

Shriram Transport Finance Company Limited

April 15, 2019

Summary of rating actions

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

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed provisional ratings assigned to PTCs and Second Loss Facility issued under Sansar Trust March 2019 as tabulated above. The PTCs are backed by receivables from a Rs. 1,024.17 crore pool of vehicle loans originated by Shriram Transport Finance Company Limited (STFC).

In April 2019, ICRA had 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. 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
- 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 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 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 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, a deposit-accepting asset financing non-banking financial company, was incorporated in 1979 and is a part of the Shriram Group of companies. 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 1,348 branches and 885 rural centres as on December 31, 2018. 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.

STFC reported a net profit of Rs. 1,568.04 crore in FY2018 on a total income base of Rs. 12,264.80 crore compared to a net profit of Rs. 1,257.34 crore on a total income base of Rs. 10,824.47 crore in FY2017. STFC reported a net profit of Rs. 1,817.92 crore in 9M FY2019 on a total income base of Rs. 11,610.42 crore.

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

Key financial indicators (audited)

	FY2017 iGAAP	FY2018 iGAAP	9M FY2019 IND-AS
Total Income	10,824	12,265	11,610
Profit after Tax	1,257	1568	1,818
Net Worth	11,292	12,572	15,062
Total Assets	74,400	88,471	1,08,757
Return on Assets	1.77%	1.93%	2.46%
Return on Net Worth	11.61%	13.14%	17.54%
Gearing (times)	4.89	5.21	5.95
% Gross NPAs	8.16%	9.53%	8.78%
% Net NPAs	2.65%	6.08%	5.86%
% Net NPA/Net Worth	14.69%	46.13%	38.81%
Capital Adequacy Ratio	16.94%	16.87%	19.72%

Source: Company and ICRA research

CRAR: Capital to risk weighted assets ratio, NPA: Non-performing asset
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				April 2019	April 2019	-	-
1 Sansar Trust March 2019	PTC Series A1	155.00	155.00	[ICRA] A1+(SO)	Provisional [ICRA] A1+(SO)	-	-
	PTC Series A2	165.00	165.00	[ICRA] AAA(SO)	Provisional [ICRA] AAA(SO)	-	-
	PTC Series A3	190.00	190.00	[ICRA] AAA(SO)	Provisional [ICRA] AAA(SO)	-	-
	PTC Series A4	514.17	514.17	[ICRA] AAA(SO)	Provisional [ICRA] AAA(SO)	-	-
	Second Loss Facility	82.96	82.96	[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 March 2019	PTC Series A1	April 2019	8.25%	October 2019	155.00	[ICRA] A1+(SO)
	PTC Series A2	April 2019	8.75%	April 2020	165.00	[ICRA] AAA(SO)
	PTC Series A3	April 2019	9.25%	November 2020	190.00	[ICRA] AAA(SO)
	PTC Series A4	April 2019	10.00%	April 2024	514.17	[ICRA] AAA(SO)
	Second Loss Facility	April 2019	N.A.	April 2024	82.96	[ICRA] BBB+(SO)

[#] per annum payable monthly

[^] Total rated PTCs (excluding the Second Loss Facility) are Rs. 1460.08 crore

¹ 100 lakh = 1 crore = 10 million

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