

March 11, 2020

Shriram Transport Finance Company Limited: Ratings confirmed for PTCs issued by Sansar Trust July 2019, as final

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust July 2019	PTC Series A1	415.66	Provisional [ICRA]AAA(SO) confirmed as final
	PTC Series A2	415.66	Provisional [ICRA]AAA(SO) confirmed as final

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed provisional ratings assigned to pass through certificates (PTCs) issued under Sansar Trust July 2019 as tabulated above. The pass-through certificates (PTCs) are backed by receivables from a Rs. 831.32-crore pool of vehicle and construction equipment (CE) loans.

In August 2019, ICRA had assigned Provisional [ICRA]AAA(SO) [pronounced Provisional ICRA triple A (Structured Obligation)] to PTC Series A1 and PTC Series A2. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and credit collateral
- Moderate seasoning profile of the pool contracts with average seasoning of ~13 months
- Low obligor concentration with the top 10 obligors together accounting for only ~0.27% of the overall pool principal amount

Credit challenges

- Moderate average loan-to-value (LTV) of 70.8%; share of contracts with LTV of more than 90% is 3.00%
- Share of overdue contracts is 3.7% of the pool principal; however, none of the contracts are overdue for more than one month as on pool cut-off date

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be transferred at par to a special purpose vehicle (SPV) and the Trust will issue two series of PTCs backed by the same. The first line of support for meeting the scheduled PTC payouts is the EIS in the structure, which is subordinated. Further credit support is available through a cash collateral (CC) of 12.25% of the pool principal amount.

The scheduled cash flow promised to the PTCs on each payout date includes the overdue principal on a pro rata basis as well as the interest (including overdues) on a pro rata basis at the contracted yield. Till both PTC Series A1 and PTC Series A2 are live, the payment for PTC Series A2 will be equivalent to 50% of the initial pool principal billing to PTC Series A2 (adjusted for scheduled principal prepayments in prior periods). For PTC Series A1, it would be equivalent to the revised pool principal billing less the principal payments to PTC Series A2. Once PTC Series A1 has matured, 100% of the monthly billed principal on the pool is then promised to the remaining PTC Series A2. The pool amortisation schedule and thus the promised payouts on the PTCs are subject to modification on account of the prepayments. Prepayments equivalent to 0.50% of the outstanding PTC Series A2 principal are promised to PTC Series A2 on a monthly basis. Any prepayments in the pool above this promised prepayment amount to PTC Series A2 will be passed on to PTC Series A1 till PTC Series A1 is live. After the maturity of PTC Series A1, any prepayments in the pool above the promised prepayment amount to PTC Series A2 will be passed on to PTC Series A2.

The pool is characterised by moderate seasoning (average seasoning of 12.5 months) and an average original LTV of around 70.8%. The share of overdue contracts is moderate at 3.7% of the pool principal. However, none of the contracts are overdue for more than one month as on the pool cut-off date. The selected pool consists of receivables from loans given for both new and used vehicles in the commercial vehicle (CV; around 15.3% share in the pool), passenger vehicle (PV; around 68.8% share in the pool) and CE (around 15.9% share in the pool) asset classes.

Past rated pool performance: In the past, ICRA has rated 41 STFC originated pools backed by new & used CV, new & used PV, new & used CE and tractor loans. The performance of the 13 live pools has been good with a loss-cum-180+ dpd level of sub 2.0% after December 2019 payouts for all the pools. Given the significant quantum of EIS in all the pools, the cumulative cash collateral utilisation after the December 2019 payouts is nil in all the pools.

Key rating assumptions

ICRA's cash flow modelling for the rating of asset-backed security (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 co-efficient 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 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 mean shortfall in principal collection during the tenure of the pool is estimated to be 4.0% - 5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 22.0% - 26.0% per annum.

Liquidity position

There is credit collateral available in the transaction amounting to 12.25% of the pool principal amount. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the PTC payouts for a period of nine months.

Rating Sensitivities

- **Positive Triggers** – N.A.
- **Negative Triggers** - Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and CE utilization levels.

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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

STFC, a deposit-accepting asset financing non-banking financial company, was incorporated in 1979 and is a part of the Shriram Group of Companies. It provides finance for vehicles such as CVs (pre-owned and new), tractors, and PVs and is the market leader in used CV financing. It has a pan-India presence with 1,669 branches as on September 30, 2019. STFC is also engaged in the CE financing business through its erstwhile wholly-owned subsidiary, Shriram Equipment Finance Company, that was merged with STFC with effect from April 1, 2015.

STFC reported a net profit of Rs. 2,564 crore in FY2019 on a total income base of Rs. 15,457 crore compared to a net profit of Rs. 2,467 crore on a total income base of Rs. 13,268 crore in FY2018.

ICRA currently has a rating of MAA+(Stable) on the fixed deposit programme of STFC.

ICRA has thus far rated 39 pools backed by new & used CV, new & used PV, new & used equipment and tractor loans originated by STFC and has ratings outstanding on 13 pools as on December 31, 2019. The performance of the outstanding pools is characterised by stable collection ratios averaging around 95% and loss-cum-180+ dpd levels of sub 2.0%.

Key financial indicators (audited)

	FY2017 IGAAP	FY2018 IND-AS	FY2019 IND-AS
Total Income	10,824	13,268	15,457
Profit after Tax	1,257	2,467	2,564
Net Worth	11,292	13,575	15,836
Total Assets*	74,038	1,02,646	1,10,773
Return on Assets	1.77%	2.79%	2.40%
Return on Net Worth	11.74%	19.84%	17.44%
Gearing (times)	4.89	6.05	5.55
% Gross NPAs	8.17%	9.29%	8.42%
% Net NPAs	2.66%	6.27%	5.68%
% Net NPA/Net Worth	14.69%	43.02%	35.66%
Capital Adequacy Ratio	16.94%	17.38%	20.27%

*Gross assets

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
		Type	Rated Amount	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					11-Mar-20	13-Aug-19		
1	Sansar Trust July 2019	PTC Series A1	415.66	415.66	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A2	415.66	415.66	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Amounts in Rs. Crores

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 [click here](#)

Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ¹)	Current Rating
Sansar Trust July 2019	PTC Series A1	August 2019	9.26%	April 2024	415.66	[ICRA]AAA(SO)
	PTC Series A2	August 2019	9.26%	April 2024	415.66	[ICRA]AAA(SO)

[#] Per annum payable monthly

¹ 100 lakh = 1 crore = 10 million

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