

April 17, 2020

Shriram Transport Finance Company Limited: Provisional ratings assigned to PTCs issued by Sansar Trust March 2020

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust March 2020	PTC Series A1	358.49	Provisional [ICRA]AAA(SO) assigned
	PTC Series A2	143.41	Provisional [ICRA]AAA(SO) assigned
	Second Loss Facility	50.19	Provisional [ICRA]BBB+(SO) assigned

*Instrument details are provided in Annexure-1

Rationale

ICRA has assigned ratings of Provisional [ICRA]AAA(SO) [pronounced provisional ICRA triple A (structured obligation)] to PTC Series A1 and PTC Series A2 and Provisional [ICRA]BBB+(SO) [pronounced provisional ICRA triple B plus (structured obligation)] to a second loss facility (SLF) issued under a securitisation transaction originated by Shriram Transport Finance Company Limited (STFC). The pass-through certificates (PTCs) are backed by receivables from a Rs. 501.90-crore pool of vehicle loans.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, STFC's track record in the lending business, the available credit enhancement in the form of a credit collateral and subordination of the excess interest spread (EIS), and the integrity of the legal structure. The ratings are 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 credit enhancement in the form of EIS and credit collateral
- No overdue contracts in the pool as on the cut-off date
- Low obligor concentration with the top 10 obligors accounting for only 1.27% of the overall pool principal amount

Credit challenges

- Moderate seasoning profile of the pool contracts with average seasoning of 10.34 months
- Moderate average loan-to-value (LTV) of 73.15%; share of contracts with LTV of more than 90% is 3.87%

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 in the transaction is available through a cash collateral (CC) of 15.00% of the pool principal amount.

The scheduled cash flow promised to PTCs on each payout date includes interest (including overdues) on a pro rata basis at the contracted yield. The principal repayment to PTC Series A1 and PTC series A2 on a pro rata basis is promised on

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the last payout date. During the tenure of PTCs, the collections from the pool, after making the promised interest payouts to PTCs, will be used to make the expected principal payouts to PTC series A1 and subsequently, once PTC series A1 is paid off, will be used to make the expected principal payouts to PTC series A2, albeit these principal payouts are not promised and any shortfall in making the expected principal payments to PTCs would be carried forward to the subsequent payout.

The pool is characterised by moderate seasoning (average seasoning of 10.3 months) and has an average original LTV of around 73.2%. The pool does not have any overdue contracts as on the cut-off date. The selected pool consists of receivables from loans given for both new and used vehicles in the commercial vehicle (CV; ~71% share in the pool), passenger vehicle (PV; ~22% share), construction equipment (CE, ~4% share) and tractor (~2% share in the pool) asset classes.

Past rated pool performance: ICRA has so far rated 43 pools backed by New & Used CV, New & Used PV, New & Used Equipment and Tractor loans originated by STFC and has ratings outstanding on 12 pools as on February 29, 2020. Till December 2019 (collection month), performance of the live pools is characterised by stable cumulative collection ratios of more than 95% and loss-cum-180+ dpd levels of sub 2.0%.

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 coefficient of variation (CoV) are arrived at after taking into account the 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. ICRA notes that the disruptions caused by the spread of the coronavirus pandemic could result in a higher-than-expected spike in delinquencies in the near term, though the same is difficult to ascertain at present.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 3.50-4.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 8.0-12.0% per annum.

Liquidity position

PTC Series A1 and A2: Superior

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be highly comfortable to meet the promised payouts to PTC investors.

SLF: Adequate

A first loss facility is available in the transaction, amounting to 5.00% of the pool principal amount, along with an EIS for the top-up of the SLF if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive triggers – The ratings of the SLF can be upgraded on the sustained strong collection performance of the underlying pool contracts, resulting in an increase in the credit enhancement (CE) cover available for the SLF.

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

Analytical approach

The rating actions are based on the analysis of the performance of STFC's portfolio till December 2019, the performance of the pools till December 2019 (collection 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

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 1,714 branches as on December 31, 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.

Key financial indicators

	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%

Source: Company and ICRA research

CRAR: Capital to risk weighted assets ratio, NPA: Non-performing asset

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 (FY2021)				Rating History for the Past 3 Years		
		Type	Rated Amount	Amount Outstanding	Rating 17-Apr-20	FY2020	FY2019	FY2018
1	Sansar Trust March 2020	PTC Series A1	358.49	358.49	Provisional [ICRA]AAA(SO)	-	-	-
		PTC Series A2	143.41	143.41	Provisional [ICRA]AAA(SO)	-	-	-
		Second Loss Facility	50.19	50.19	Provisional [ICRA]BBB+(SO)	-	-	-

Amounts in Rs. crore

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 ¹)	Current Rating
Sansar Trust March 2020	PTC Series A1	March 2020	8.46%	September 2024	358.49	Provisional [ICRA]AAA(SO)
	PTC Series A2	March 2020	8.46%	September 2024	143.41	Provisional [ICRA]AAA(SO)
	Second Loss Facility	March 2020	N.A.	September 2024	50.19	Provisional [ICRA]BBB+(SO)

[#] Per annum payable monthly

¹ 100 lakh = 1 crore = 10 million

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