

Shriram Transport Finance Company Limited

January 24, 2019

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Sansar Trust Oct 2018	PTC Series A	850.97	Provisional [ICRA]AAA(SO) confirmed as final
	Second Loss Facility	44.68	Provisional [ICRA]BBB+(SO) confirmed as final

*Instrument details are provided in Annexure-1

Rating action

ICRA has confirmed provisional ratings assigned to PTCs and Second Loss Facility issued under Sansar Trust Oct 2018 as tabulated above. The PTCs are backed by receivables from a Rs. 850.97 crore pool of vehicle, construction equipment and tractor loans originated by Shriram Transport Finance Company Limited (STFC).

Rationale

In October 2018, ICRA had assigned Provisional [ICRA]AAA(SO) and Provisional [ICRA]BBB+(SO) rating to PTC Series A and Second Loss Facility respectively. Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and Credit Collateral;
- Moderately high seasoning profile of the pool contracts with average seasoning of ~12 months
- Low obligor concentration with the top 10 obligors together accounting for only ~1.25% of the overall pool principal amount;

Credit challenges

- Moderately high average LTV of 77.01%; share of contracts with LTV more than 90% is 14.13%;
- Share of overdue contracts is 8.25% 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 EIS in the structure which is subordinated. Further credit support in the transaction is available through a Cash Collateral (CC) of 10.25% of the pool principal amount.

The pool is characterised by moderately high seasoning (average seasoning of 12.11 months) and has an average original LTV of around 77.01%. Share of overdue contracts is moderately high at 8.25% 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 67% share in the pool) Passenger Vehicle (PV; around 18% share in the pool), Construction Equipment (CE; around 8% share in the pool) and Tractor (around 7% share in the pool) asset classes.

Past rated pool performance: ICRA has thus far rated 36 pools backed by New & Used CV, New & Used Passenger Vehicle, New & Used Equipment and Tractor loans originated by STFC and has ratings outstanding on 15 pools as on 31st October 2018. The performance of the outstanding pools is characterised by stable collection ratios averaging around 95% and loss-cum-180+ dpd levels of sub 2.0%.

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.

Liquidity Position

The transaction has cash collateral available amounting to 10.25% of the pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the cash collateral would cover eight months of PTC payouts in full. Further the EIS for any month would be retained in the structure and available to meet future shortfalls if any for PTC investor payouts thereby providing additional cushion.

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 is the market leader in financing of used vehicles with a total AUM of Rs. 104,380 crores as on September 30, 2018. Used vehicle financing accounted for around 82% of its portfolio (managed assets) as on September 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 H1 FY2019 STFC reported a Profit After Tax (PAT) of Rs. 1182.48 crore on a total income base of Rs. 7681.83 crore against a PAT of Rs. 957.24 crore on a total income base of Rs. 6378.16 crore in H1 FY2018. As on September 30, 2018 STFC had a net worth of Rs. 14,560 crore and had a reported capital adequacy of 16.69%. As on September 30, 2018, STFC had a Gross NPA% of 8.77% and a Net NPA of 2.75% against a Gross NPA% of 8.06% and a Net NPA of 2.45% a year earlier.

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

ICRA has thus far rated 37 pools backed by New & Used CV, New & Used Passenger Vehicle, New & Used Equipment and Tractor loans originated by STFC and has ratings outstanding on 13 pools as on 31st December 2018. The performance of the outstanding pools is characterised by stable collection ratios averaging around 96% and loss-cum-180+ dpd levels of sub 1.5%.

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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019*	Date & Rating in FY2018	Date & Rating in FY2017
1	Sansar Trust Oct 2018	PTC Series A	850.97	850.97	[ICRA]AAA(SO) January 2019	Provisional [ICRA]AAA(SO) November 2018	-	-
		Second Loss Facility	44.68	44.68	[ICRA]BBB+(SO)	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 Oct 2018	PTC Series A	October 2018	8.65%	November 2023	850.97	[ICRA]AAA(SO)
	Second Loss Facility	October 2018	N.A.	November 2023	44.68	[ICRA]BBB+(SO)

per annum payable monthly

^ Total rated PTCs (excluding the Second Loss Facility) are Rs. 850.97 crore

¹ 100 lakh = 1 crore = 10 million

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About ICRA Limited:

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