

April 20, 2017

SVL Limited
(Erstwhile Shriram Industrial Holdings Limited)

Instrument*	Amount	Rating Action
	In Rs Crore	
Long Term, Term-Loans	110.50 (revised from 161.00)	[ICRA]B+ (Negative) /downgraded from [ICRA]BBB(Stable)
Long Term, Non-Convertible Debentures	112.50	[ICRA]B+ (Negative) /downgraded from [ICRA]BBB(Stable)
Long Term, Unallocated	50.50 (earlier nil)	[ICRA]B+ (Negative) / downgraded
Long Term, Non-Convertible Debentures	650.00	[ICRA]AA(SO) (Stable) /re- affirmed

* Instrument Details are provided in Annexure I

Rating Action

ICRA has downgraded the long-term rating assigned to the Rs. 110.50 crore¹ (revised from Rs. 161.00 crore), the Rs. 112.50 crore NCD and to the Rs. 50.50 crore unallocated limits of the company from [ICRA]BBB (pronounced ICRA triple B) to [ICRA]B+ (pronounced ICRA B plus)². ICRA has revised the outlook on the rating from Stable to Negative.

ICRA has also re-affirmed the rating assigned to the Rs. 650.00 crore NCD at [ICRA]AA (SO) (pronounced ICRA Double A – Structured Obligation) with Stable outlook. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuer concerned.

Rationale

The standalone rating downgrade and outlook revision takes into account the considerable weakening of SVL's investment portfolio with a majority of the entities having defaulted in repayment commitments and some having been classified as Non-Performing Asset (NPA) and currently under debt restructuring. The rating also remains constrained by SVL's weak financial risk profile owing to significant losses, on the back of high interest burden on its borrowings. Consequently, its interest coverage and debt protection metrics also remain inadequate. The ratings also take into account SVL's stretched liquidity profile with considerable funds locked up as investments and advances to subsidiary and associate concerns, with amounts written off in FY 2016 to provide for bad advances and diminution in value of investments. Weak operating profile of its listed subsidiaries has also resulted in low market value of its investments relative to its book value, thereby restricting borrowing ability.

The company has been meeting its repayment commitments through the interest income it receives on advances extended and through support from operational subsidiaries and from the SVL Trust. Nevertheless, the principal repayments of its NCD are proposed to be funded through stake sale in key operating subsidiaries and this exposes the company to market risks.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in / other ICRA Rating publications

The rating, however, favourably takes into account the track record of support from SVL Trust, Shriram Ownership Trust (SOT), STFC & Shriram City Union Finance Limited (SCUF), in the form of unsecured loans and guarantees against its borrowings.

The re-affirmation of the rating for the Rs. 650.00 crore NCDs of SVL at [ICRA] AA (SO) (Stable) takes into account the unconditional, irrevocable and continuing guarantee from STFC (*rated [ICRA]MAA+(Stable)*). The rating also factors in the payment mechanism designed to ensure timely payment on the rated NCDs as per the terms of the transaction.

Key Rating Drivers

Credit Strengths

- Guarantee from STFC (*rated [ICRA]MAA+(Stable)*) for the Rs 650 crore NCD issuance; part of the \$6 billion Shriram Group, a leading player in the Financial Services segment
- Payment mechanism designed to ensure timely payment to the investors for the Rs. 650 crore NCD issuance

Credit Weakness

- Stretched financial profile of a majority of the group entities; multiple entities have defaulted in repayment commitments and some have been classified as NPA and are under corporate/ strategic debt restructuring
- SVL's revenues remain modest, majorly comprising interest income on its advances, apart from some minor dividends
- SVL's liquidity profile remains stretched on the back of modest income and large funds locked up as investments/ advances in subsidiaries and associate companies
- Principal repayments are proposed to be funded through stake sale in key operating subsidiaries exposing company to market risks; consistent decline in share prices of listed companies in the group reduces the financial flexibility
- Large contingent liabilities towards corporate guarantees extended to the lenders of subsidiaries and associate companies

Description of key rating drivers highlighted above:

SVL is a key holding company of the Group and holds a significant portion of the group's stake in the various entities operating in diverse sectors such as manufacturing, EPC and power generation.

However, the operational profile of most of entities in SVL's investment portfolio has remained weak, owing to a combination of poor order flow, high working capital intensity, large capex commitments, high debt repayment obligations and interest burden. Accordingly, the dividend income from its investee companies has greatly dwindled over the recent fiscals, with the future dividend potential also remaining uncertain. Additionally, SVL has also divested its stake in Take Solutions Limited in FY 2016, further reducing SVL's dividend income potential. SVL's revenues hence have remained modest, majorly comprising interest income on funds extended to its subsidiaries and associate companies, and consultancy income from management services provided.

SVL's financial profile has remained weak owing to large losses on the back of high interest burden on its availed borrowings. Consequently, its interest coverage and debt protection metrics also remain inadequate. SVL's liquidity profile is stretched with considerable funds locked up as investments and advances. The company also made provisions for bad advances and diminution in investments, resulting in a ~Rs. 347 crore write down in FY 2016, further impacting its net worth position and leverage. Weak

operating profile of its listed subsidiaries has also resulted in low market value of its investments relative to its book value, thereby restricting borrowing ability.

SVL is required to service the coupon on the Rs. 112.50 crore NCD, and repay its term loan on a quarterly basis. The company is currently meeting its repayment commitments through the interest and consultancy income and through support from operational subsidiaries and from the SVL Trust. Nevertheless, the principal repayments of its NCD are proposed to be funded through stake sale in key operating subsidiaries and this exposes the company to market risks. The ability to find suitable investors before the principal repayment commencement date and at targeted valuations will be crucial to its credit profile.

SVL also has large contingent liabilities towards the corporate guarantees extended to the lenders of its subsidiaries, the largest such liability towards the CDR lenders of Shriram EPC Limited and Leitwind Shriram Manufacturing Limited, and pose a significant risk to SVL if the guarantees were to be invoked. The standalone rating of SVL however draws comfort from the track record of support from SVL Trust, SOT, STFC & SCUF, in the form of unsecured loans and guarantees against its borrowings.

For the Rs. 650 crore NCDs, the guarantee from STFC is unconditional, continuing and irrevocable, and covers all obligations that may arise on these NCDs. The payment mechanism is designed to ensure timely payment to the investors as per terms of the transaction, even if the Issuer does not pay; the payment to NCD investors happens through monies due from STFC under the guarantee extended.

Analytical approach:

Links to applicable criteria

Corporate Credit Rating – A Note on Methodology

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

Approach for rating debt instruments backed by third-party explicit support

<http://www.icra.in/Files/Articles/Rating%20of%20debt%20Dec%202016.pdf>

About the Company

SVL Limited, the erstwhile Shriram Industrial Holdings Limited, is the ultimate holding company of the non financial/ manufacturing businesses of Shriram Group. The promoters and key management personnel of Shriram Group hold all the shares in SVL through SVL Trust. Prior to the restructuring process, the shareholding of the operating companies was dispersed and there was significant cross-holding between entities in the Financial Services (FS) and Non Financial Services (NFS) space. The Shriram Group underwent a major restructuring commencing from FY 2013 whereby stake in the Financial Services entities were transferred to a different holding company – Shriram Capital Limited under the Shriram Ownership Trust (SOT), and the entire stake in the Non-Financial Services entities were vested with SVL. The key operational entities under SVL are Shriram EPC Limited, Orient Green Power Company Limited, Haldia Coke & Chemicals Private Limited, Shriram SEPL Composites Private Limited, and Bharath Coal Chemicals Limited. The Group also has two manufacturing JVs, Leitwind Shriram Manufacturing Limited & Hamon Shriram Cottrell Private Limited, for manufacturing WTGs and cooling towers respectively.

For FY 2016, SVL reported net losses of Rs. 490.69 crore on an operating income of Rs. 54.01 crore, as against net losses of Rs. 84.89 crore on an operating income of Rs. 64.43 crore in FY 2015.

Guarantor Profile

Shriram Transport Finance Company Limited (STFC) was incorporated in 1979 and is currently the market leader in financing of used vehicles with a total Assets Under Management (AUM) of Rs. 76,281

crore as on December 31, 2016. Used vehicle financing accounted for around 90% of its portfolio (managed assets) as on December 31, 2016. The company finances vehicles with age of up to 12 years. Around 30% of the used vehicle book pertains to refinance transactions while the balance pertains to buy-sell transactions.

During the Quarter ended December 31, 2016, STFC reported a Profit After Tax (PAT) of Rs. 346 crore on a total income base of Rs. 2717 crore against a PAT of Rs. 375 crore on a total income base of Rs. 2568 crore during the corresponding period in the previous financial year. As on December 31, 2016, STFC had a net worth of Rs. 11,140 crore and had a reported capital adequacy of 17.60%. As on December 31, 2016, STFC had a Gross NPA% of 6.62% and a Net NPA of 1.71% against a Gross NPA% of 4.29% and a Net NPA of 0.88% a year earlier.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY 2016*		Month- year & Rating in FY2015
					April 2017	September 2015	
1	NCD	Long Term	650.00	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)^	-
2	NCD	Long Term	112.50	[ICRA]B+ (Negative)	[ICRA]BBB (Stable)	-	-
3	Term Loans	Long Term	110.50	[ICRA]B+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
4	Unallocated Limits [#]	Long Term	50.50	[ICRA]B+ (Negative)	-	-	-

*Issuer unrated prior FY 2016; ^ Provisional rating assigned and rating confirmed in July 2015; #represents the difference between original term debt amount rated and outstanding amount as on March 2016 after repayment

Complexity level of the rated instrument:

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

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
NCD*	June 30, 2015	-	June 28, 2019	650.00	[ICRA]AA (SO) (Stable)
NCD	September 21, 2015	5% p.a.	September 20, 2020	112.50	[ICRA]B+ (Negative)
Term Loans^	April 2015	Base rate + 2.25%	March 31, 2019	110.50	[ICRA]B+ (Negative)
Unallocated Limits	-	-	-	50.50	[ICRA]B+ (Negative)

**Coupon payable as redemption premium at maturity; ^outstanding as on March 2016 after repayments*



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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.

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