

Shriram Transport Finance Company Limited

September 24, 2018

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Sansar Trust September 2018 III	PTC Series A	494.61	Provisional [ICRA]AAA(SO) assigned
	Second Loss Facility	19.78	Provisional [ICRA]BBB+(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]AAA(SO) [pronounced Provisional ICRA triple A (Structured Obligation)] to PTC Series A and Provisional [ICRA]BBB+(SO) [pronounced Provisional ICRA triple B plus (Structured Obligation)] under a securitization transaction originated by Shriram Transport Finance Company Limited (STFC). The PTCs are backed by receivables from a Rs. 494.61 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 the lending 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 ~10 months
- Low obligor concentration with the top 10 obligors together accounting for only ~1.42% of the overall pool principal amount;

Credit challenges

- Moderately high average LTV of 72.56%; share of contracts with LTV more than 90% is 3.77%
- Share of overdue contracts is 3.59% of the pool principal; however, none of the contracts is overdue for more than one month as on pool cut-off date

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 9.00% of the pool principal amount.

The pool is characterised by moderate seasoning (average seasoning of 9.98 months) and has an average original LTV of around 72.56%. Share of overdue contracts is moderate at 3.59% of the pool principal. However, none of the contracts are overdue for more than one month as on the pool cut-off date. The selected pool consists of receivables from loans given for both new and used vehicles in the Commercial Vehicle (CV; around 79% share in the pool) Passenger Vehicle (PV; around 11% share in the pool) and Construction Equipment (CE; around 9% 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 Coefficient 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. 100,978 crores as on June 30, 2018. Used vehicle financing accounted for around 84% of its portfolio (managed assets) as on June 30, 2018. The company finances vehicles with age of up to 12 years.

In FY2018 STFC reported a Profit After Tax (PAT) of Rs. 1568.02 crore on a total income base of Rs. 12143.55 crore against a PAT of Rs. 1257.34 crore on a total income base of Rs. 10730.58 crore in FY2017. In Q1 FY2019 STFC reported a Profit After Tax (PAT) of Rs. 571.72 crore on a total income base of Rs. 3739.85 crore against a PAT of Rs. 459.69 crore on a total income base of Rs. 3118.68 crore in Q1 FY2018. As on June 30, 2018 STFC had a net worth of Rs. 14,023 crore and had a reported capital adequacy of 17.06%. As on June 30, 2018, STFC had a Gross NPA% of 8.98% and a Net NPA of 2.74% against a Gross NPA% of 8.03% and a Net NPA of 2.49% a year earlier.

ICRA currently has a rating of MAA+ (Stable) on the fixed deposit programme of STFC.

Key financial indicators (audited)

STFC (Standalone)	FY2017	FY2018
Total Income (Rs. Crore)	10,731	12,144
Profit before tax (Rs. Crore)	1,924	2,372
Profit after tax (Rs. Crore)	1,257	1,568
Total Managed Portfolio (Rs. Crore)	65,463	79,673
Total Managed Assets (Rs. Crore)	78,761	95,306
CAR%	16.94%	16.87%
Cost to Income Ratio %	21.15%	20.59%
% Return on Assets	1.76%	1.94%
% Return on Equity	11.61%	13.06%
Gross NPA%	8.16%	9.15%
Net NPA%	2.65%	2.83%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.NO	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					September 2018	-	-	-
1	Sansar Trust September 2018 III	PTC Series A	494.61	494.61	Provisional [ICRA]AAA(SO)	-	-	-
		Second Loss Facility	19.78	19.78	Provisional [ICRA]BBB+(SO)	-	-	-

**Initial Ratings assigned*

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

Detail of Instruments

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ¹) [^]	Current Rating
Sansar Trust September 2018 III	PTC Series A	September 2018	8.17%	April 2023	494.61	Provisional [ICRA]AAA(SO)
	Second Loss Facility	September 2018	N.A.	April 2023	19.78	Provisional [ICRA]BBB+(SO)

[#] per annum payable monthly

[^] Total rated PTCs (excluding the Second Loss Facility) are Rs.494.61 crore

¹ 100 lakh = 1 crore = 10 million

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About ICRA Limited:

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