

June 20, 2022

## Shriram Transport Finance Company Limited: Ratings confirmed as final for PTCs and second loss facility backed by vehicle loan receivables issued by Sansar Trust Feb 2022 II

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust Feb 2022 II	PTC Series A1 (a)	49.47	[ICRA]AAA(SO); provisional rating confirmed as final
	PTC Series A1 (b)	10.53	[ICRA]AAA(SO); provisional rating confirmed as final
	PTC Series A1 (c)	36.74	[ICRA]AAA(SO); provisional rating confirmed as final
	PTC Series A1 (d)	5.80	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	4.61	[ICRA]BBB+(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure-1

### Rationale

In March 2022, ICRA had assigned Provisional [ICRA]AAA(SO) ratings to the pass-through certificates (PTC) Series A1 (a), PTC Series A1 (b), PTC Series A1 (c), PTC Series A1 (d) and Provisional [ICRA]BBB+(SO) rating to the second loss facility (SLF) issued under a securitisation transaction originated by Shriram Transport Finance Company Limited (STFC; rated [ICRA]AA+(Stable)). Subsequently, in April 2022, ICRA had reaffirmed the ratings assigned to all series of PTCs and SLF after factoring in the changes in the proposed composition of the underlying pool. The PTCs are backed by a pool of Rs. 102.54-crore vehicle loan receivables (pool principal; receivables of Rs. 134.83 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

### Key rating drivers

#### Credit strengths

- Availability of excess interest spread (EIS) and cash collateral (CC) in the transaction
- Low obligor concentration in the pool with the top 10 obligors together accounting for only 1.0% of the overall pool principal amount
- Average loan-to-value (LTV) for the pool is low, i.e. ~65%

#### Credit challenges

- High share of contracts with original tenure of more than 48 months, i.e. ~61%
- Moderate state concentration with top three states constituting ~54%
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

## Description of key rating drivers highlighted above

According to the transaction structure, the pool receivables have been assigned at par to the PTC investors. The Trust has issued four series of PTCs backed by these loan receivables. The promised cash flow schedule for all the PTC series includes interest (including overdues) on a pro rata basis at the contracted yield and the principal to the extent of 100% of the billed pool principal as per the waterfall on each payout date. Till PTC Series A1 (a) is live, 100% of the monthly billed principal on the pool is promised to PTC Series A1 (a). Once PTC Series A1 (a) has matured, 100% of the monthly billed principal on the pool is then promised to PTC Series A1 (b) and so on. All the prepayment proceeds shall be utilised to amortise PTC Series A1 (a) till PTC Series A1 (a) is live followed by PTC Series A1 (b) till PTC Series A1 (b) is live and so on. The excess available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

The first line of support for meeting the scheduled PTC payouts is the subordination of the EIS in the structure. Further credit support is available through a CC of 9.50% of the pool principal amount. The CC has been split into a first loss facility (FLF) of 5.00% of the initial pool principal amounting to Rs. 5.13 crore and an SLF of 4.50% of the initial pool principal amounting to Rs. 4.61 crore.

There are no overdues in the pool as on the cut-off date. The pool is well diversified with low obligor concentration and has a weighted average seasoning of 7.0 months. It comprises new and used commercial vehicle (new CV: 1.4% and used CV: 42.9%) and new and used tractor (new tractors: 7.6% and used tractors: 48.0%) loan contracts. The pool has moderate geographical concentration with the top three states (Andhra Pradesh, Rajasthan and Telangana) contributing 53.8% to the initial pool principal amount. It also has a high share of contracts with an original tenure of more than 48 months, i.e. 60.5%. Further, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic.

**Past rated pools:** ICRA has rated over 50 pools so far, backed by new & used CV, new & used passenger vehicle (PV), new & used construction equipment and tractor loans originated by STFC, and had ratings outstanding on 20 pools as of April 2022. Overall, the performance of all live pools remained healthy till the April 2022 payouts with good collections and a loss-cum-180+ days past due (dpd) level of sub-1.0% for all the pools.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 8.0-12.0% per annum.

## Liquidity position

### For PTC Series A1: Superior

The liquidity of the rated transaction is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 9.50% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall in the scheduled PTC payouts for a period of nine months.

### For SLF : Adequate

The cash flows from the pool and the available FLF are comfortable for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

### Rating sensitivities

**Positive factors** – Not applicable for the PTCs; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool of contracts, resulting in an increase in the credit enhancement cover available for the SLF.

**Negative factors** – Pressure on the ratings could emerge on the weakening collection performance of the underlying pool (monthly collection efficiency <85% on a sustained basis).

### Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

### About the company

Shriram Transport Finance Company Limited (STFC), incorporated in 1979 and a part of the Shriram Group of companies, is a deposit-accepting non-banking financial company. It is the market leader in pre-owned commercial vehicle financing with a pan-India presence encompassing 1,854 branches and 1,025 rural centres as on March 31, 2021. STFC primarily provides financing for vehicles such as commercial vehicles (CVs - both pre-owned and new), tractors, and passenger vehicles. Assets under STFC's management aggregated Rs. 1270.4 billion as on March 31, 2022.

### Key financial indicators

	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Net Worth	18,005	21,568	25,932
Profit after Tax	2,502	2,487	2,708
Assets under Management (AUM)	1,09,749	1,17,243	1,27,041
Gross Stage 3 (%)	8.4%	7.1%	7.1%
Net Stage 3 (%)	5.6%	4.2%	3.7%

**Source:** STFC, ICRA Research; All ratios as per ICRA's calculation

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 20, 2022	April 06, 2022			
1	Sansar Trust Feb 2022 II	PTC Series A1 (a)	49.47	49.47	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1 (b)	10.53	10.53	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1 (c)	36.74	36.74	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1 (d)	5.80	5.80	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		Second Loss Facility	4.61	4.61	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO); reaffirmed	Provisional [ICRA]BBB+(SO)	-	-

## Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1 (a), PTC Series A1 (b), PTC Series A1 (c), PTC Series A1 (d)	Simple
Second Loss Facility	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust Feb 2022 II	PTC Series A1 (a)	March 2022	5.95%	January 2024	49.47	[ICRA]AAA(SO)
	PTC Series A1 (b)	March 2022	5.95%	May 2024	10.53	[ICRA]AAA(SO)
	PTC Series A1 (c)	March 2022	5.95%	March 2026	36.74	[ICRA]AAA(SO)
	PTC Series A1 (d)	March 2022	5.95%	September 2026	5.80	[ICRA]AAA(SO)
	Second Loss Facility	March 2022	-	September 2026	4.61	[ICRA]BBB+(SO)

\* Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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### Branches



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