

May 24, 2019

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

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust May 2019 II	PTC Series A	216.48	Provisional [ICRA]AAA(SO) assigned
	Second Loss Facility	10.82	Provisional [ICRA]BBB+(SO) assigned

*Instrument details are provided in Annexure-1

Rationale

ICRA has assigned ratings of 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)] to Second Loss Facility under a securitisation transaction originated by Shriram Transport Finance Company Limited (STFC). The pass-through certificates (PTCs) are backed by receivables from a Rs. 216.48 crore pool of vehicle loans.

The provisional ratings are 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 credit collateral and subordination of excess interest spread (EIS), and the integrity of the legal structure. The ratings are 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
- No overdue contracts in the pool as on the cut-off date
- Low obligor concentration with the top 10 obligors accounting for only ~1.46% of the overall pool principal amount

Credit challenges

- Moderate average LTV of 72.4%; share of contracts with LTV of more than 90% is 3.9%
- Moderately low seasoning profile of the pool contracts with average seasoning of ~8.6 months

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 the 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 10.00% of the pool principal amount.

The pool is characterised by moderately low seasoning (average seasoning of 8.6 months) and has an average original LTV of around 72.4%. The pool does not have any overdue contracts as on the cut-off date. The selected pool consists of receivables from loans given for both new and used vehicles in the Commercial Vehicle (CV; around 97.4% share in the pool) and Passenger Vehicle (PV; around 2.6% 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 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 8.0% - 12.0% per annum.

Liquidity position

There is credit collateral available in the transaction amounting to 10.00% 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 eight 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 actions are based on the 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	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 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

	FY2017 iGAAP	FY2018 IND-AS	9M FY2019 IND-AS
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	-	-	-
Sansar	PTC Series A	216.48	216.48	Provisional [ICRA]AAA(SO)	-	-	-
1 Trust May 2019 II	Second Loss Facility	10.82	10.82	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: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [#]	Scheduled Maturity Date	Amount Rated (Rs. crore ¹)	Current Rating
Sansar Trust May 2019 II	PTC Series A	May 2019	8.80%	December 2023	216.48	Provisional [ICRA] AAA(SO)
	Second Loss Facility	May 2019	N.A.	December 2023	10.82	Provisional [ICRA] BBB+(SO)

[#] Per annum payable monthly

¹ 100 lakh = 1 crore = 10 million

ANALYST CONTACTS

Vibhor Mittal

+91 22 6114 3440

vibhorm@icraindia.com

Rahul Panigrahi

+91 22 6114 3436

rahul.panigrahi@icraindia.com

Ayush Agarwal

+91 22 6114 3417

ayush.agarwal@icraindia.com

Abhijeet Ajinkya

+91 22 6114 3434

abhijeet.ajinkya@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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