

July 31, 2020

Shriram Transport Finance Company Limited: Provisional [ICRA]AA(SO) assigned to assignee payouts backed by vehicle and tractor loan receivables issued under STFC BOI_July 2020

Summary of rating action

Transaction	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
STFC BOI_July 2020	Assignee Payouts	138.47	Provisional [ICRA]AA(SO); Assigned

**Instrument details are provided in Annexure-1*

Rationale

ICRA has assigned a provisional rating to the assignee payouts under a securitisation transaction, STFC BOI_July 2020, originated by Shriram Transport Finance Company Limited (STFC). The assignee payouts are backed by receivables from a Rs. 138.47-crore pool of vehicle, construction equipment (CE) and tractor loans.

The provisional rating is 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 (CC) and subordination of the excess interest spread (EIS), 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 credit enhancement in the form of EIS and CC
- Low obligor concentration with the top 10 obligors together accounting for only 1.5% of the overall pool principal amount
- High average seasoning of the contracts in the pool (16.6 months)

Credit challenges

- High share of contracts with original tenure of more than 48 months i.e. 99.95%
- Uncertainty arising from the nationwide lockdown due to Covid-19 pandemic that may lead to near-term stress on the pool's performance

It is envisaged that for this transaction, the Assignee will avail the partial credit guarantee (PCG) under the Partial Credit Guarantee Scheme offered by the Government of India (GoI) to public sector banks (PSBs) for purchasing high-rated pooled assets from non-banking financial companies (NBFCs)/housing finance companies (HFCs). ICRA has not factored in the PCG while arriving at the assigned rating.

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned to the investor at par. The first line of support for meeting the scheduled assignee payouts is the EIS in the structure, which is subordinated. Further credit enhancement is available through an unconditional and irrevocable corporate guarantee from STFC equivalent to 8.50% of the initial pool principal.

The scheduled cash flow promised to the assignee on each payout date includes 100% of the monthly billed principal on the pool and the interest at the contracted yield. The pool amortisation schedule and thus the promised payouts on the assignee are subject to modification on account of prepayments. All the contracts in the pool have been offered a moratorium for March - August 2020 as per the Reserve Bank of India's (RBI) COVID-19 – Regulatory Package announced on March 27, 2020 and the extension announced on May 22, 2020. The assignee payouts have also been modified such that only the interest is promised in the September 2020 and October 2020 payout months and both the principal and the interest are promised thereafter.

The pool is characterised by a low obligor concentration with the top 10 obligors together accounting for only 1.51% of the overall pool principal amount. The average seasoning of the pool is high at ~16.6 months. The share of overdue contracts in the pool is nil, as on the cut-off date. The share of contracts with an original tenure of more than 48 months is higher at 99.95% wherein the delinquency levels have historically been higher. The selected pool consists of receivables from loans given for both new and used vehicles in the commercial vehicle (CV; ~50% share in the pool), passenger vehicle (PV; ~11%), CE (~4% share in the pool) and tractor (~35%) asset classes.

Past rated pool performance: ICRA has so far rated 48 pools backed by new & used CV, new & used PV, new & used equipment and tractor loans originated by STFC and had ratings outstanding on 18 pools as on June 30, 2020. Till March 2020 (collection month), the performance of the live pools was characterised by stable cumulative collection ratios of more than 93% 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 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 at 4.50-5.50%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum. However, the ongoing nationwide lockdown and the subsequent uncertainty regarding the macro-level economic activity could lead to near-term stress on the pool's performance.

Liquidity position: Strong

A CC will be available in the transaction. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in the current stress scenario, the recommended CC of 8.50% would cover the shortfalls in the assignee payouts for a period of 13 months.

Rating sensitivities

Positive triggers – The rating could be upgraded on the quick ramp-up in the collection efficiency to >95%, leading to lower-than-expected delinquency levels and an increase in the cover available for future assignee payouts from the credit enhancements, along with an improvement in STFC's credit profile.

Negative triggers – Even though ICRA has factored in a possible decline in collections in the immediate future, the rating could still be downgraded if the collections show no sign of improvement and the CC available in the transaction falls below ~6% of the balance pool principal. Further, higher-than-expected delinquency levels throughout the tenure of the transaction and credit enhancement utilisation levels can put pressure on the rating. The rating could also be downgraded on a deterioration in STFC's credit profile (unless the guarantee is replaced by a fixed deposit maintained with a Designated Bank acceptable to ICRA or with another guarantee from an entity acceptable to ICRA).

Analytical approach

The rating action is based on the analysis of the performance of STFC's portfolio till March 2020 and the previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement 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

About the company

STFC was incorporated in 1979 and is a part of the Shriram Group of companies. STFC is a deposit-accepting asset financing non-banking financial company. It provides financing for vehicles such as CVs (both pre-owned and new), tractors, and PVs and is the market leader in used CV financing. It has a pan-India presence with 1,758 branches and 831 rural centres as on March 31, 2020. 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.

In FY2020, STFC reported a net profit of Rs. 2,502 crore on a total income base of Rs. 16,519 crore compared to a net profit of Rs. 2,564 crore on a total income base of Rs. 15,457 crore in FY2019. ICRA currently has a rating of MAA+(Stable) on the fixed deposit programme of STFC.

Key financial indicators

	FY2018	FY2019	FY2020
	Ind-AS	Ind-AS	Ind-AS
Total Income	13,268	15,457	16,519
Profit after Tax	2,467	2,564	2,502
Net Worth	13,575	15,836	18,005
Total Assets [^]	1,02,646	1,10,773	1,20,461
Return on Assets	2.79%	2.40%	2.16%
Return on Net Worth	19.84%	17.44%	14.79%
Gearing (times)	6.05	5.55	5.24
% Gross Stage 3	9.39%	8.42%	8.36%
% Net Stage 3	6.19%	5.68%	5.62%
% Net Stage 3/Net Worth	43.02%	35.66%	33.27%
Capital Adequacy Ratio	17.38%	20.27%	21.99%

[^] Gross assets

Source: STFC and ICRA research

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Transaction	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date & Rating	FY2020	FY2019	FY2018
					31-Jul-2020			
1	STFC BOI_July 2020	Assignee Payouts	138.47	138.47	Provisional [ICRA]AA(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-1: Instrument details

Transaction Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ¹)	Current Rating
STFC BOI_July 2020	Assignee Payouts	July 2020	9.00%	March 2026	138.47	Provisional [ICRA]AA(SO)

[#] Per annum payable monthly

¹ 100 lakh = 1 crore = 10 million

Analyst Contacts

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Ayush Agarwal

+91 22 6114 3417

ayush.agarwal@icraindia.com

Karan Pednekar

+91 22 6114 3433

karan.pednekar@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sankha Subhra Banerjee

+91 22 6114 3420

sankha.banerjee@icraindia.com

Relationship Contact

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents