

May 24, 2019

## Shriram Transport Finance Company Limited: ICRA assigns provisional ratings to PTCs issued by Sansar Trust May 2019

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust May 2019	PTC Series A1	711.87	Provisional [ICRA]AAA(SO) assigned
	PTC Series A2	709.03	Provisional [ICRA]AAA(SO) assigned

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has assigned a rating of Provisional [ICRA]AAA(SO) [pronounced provisional ICRA triple A (structured obligation)] to PTC Series A1 and PTC Series A2 under a securitisation transaction originated by Shriram Transport Finance Company Limited (STFC). The pass-through certificates (PTCs) are backed by receivables from a Rs. 1,420.91 crore pool of vehicle and construction equipment loans.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, STFC's track record in the lending business, the available credit enhancement in the form of a credit collateral and subordination of excess interest spread (EIS), and the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement in the form of EIS and credit collateral
- Moderately high average seasoning of ~10.7 months
- High granularity in the pool with the top 10 obligors accounting for only ~0.83% of the overall pool principal amount

#### Credit challenges

- Moderate average LTV of 72.1%; share of contracts with LTV of more than 90% is 4.6%
- Share of overdue contracts is 8.8% 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 two series of PTCs, backed by the same. The first line of support for meeting the scheduled PTC payouts is the EIS in the structure, which is subordinated. Further credit support is available through a cash collateral (CC) of 12.50% of the pool principal amount.

The scheduled cash flow promised to both series of PTCs on each payout date includes the pro-rata principal and interest. Once either PTC matures, 100% of the monthly billed principal on the pool is promised to the remaining series of PTCs. Prepayments, to the extent of 0.50% of the outstanding PTC Series A2 principal (after the payment of the scheduled billed principal), is promised to PTC Series A2 on a monthly basis. Any prepayments in the pool above the promised prepayment amount to PTC Series A2 will be passed on to PTC Series A1 till PTC Series A1 is live. After the

maturity of PTC Series A1, all prepayments in the pool above the promised prepayment to PTC Series A2 will be passed on to PTC Series A2.

The pool is characterised by moderately high seasoning (average seasoning of 10.7 months) and has an average original LTV of around 72.1%. The share of overdue contracts is moderate at 8.82% 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 10.6% share in the pool) Passenger Vehicle (PV; around 69.0% share in the pool) and Construction Equipment (CE; around 20.4% share in the pool) asset classes.

### Key rating assumptions

ICRA's cash flow modelling for the rating of asset-backed security (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and co-efficient of variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and rated pools, as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be 4.0% - 5.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 22.0% - 26.0% per annum.

### Liquidity position

There is credit collateral available in the transaction amounting to 12.50% of the pool principal amount. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the PTC payouts for a period of nine months.

**Past rated pool performance:** ICRA has so far rated 38 pools backed by New & Used CV, New & Used PV, New & Used Equipment and Tractor loans originated by STFC and has ratings outstanding on 12 pools as on April 30, 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 analysis of the performance of STFC's portfolio till December 2018, the performance of the pools till February 2019 (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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 finance for vehicles such as CVs (pre-owned and new), tractors, and PVs and is the market leader in used CV financing. It has a pan-India presence, with 1,545 branches as on March 31, 2019. STFC is also engaged in the CE 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

	<b>FY2017 iGAAP</b>	<b>FY2018 IND-AS</b>	<b>9M FY2019 IND-AS</b>
Total Income	10,824	12,265	11,610
Profit after Tax	1,257	1,568	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	Date & Rating in	Date & Rating in
					FY2019	FY2018	FY2017
				May 2019	-	-	-
1 Sansar Trust May 2019	PTC Series A1	711.87	711.87	Provisional [ICRA] AAA(SO)	-	-	-
	PTC Series A2	709.03	709.03	Provisional [ICRA] AAA(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](http://www.icra.in)

## Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate <sup>#</sup>	Scheduled Maturity Date	Amount Rated (Rs. crore <sup>1</sup> )	Current Rating
Sansar Trust May 2019	PTC Series A1	May 2019	9.26%	April 2024	711.87	Provisional [ICRA] AAA(SO)
	PTC Series A2	May 2019	9.26%	April 2024	709.03	Provisional [ICRA] AAA(SO)

<sup>#</sup> Per annum payable monthly

<sup>1</sup> 100 lakh = 1 crore = 10 million

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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