

April 06, 2022

Shriram City Union Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by two-wheeler loan receivables issued by Mobil Trust Series 24

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Mobil Trust Series 24	PTC Series A	214.48	Provisional [ICRA]AAA(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to PTC Series A issued under a securitisation transaction originated by Shriram City Union Finance Limited (SCUF/Originator; [ICRA]AA (rating placed on Watch with Positive Implications)). The pass-through certificates (PTCs) are backed by a pool of Rs. 252.07-crore two-wheeler (2W) loan receivables (underlying pool principal of Rs. 214.48 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 16.0% of the initial pool principal to be provided by SCUF and (ii) the entire excess interest spread (EIS) in the structure, as well as the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS and CC
- Moderate weighted average seasoning of 14 months in the pool
- High pre-securitisation amortisation of the pool at around 42%
- All contracts are current as on the pool cut-off date

Credit challenges

- High geographical concentration with top 3 states accounting for ~51% of the pool
- Pool's performance will remain exposed to any fresh disruptions caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the promised monthly cash flow schedule on each payout date comprises the interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the principal to the extent of 100% of the monthly billed principal on the pool. The pool amortisation schedule and thus the promised payouts on the PTCs are subject to modification on account of prepayment. The excess interest 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 PTC Series A in the transaction is in the form of the EIS (12.0% as on the cut-off date) arising from the excess of the pool yield over the PTC yield. A CC of 16.0% of the initial pool principal (i.e. Rs. 34.32 crore), provided by SCUF, acts as further CE in the transaction. The CC will be in the form of a fixed deposit maintained with a bank. In case of a shortfall in meeting the promised PTC payout during any month, the Trustee will utilise the CC to meet the shortfall if the subordination and EIS are not sufficient. The CC provides credit support against losses in the pool and imparts liquidity to the transaction.

The underlying loans follow a monthly payment schedule. There are no overdues in the pool as on the cut-off date. More than 92% of the contracts have not been delinquent in the past 12 months while the peak delinquency for the remaining 8% has been less than 30 days (under 30 days past due). The pool has contracts with moderate seasoning of 14 months. The average pre-securitisation amortisation, however, remains high at ~42% as on the cut-off date (March 15, 2022). The pool has high geographical concentration with the top 3 states (Tamil Nadu, Andhra Pradesh and Telangana) contributing ~51% to the initial pool principal amount. The pool's performance would remain exposed to disruptions caused by the pandemic.

Past rated pools: ICRA had rated one PTC transaction of SCUF in the past. The performance of the transaction, which has matured, was satisfactory with nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and coefficient of variation (CoV) are calibrated based on the values observed in the analysis of the past performance of the Originator's loan portfolio. ICRA has also taken into account the credit quality experience of SCUF and ICRA's expectation of the credit quality of the asset classes involved.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after considering the above-mentioned factors regarding the asset class and adjusting for key features like seasoning, overdues, ticket size, loan-to-value (LTV), internal rate of return (IRR), tenure and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 5.0-6.0%, with certain variability around it. The prepayment rate in the pool is assumed at 0.5-0.8% p.a. ICRA's estimation of the variability also factors in the dynamic delinquency analysis and static pool analysis of SCUF's portfolio for the asset class in the pool as well as ICRA's observation on the performance of the respective asset class for other originators.

Liquidity position: Superior

The liquidity of the rated transaction is expected to be superior, supported by the collections expected from the pool of contracts and the presence of a CC amounting to 16.0% 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 credit collateral would cover the shortfalls in the scheduled PTC payouts for a period of four months.

Rating sensitivities

Positive factors – NA

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of SCUF's 2W loan portfolio till December 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Know your customer (KYC) certificate from Chartered Accountant
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

SCUF is a deposit-accepting non-banking financial company (NBFC) that commenced operations in 1986. It was largely focused on vehicle finance till 2002 after which it gradually shifted its focus to other retail financing segments. SCUF currently provides small enterprise finance (48% of the standalone portfolio as of September 2021), 2W loans (26%; including pre-owned – 4%), gold loans (14%), personal loans (9%), auto loans (2%) and loan against property (LAP; 1%). As of September 2021, the company had a network of 971 branches in 23 states across India. Its loan portfolio is largely concentrated in the southern states. The total assets under management (AUM) stood at Rs. 30,425 crore as of September 2021 against Rs. 29,599 crore as of June 2021 and Rs. 27,537 crore as of September 2020. As of September 2021, the CRAR stood at 29.11% against 29.54% as of June 2021 and 30.14% as of September 2020.

Shriram Capital Limited holds a 33.9% stake (as of September 2021) in SCUF, followed by Dynasty Acquisition Limited at 20.3% and Piramal Enterprises Limited at 10.0%. Mutual funds and foreign institutional investors hold 32.6% while the rest is held by retail investors and others.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Unaudited)
Total Income	5,887	5,738	3,080
Profit after Tax	1,001	1,011	490
Assets under Management	29,085	29,571	30,425
Gross Stage 3	7.9%	6.4%	6.9%
Net Stage 3	4.2%	3.1%	3.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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
					April 06, 2022	-	-	-
1	Mobil Trust Series 24	PTC Series A	214.48	214.48	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Mobil Trust Series 24	PTC Series A	April 2022	7.85%	August 20, 2024	214.48	Provisional [ICRA]AAA(SO)

* Scheduled 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

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