

Shriram Transport Finance Company Limited

April 08, 2019

Summary of rated instruments

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Sansar Trust March 2019	PTC Series A1	155.00	Provisional [ICRA]A1+(SO) assigned
	PTC Series A2	165.00	Provisional [ICRA]AAA(SO) assigned
	PTC Series A3	190.00	Provisional [ICRA]AAA(SO) assigned
	PTC Series A4	514.17	Provisional [ICRA]AAA(SO) assigned
	Second Loss Facility	82.96	Provisional [ICRA]BBB+(SO) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned Provisional [ICRA]A1+(SO) [pronounced Provisional ICRA A one plus (Structured Obligation)] to PTC Series A1 and Provisional [ICRA]AAA(SO) [pronounced Provisional ICRA triple A (Structured Obligation)] to PTC Series A2, PTC Series A3 and PTC Series A4 and Provisional [ICRA]BBB+(SO) [pronounced Provisional ICRA triple B plus (Structured Obligation)] to Second Loss Facility under a securitization transaction originated by Shriram Transport Finance Company Limited (STFC). The PTCs are backed by receivables from a Rs. 1,024.17 crore pool of vehicle 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 ~12 months
- Low obligor concentration with the top 10 obligors together accounting for only ~0.95% of the overall pool principal amount;

Credit challenges

- Moderate average LTV of 68.1%; share of contracts with LTV more than 90% is 3.37%;
- Share of overdue contracts is 8.4% of the pool principal; however, none of the contracts are 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 13.10% of the pool principal amount.

The pool is characterised by moderate seasoning (average seasoning of 11.99 months) and has an average original LTV of around 68.06%. Share of overdue contracts is moderate at 8.42% 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 42% share in the pool) and Passenger Vehicle (PV; around 58% 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 10.0% - 15.0% per annum.

Liquidity Position

There is credit collateral available in the transaction amounting to 13.10% of the pool principal amount. Assuming even 50% monthly collection efficiency in the underlying pool contracts in a stress scenario, the credit collateral would cover 10 months of PTC payouts in full.

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 12 pools as on 28th February 2019. 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%.

Analytical approach

The rating actions are based on the performance of the pools till December 2018 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

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. 103,818 crores as on December 31, 2018. Used vehicle financing accounted for around 83% of its portfolio (managed assets) as on December 31, 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 9M FY2019 STFC reported a Profit After Tax (PAT) of Rs. 1817.93 crore on a total income base of Rs. 11672.46 crore against a PAT of Rs. 1498.78 crore on a total income base of Rs. 9756.16 crore in 9M FY2018. As on December 31, 2018 STFC had a net worth of Rs. 15,035 crore and had a reported capital adequacy of 19.72%. As on December 31, 2018, STFC had a Gross NPA% of 8.97% and a Net NPA of 2.78% against a Gross NPA% of 7.98% 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.

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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:

Current Rating (FY2019)		Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					April 2019	-	-
1 Sansar Trust March 2019	PTC Series A1	155.00	155.00	Provisional [ICRA] A1+(SO)	-	-	-
	PTC Series A2	165.00	165.00	Provisional [ICRA] AAA(SO)	-	-	-
	PTC Series A3	190.00	190.00	Provisional [ICRA] AAA(SO)	-	-	-
	PTC Series A4	514.17	514.17	Provisional [ICRA] AAA(SO)	-	-	-
	Second Loss Facility	82.96	82.96	Provisional [ICRA] BBB+(SO)	-	-	-

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 March 2019	PTC Series A1	April 2019	8.25%	October 2019	155.00	Provisional [ICRA] A1+(SO)
	PTC Series A2	April 2019	8.75%	April 2020	165.00	Provisional [ICRA] AAA(SO)
	PTC Series A3	April 2019	9.25%	November 2020	190.00	Provisional [ICRA] AAA(SO)
	PTC Series A4	April 2019	1.00%	April 2024	514.17	Provisional [ICRA] AAA(SO)
	Second Loss Facility	April 2019	N.A.	April 2024	82.96	Provisional [ICRA] BBB+(SO)

[#] per annum payable monthly

[^] Total rated PTCs (excluding the Second Loss Facility) are Rs. 1,024.17 crore

¹ 100 lakh = 1 crore = 10 million

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About ICRA Limited:

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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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