

Shriram Transport Finance Company Limited

March 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Fixed Deposit Programme	-	-	MAA+ (Stable); Outstanding
Total	-	-	

*Instrument details are provided in Annexure-1

Rating action

ICRA has a rating outstanding of MAA+ (pronounced ICRA M double A plus) with a Stable outlook for the fixed deposit programme of Shriram Transport Finance Company Limited (STFC)¹.

Rationale

The rating factors in STFC's dominant market position, its extensive track record and strong customer outreach as well as its competitive position in the pre-owned commercial vehicle (CV) financing market. The rating also factors in STFC's moderate capitalisation levels, its favourable liquidity profile and proven ability to maintain a favourable earnings profile by managing asset quality across business cycles despite operating in the riskier small road transport operator segment. These positives, however, get offset, to an extent, by the concentration of STFC's portfolio in the CV segment, which exposes it to industry-specific risks, and the resultant lack of diversity in its revenue streams. ICRA also notes that STFC's incremental credit cost has increased because of deterioration in reported asset quality indicators as a result of demonetisation and migration to the 120+ DPD NPA recognition norm during Q4 FY2017. Going forward, the company's ability to grow its loan book, while maintaining adequate profitability and asset quality, will remain a key rating monitorable.

Outlook: Stable

ICRA believes STFC will continue to benefit from its branch network and maintain its market position in the pre-owned CV financing segment and its earnings profile. The outlook may be revised to Positive if there is a substantial improvement in the company's profitability and asset quality indicators. The outlook may be revised to Negative if there is significant deterioration in the company's asset quality and its profitability indicators.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA rating publications

Key rating drivers

Credit strengths

Dominant player in the pre-owned CV financing segment with decades of experience – STFC is one of the largest CV financiers in the country with assets under management (AUM) of Rs. 90,019 crore as on December 31, 2017 (Rs. 76,281 crore as on December 31, 2016). Pre-owned vehicle loans stood at Rs. 77,047 crore (86% of AUM), new vehicle loans at Rs. 9,508 crore (11% of AUM) and the balance was for equipment and other financing.

The company has an experienced management team with the senior level having an experience of more than 30 years in CV financing. The company's well laid-out branch network, credit appraisal and monitoring systems have enabled it to establish itself as a preferred lender in the CV financing sector.

Adequate capitalisation profile - STFC's capitalisation profile is moderate with net worth of Rs. 12,424 crore and CRAR of 16.15% (Tier I- 14.86%) as on December 31, 2017. The company's capitalisation is expected to remain adequate over the medium term, supported by its ability to raise capital through public issues and healthy internal capital generation (return on equity (ROE) of 16% for 9M FY2018).

Comfortable profitability profile – STFC has a comfortable profitability profile with return on asset (ROA) and ROE of 2.4% and 16.0%, respectively, as on December 31, 2017 (ROA of 2.1% and ROE of 13.8% as on December 31, 2016). During 9M FY2018, the company reported profit after tax (PAT) of Rs. 1,423 crore as against Rs. 1,108 crore during 9M FY2017, on account of an increase in interest income, despite an increase in credit provisions (demonetisation and transitioning to 120+ DPD from 150+ DPD) and operating expenses.

Credit challenges

Modest asset quality - STFC's asset quality deteriorated in FY2017 following a change in NPA recognition norms to 120+ DPD from 150+ DPD and demonetisation. Gross NPA increased to 8.16% as on March 31, 2017 from 6.18% as on March 31, 2016. The asset quality improved slightly in 9M FY2018 with gross NPA of 7.98% as on December 31, 2017. However, the company has made adequate provisions for NPAs and had a provision coverage of around 71% as on December 31, 2017. STFC's asset quality is expected to remain under pressure in the near term as the company is planning to transition to 90+ DPD from 120+ DPD in Q4 FY2018. The company's ability to grow its loan book, while maintaining adequate profitability and controlling credit cost, would be critical.

High concentration risk – The company's exposure to the CV segment, which constituted 68% of AUM as on December 31, 2017, combined with the relatively weaker credit profile of its customers, exposes it to irregularity in revenue and industry risk. The company's ability to diversify its product offering and customer base will be a key rating monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

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 passenger vehicles and is the market leader in used-CV financing. It has a pan-India presence, with 1,121 branches and 930 rural centres as on December 31, 2017. STFC is also engaged in the construction equipment financing business through its erstwhile wholly-owned subsidiary, Shriram Equipment Finance Company that was merged with STFC with effect from April 1, 2015.

During FY2017, STFC reported a net profit of Rs. 1,257.34 crore on a total income base of Rs. 10,830.61 crore compared to a net profit of Rs. 1,178.20 crore on a total income base of Rs. 10,293.49 crore during FY2016. During 9M FY2018, STFC reported a net profit of Rs. 1,423.42 crore on a total income base of Rs. 8,967.79 crore.

Key financial indicators (audited)

	FY 2016	FY 2017	9MFY2017(P)	9MFY2018(P)
Total income	10,293	10,831	8,118	8,968
Profit after tax	1,178	1,257	1,108	1,423
Net worth	10,132	11,292	11,140	12,424
CRAR	17.56%	16.94%	17.55%	16.15%
Tier I	14.70%	15.20%	15.44%	14.86%
Return on net worth (%)	11.99%	11.61%	13.80%	16.03%
Gross NPAs (%)	6.18%	8.16%	6.62%	7.98%
Net NPAs (%)	1.91%	2.65%	1.71%	2.45%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2015	
				March 2018	Dec 2017	Apr 2014	
1 Fixed Deposit	Medium Term	NA	NA	MAA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)	
2 Subordinate Debt Programme	Long Term	50	0	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable); Assigned	

Source: ICRA

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit Programme	NA	NA	NA	NA	MAA+ (Stable)

Source: ICRA

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