

December 26, 2017

Shriram Transport Finance Company Limited

Summary of Rated Instruments

Sl.	Trust Name	Instrument*	Initial Issued Amount (Rs. crore ¹)	Rating action
1	Sansar Trust December 2017 II	PTC Series A	577.03	Provisional [ICRA]AAA(SO) Assigned
		Second Loss Facility	24.52	Provisional [ICRA]BBB(SO) Assigned

*Instrument details are provided in Annexure I

Rating Action

ICRA has assigned Provisional [ICRA]AAA(SO) [pronounced Provisional ICRA triple A (Structured Obligation)] to PTC Series A. The PTCs are backed by receivables from a Rs. 577.03 crore pool of vehicle and construction equipment loans.

Rationale

The provisional ratings are based on the strength of cash flows from the selected pool of contracts, STFC's track record in business, the available credit enhancement in the form of credit collateral and subordination of Excess Interest Spread (EIS), and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

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 ~12 months;
- Low obligor concentration with the top 10 obligors together accounting for only ~1.27% of the overall pool principal amount;
- Lower geographical concentration with top 3 states accounting for ~33% of the overall pool principal amount

Credit Weakness

- Share of overdue contracts is about 9.22% of the pool principal; however none of the contracts is overdue for more than one month.
- Moderately high average LTV of ~74%.

¹ 100 lakh = 1 crore = 10 million

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 a single series of PTCs, backed by the same. The first line of support for meeting scheduled PTC payouts is the subordination of EIS in the structure. Further credit support in the transaction is available through a Cash Collateral (CC) of 9.25% of the pool principal amount.

The pool is characterised by moderate seasoning (average seasoning of around 12 months) and has an average LTV of around 74%. The selected pool consists of receivables from loans given for both new and used vehicles in the Commercial Vehicle (CV; around 48% share in the pool), new and used vehicles in the Passenger Vehicle (PV; around 7% share in the pool) and new and used Construction Equipment (CE; around 45% share in the pool) asset classes.

Key rating assumptions

ICRA’s cash flow modelling for rating of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator’s portfolio and rated pools, and also the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 4.0% - 5.0%, 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.

Analytical approach:

The rating action is based on the analysis of the past performance of STFC’s portfolio and 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.

Links to applicable Criteria

[Rating Methodology for Securitisation Transactions](#)

About the Company:

STFC is the market leader in financing of used vehicles with a total AUM of Rs. 85,463 crore as on September 30, 2017. Used vehicle financing accounted for around 87% of its portfolio (managed assets) as on September 30, 2017. The company finances vehicles with age of up to 12 years.

During the Quarter ended September 30, 2017 STFC reported a Profit After Tax (PAT) of Rs. 479.11 crore on a total income base of Rs. 2979.92 crore against a PAT of Rs. 387.65 crore on a total income base of Rs. 2713.59 crore during the corresponding period in the previous financial year. As on September 30, 2017 STFC had a net worth of Rs. 12,061 crore and had a reported capital adequacy of 16.19%. As on September 30, 2017, STFC had a Gross NPA% of 8.06% and a Net NPA of 2.45% against a Gross NPA% of 6.58% and a Net NPA of 2.04% a year earlier.

ICRA currently has a rating of MAA+ (Stable) on the fixed deposit programme of STFC and a rating of [ICRA]AA with Stable Outlook to the subordinate debt programme of STFC.

Key Financial ratios (Audited):

STFC (Standalone)	FY2016	FY2017
Total Income (Rs. Crore)	10,195	10,731
Profit before tax (Rs. Crore)	1,781	1,924
Profit after tax (Rs. Crore)	1,178	1,257
Total Managed Portfolio (Rs. Crore)	61,878	65,463
Total Managed Assets (Rs. Crore)	72,761	78,761
CAR%	17.56%	16.94%
Gearing	5.09	4.89
% RoMA (return on managed assets)	1.59%	1.51%
% Return on Net worth	12.19%	11.74%
Gross NPA%	6.18%	8.16%
Net NPA%	1.91%	2.65%

Source: STFC's investor presentation and ICRA research; Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)^	Month-year & Rating December 2017	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
1	Sansar Trust December 2017 II	PTC Series A	577.03	Provisional [ICRA]AAA(SO)	N. A.	N. A.	N. A.
		Second Loss Facility	24.52	Provisional [ICRA]BBB(SO)	N. A.	N. A.	N. A.

^ Total rated PTCs (excluding the Second Loss Facility) are Rs. 577.03 crore

Complexity level of the rated instrument: Highly Complex

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
Details of Instruments

Sl.	Trust Name	Instrument	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Initial Amount (Rs. crore ²) [^]	Current Rating
1	Sansar Trust December 2017 II	PTC Series A	December 2017	6.80%	Jun 2022	577.03	Provisional [ICRA]AAA(SO)
		Second Loss Facility		NA		24.52	Provisional [ICRA]BBB(SO)

per annum payable monthly

^ Total rated PTCs (excluding the Second Loss Facility) are Rs. 577.03 crore

² 100 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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