January 31, 2020

TVS Credit Services Limited: Ratings reaffirmed for PTCs and upgraded for second loss facility under two tractor loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Principal (Rs. crore)	Principal O/s Previous Surveillance Exercise (Rs. crore)	Principal O/s after Dec-19 Payout (Rs. crore)	Rating Action
Silver Trust Feb-17	PTC Series A	55.50	20.66	4.86	Reaffirmed at [ICRA]AAA(SO)
	Second Loss Facility	2.22	2.22	2.22	Upgraded to [ICRA]AAA(SO) from [ICRA]A(SO)
Silver Trust Mar-18	PTC Series A	74.72	54.43	18.09	Reaffirmed at [ICRA]AAA(SO)
	Second Loss Facility	2.06	2.06	2.06	Upgraded to [ICRA]AA-(SO) from [ICRA]A(SO)

**Instrument details are provided in Annexure-1*

Rationale

ICRA has reaffirmed the ratings for the pass-through certificates (PTCs) and upgraded the ratings for the second loss facility (SLF) issued under two securitisation transactions originated by TVS Credit Services Limited (TVSCSL), as tabulated above. The PTCs are backed by tractor loan receivables originated by TVSCSL. The receivables have been assigned to the respective trusts at par and each trust has issued PTCs backed by the same.

The reaffirmation/upgradation of the ratings is driven by the high amortisation levels in the transactions, which have led to a healthy build-up of the credit enhancement cover for the future PTC payouts. The breakeven collection efficiencies are lower compared to the actual collection levels observed in these pools.

Pool performance summary

Parameter	Silver Trust Feb-17	Silver Trust Mar-18
Amortisation (%)	91.24%	75.80%
Cumulative collection efficiency (%)[1]	97.28%	97.43%
Breakeven collection efficiency[2] (%)	0.00%	45.72%
Loss-cum-90+ (% of initial pool principal)[3]	0.56%	0.75%
Loss-cum-180+ (% of initial pool principal)[4]	0.37%	0.42%
Cumulative CC utilisation	0.00%	0.00%
CC available (as % of balance pool)	159.85%	52.75%
EIS over balance tenure (as % of balance pool)	7.87%	8.86%

Key rating drivers

[1] *Cumulative collections till date / cumulative billings till date plus opening overdues*

[2] *Minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Cash collateral available) / Balance pool cash flows*

[3] *POS on contracts aged 90+ dpd + overdues / Initial POS on the pool*

[4] *POS on contracts aged 180+ dpd + overdues / Initial POS on the pool*

Credit strengths

- High amortisation of PTCs resulting in build-up of cash collateral (CC) and excess interest spread (EIS) cover available for the balance PTC payouts
- Good collection efficiency in both pools and low delinquency levels in all the pools

Credit challenges

- Moderate 30+ delinquency levels in the pools; however, delinquency levels in harder buckets are low

Description of key rating drivers highlighted above

The performance of both the pools has been good with the cumulative collection efficiency exceeding 97% after the November 2019 collections. Though there was some CC utilisation in the Silver Trust Feb-17 pool, it was replenished and the CC utilisation after the December 2019 payouts was nil for both transactions. As both pools are highly amortised, the CC (as a percentage of the balance PTC payouts) has built up significantly in these transactions. The breakeven collection efficiency for both pools is very low. Due to the high collection efficiency, the delinquency in the pools is very low with the loss-cum-180+dpd being less than 0.5% in both pools after the December 2019 payouts.

Overall, the credit enhancement available for meeting the balance payouts to the investors in both the pools is sufficient to reaffirm the rating of the PTCs at the current rating level and upgrade the ratings of the SLF in the transactions. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset backed securities (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 past performance of the originator's portfolio and rated pools as well as the performance and 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 contracts.

After making these adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Silver Trust Feb-17	1.0-2.0%	8-12% p.a.
2	Silver Trust Mar-18	2.0-3.0%	8-12% p.a.

Liquidity position

Superior for PTC Series A

A CC is available in both transactions. While the CC covers the future cash flow of the PTCs entirely in the Feb-17 Silver transaction, the CC is 52.75% of the balance pool principal in the Mar-18 Silver transaction. The CC and EIS are highly comfortable to meet the promised payouts to the PTC Series A investors for both the pools.

Superior for SLF (Feb-17 Pool)

The cash flows from the pool and the available first loss facility, amounting to 114.18% of the balance pool principal, are high for the top-up of the SLF if needed, as per the defined waterfall mechanism.

Strong for SLF (Mar-18 Pool)
The cash flows from the pool and the available first loss facility, amounting to 41.36% of the balance pool principal, are adequate for the top-up of the SLF if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive triggers – Not applicable for Silver Trust Feb-17 Pool

For the Silver Trust Mar-18 Pool, the rating for the SLF can be upgraded if there is a sustained strong collection performance of the underlying pool contracts, resulting in an increase in the credit enhancement cover available for the SLF.

Negative triggers – For the Silver Trust Feb-17 Pool, considering the CC cover, it is unlikely that the rating would be downgraded.

For the Silver Trust Mar-18 Pool, pressure on the rating of the SLF could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency of <70%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating actions are based on the performance of the pools till December 2019 (payout month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

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

About the company

TVSCSL, a Chennai-based systemically important non-deposit taking NBFC (NBFC-ND-SI) incorporated in November 2008, is a part of the TVS Group of companies. TVS Motor Company Limited (TVSM) held about 86% equity in the company as of March 2019. Other shareholders include Lucas TVS Limited, Sundaram Clayton Limited, HDFC Bank Limited, PHI Research Private Limited, PHI Capital Services LLP and TVSMSL, which held 6%, 1%, 3%, 2%, 2% and 1%, respectively. The company’s operations are spread across 25 states and Union Territories in India. Its retail assets under management (AUM) stood at Rs. 8,366 crore as of March 2019.
ICRA has a rating outstanding of [ICRA]A+(Stable) and [ICRA]A1+ on the long-term bank limits and commercial papers, respectively, of TVSCSL.

Key financial indicators – TVSCSL

	FY2018	FY2018	FY2019
	IGAAP	Ind-AS	Ind-AS
Total Income	1,340.4	1,252.4	1,601.3
PAT	114	138.4	148.3
Net Worth	892	883.4	1,151.1
Total AUM	6,152	6,285.1	8,365.9
Total Managed Assets	6,837	6,656.0	8,752.0
Return on Managed Assets	1.8%	2.3%	1.9%
Return on Net Worth	14.3%	17.8%	14.6%
Gearing	6.0	6.2	6.4
Gross NPA%	2.9%	3.6%	3.3%
Net NPA%	2.1%	2.3%	2.1%
CAR%	18.5%	18.5%	17.5%

Source: TVSCSL and ICRA research; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

<table>
<tr><th rowspan="3">S. No.</th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2020)</th><th colspan="4">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Initial Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th><th colspan="3">Date & Rating in FY2018</th></tr>
<tr><th>31-Jan-20</th><th>07-Dec-18</th><th>13-Feb-18</th><th>19-Jul-17#</th><th>04-Apr-17^</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">Silver Trust Feb-17</td><td>PTC Series A</td><td>55.50</td><td>4.86</td><td>[ICRA]AAA(SO)</td><td>[ICRA] AAA (SO)</td><td>[ICRA] AAA(SO)</td><td>[ICRA] AAA(SO)</td><td>Provisional [ICRA] AAA(SO)</td></tr>
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</table>

^*Initial ratings assigned*

#*Final rating assigned*

S. No.	Instrument	Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020) Date & Rating in FY2020 31-Jan-20	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 07-Dec-18	Date & Rating in FY2019 16-May-18#	Date & Rating in FY2018 22-Mar-18^
2	Silver Trust Mar-18	PTC Series A	74.72	54.43	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA] AAA(SO)	Provisional [ICRA] AAA(SO)
		Second Loss Facility	2.06	2.06	[ICRA]AA-(SO)	[ICRA]A(SO)	[ICRA] A-(SO)	Provisional [ICRA]A-(SO)

^*Initial ratings assigned*

#*Final rating assigned*

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 I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate#	Scheduled Maturity Date	Amount Rated (Rs. crore[5])	Current Rating
Silver Trust Feb-17	PTC Series A	Mar-17	6.25%	Aug-21	4.86	[ICRA]AAA(SO)
	Second Loss Facility		N.A.		2.22	[ICRA]AAA(SO)
Silver Trust Mar-18	PTC Series A	Mar-18	6.50%	Aug-22	18.09	[ICRA]AAA(SO)
	Second Loss Facility		N.A.		2.06	[ICRA]AA-(SO)

Per annum payable monthly

[5] *100 lakh = 1 crore = 10 million*

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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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