3.0 | 76.6 : 23.4 |
| STFC Vehicle Loan Pool D.A. Sep-10 II | New CV: 9.7%, Used CV: 89.5% New PV: 0.4%, Used PV: 0.4% | 5.9 | 74.2 : 25.8 |
| STFC Vehicle Loan Pool D.A. Sep-10 V | New CV: 7.2%, Used CV: 70.4% New PV: 4.8%, Used PV: 17.6% | 4.4 | 90.2 : 9.8 |
| STFC Vehicle Loan Pool D.A. Sep-10 VI | New CV: 25.5%, Used CV: 60.5% New PV: 7.0%, Used PV: 7.0% | 3.5 | 69.4 : 30.6 |
| STFC Vehicle Loan Pool D.A. Sep-10 VIII | New CV: 9.9%, Used CV: 57.8% New PV: 8.5%, Used PV: 23.8% | 5.3 | 100 : 0 |
| STFC Vehicle Loan Pool D.A. Sep-10 IX | New CV: 10.2%, Used CV: 61.2% New PV: 7.9%, Used PV: 20.7% | 3.2 | 96.4 : 3.6 |

Past Pools' Performance

Before September 2010, ICRA has rated one new CV loan pool originated by STFC in February 2008. The performance of the pool till June 2010 collection month has been strong with cumulative collection efficiency of more than 98% and very low loss cum delinquency of levels, especially given that the pool has undergone an amortisation of around 62%. In the latest surveillance exercise of the said pool undertaken in July 2010, the rating of the purchaser payouts was reaffirmed at LAAA(SO) and the rating of second loss facility was upgraded to LA+(SO).

About the Originator / Servicer:



STFC is a part of the Shriram group of companies – the Shriram group is one of the largest financiers of used CVs in India. The company operates from a pan-India branch network of 484 branches⁵. The assets under management (AUM) of STFC increased from around Rs. 24,400 crore as of Jun-09 to around Rs. 30,200 crore—out of which Rs. 20,323 crore were on books—as of Jun-10; an increase of about 24% over the one year period. For the financial year (FY) 2010, CV loan disbursements stood at about Rs. 14,600 crore, of which Used CVs accounted for around 80%. Disbursement in Q1 FY11 has been strong and nearly 22% higher than that in the same quarter of the previous year. The vehicle loan portfolio of STFC has performed well with coincidental 180+ delinquency levels of 0.76% and 1.16% as of Mar-10 for New vehicles and Used vehicles respectively.

Table 6: Key Financial Indicators

| (in Rs. Crore) | 31-Mar-10 | 31-Mar-09 | 31-Mar-08 |
|--|-----------|-----------|-----------|
| | Audited | Audited | Audited |
| Equity Capital | 233 | 225 | 222 |
| Net Worth (Reported) | 3805 | 2293 | 1792 |
| Net Hire Purchase and Loan Receivables | 17981 | 17949 | 15143 |
| Total Assets | 26939 | 24990 | 18268 |
| Total Income | 4500 | 3731 | 2509 |
| Net Interest Income | 1510 | 1370 | 1020 |
| Profit before Tax (reported) | 1325 | 921 | 606 |
| Profit after Tax (reported) | 873 | 612 | 390 |
| Interest Income/Average interest earning assets | 15.38% | 15.81% | 16.54% |
| Cost of Average Interest bearing Funds | 10.96% | 10.75% | 10.59% |
| Gross Interest Spread | 4.43% | 5.05% | 5.94% |
| Net Interest Income / Average Assets | 5.82% | 6.33% | 7.01% |
| (Net Interest Income + Amortized securitization income) / Average Managed Assets | 6.40% | 6.45% | 6.38% |
| Non-Interest Income / Average Assets | 0.16% | 0.18% | 0.13% |
| Operating expenses / Average Managed Assets | 1.51% | 1.99% | 1.93% |
| Provisioning and other credit losses / Average Managed Assets | 1.20% | 1.15% | 1.32% |
| Profit Before Tax / Average Assets | 5.10% | 4.26% | 4.16% |
| Profit After Tax / Average Assets | 3.36% | 2.83% | 2.68% |
| Profit After Tax / Average Managed Assets | 2.55% | 2.31% | 2.10% |
| Cost to Income Ratio | 23.53% | 30.79% | 30.30% |
| Return on Average Net Worth (%) | 28.64% | 29.98% | 27.16% |
| Dividend/Profit after Tax (reported)(%) | 18.18% | 19.46% | 30.90% |
| Dividend Rate (%) | 60% | 50% | 50% |
| Total Debt (incl. interest accrued but not due)/Net Worth (reported) (times) | 520 | 930 | 860 |
| Capital / Risk Assets | 20.92% | 16.35% | 12.70% |
| Gross NPAs / Gross Hire Purchase & Loan Receivables (%) | 2.83% | 2.14% | 1.57% |
| Net NPAs / Net Hire Purchase & Loan Receivables (%) | 0.71% | 0.83% | 0.90% |

September 2010

⁵ as on June 30, 2010



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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in