

August 20, 2020

Shriram Transport Finance Company Limited: Rating confirmed as final for Assignee Payouts under one vehicle loans securitisation transaction

Summary of rating action

Transaction	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
BANK OF INDIA – PCG MAR-2020	Assignee Payouts	234.76	[ICRA]AA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In April 2020, ICRA had assigned a provisional rating to the Assignee Payouts under a securitisation transaction named BANK OF INDIA – PCG MAR-2020, originated by Shriram Transport Finance Company Limited (STFC). The Assignee Payouts are backed by receivables from a Rs. 234.76 crore pool of vehicle and construction equipment (CE) loans. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS? Full form? and credit collateral and absence of overdue contracts as on cut-off date
- Low obligor concentration with the top 10 obligors together accounting for only 0.9% of the overall pool principal amount
- High average seasoning of the contracts in the pool (~19 months)

Credit challenges

- High share of contracts with original tenure greater than 48 months i.e. 96.2%
- Moderate average LTV of about 75%
- Uncertainty arising from the nationwide lockdown due to Covid-19 outbreak may lead to near-term stress on pool 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 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 Assignee 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 6.00% of the initial pool principal.

ICRA notes that the scheduled cash flow promised to the Assignee on each payout date includes principal collected on the pool and interest at the contracted yield. The pool amortisation schedule and the promised payouts to the Assignee are subject to modification on account of prepayments. STFC has provided moratorium to its borrowers in the underlying pool. The Assignee in the transaction had provided approval for the extension of the moratorium for the underlying contracts for two months (April and May collections), in line with the 'COVID-19 – Regulatory Package' announced by the Reserve Bank of India (RBI). As per the Assignee's approval, the assignee payouts had been modified such that the principal and interest were not promised in May and June 2020 payout months. All collections in April and May 2020 along with the accrued interest were scheduled to be paid during July 2020 payouts along with collections from June 2020.

The pool is characterised by a low obligor concentration with the top 10 obligors together accounting for only 0.9% of the overall pool principal amount. The average seasoning of the pool is high at ~19 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 96.2% 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; ~18% share in the pool), passenger vehicle (PV; ~74%) and CE (~9%) 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 to be 3.5% - 4.5%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 11.0% - 13.0% per annum. However, the ongoing nationwide lockdown and subsequent uncertainty around macro level economic activity could lead to near-term stress on pool performance.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the assignee payout holders monthly 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 post utilisation in July 2020 are expected to be comfortable to meet the promised payouts to Assignee.

Rating sensitivities

Positive triggers - The ratings could be upgraded based on both the following events

- Sustained strong collection performance of the underlying pool contracts (>95%), leading to lower than expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancements
- Improvement in credit profile of STFC

Negative triggers – The rating could be downgraded based on either of the following events:

- Sustained weak collection performance of the underlying pool, leading to higher than expected delinquency levels and CE utilisation levels
- Deterioration in credit profile of STFC (unless the guarantee is replaced by 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 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 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 Ind-AS	FY2019 Ind-AS	FY2020 Ind-AS
Total Income	13,268	15,457	16,519
Profit after Tax	2,467	2,564	2,502
Total Assets	1,02,646	1,10,773	1,20,461
% Gross Stage 3	9.39%	8.42%	8.36%
% Net Stage 3	6.19%	5.68%	5.62%

Source: STFC and ICRA research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: ICRA has taken note of the recent development for the transaction wherein the credit collateral available in the transaction was not utilised in a timely manner to cover the shortfall arising in meeting the promised interest payout on July 22, 2020 as the Assignee Representative for the transaction was awaiting moratorium confirmation from the Assignee. Since it was subsequently communicated that the transaction did not have any further moratorium, the credit collateral (STFC's guarantee) was invoked on August 14, 2020 and the incremental interest payout (Rs. 0.70 crore) was done on the same day. ICRA also notes that the Assignee had adequate credit collateral (Rs. 14.09 crore i.e. guarantee of 6% of initial pool principal) to meet any shortfalls. The credit collateral post utilisation is sufficient to cover seven months of current interest amount.

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 20-Aug-2020	FY2021 11-May-2020	FY2020 -	FY2019 -
1 BANK OF INDIA – PCG MAR-2020	Assignee Payouts	234.76	234.76	[ICRA]AA(SO)	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
BANK OF INDIA – PCG MAR- 2020	Assignee Payouts	March 2020	9.00%	December 2025	234.76	[ICRA]AA(SO)

[#] Per annum payable monthly

¹ 100 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.

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