

April 06, 2022

Shriram Transport Finance Company Limited: Provisional Ratings reaffirmed for PTCs and second loss facility backed by vehicle loan receivables issued by Sansar Trust Feb 2022 II

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust Feb 2022 II	PTC Series A1 (a)	54.74	49.47	Provisional [ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (b)	14.74	10.53	Provisional [ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (c)	44.21	36.74	Provisional [ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (d)	14.57	5.80	Provisional [ICRA]AAA(SO); Reaffirmed
	Second Loss Facility	4.49	4.61	Provisional [ICRA]BBB+(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents

No rating would have been assigned as it would not be meaningful

Rationale

In March 2022, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to the pass-through certificates (PTC) Series A1 (a), PTC Series A1 (b), PTC Series A1 (c), PTC Series A1 (d) and a Provisional [ICRA]BBB+(SO) rating to the second loss facility (SLF) issued under a securitisation transaction originated by Shriram Transport Finance Company Limited (STFC). ICRA has reaffirmed the ratings assigned to all series of the PTCs and the SLF after factoring in the changes in the proposed composition of the underlying pool. The PTCs are backed by a pool of Rs. 102.54-crore vehicle loan receivables (pool principal; receivables of Rs. 134.83 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, STFC's track record in the vehicle loan business and the credit enhancement available in the form of (i) a credit collateral (CC) of 9.50% of the pool principal to be provided by the originator, and (ii) subordination of the entire excess interest spread (EIS) in the structure, as well as 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 EIS and CC in the transaction
- Low obligor concentration in the pool with the top 10 obligors accounting for only 1.0% of the overall pool principal amount
- Average loan-to-value (LTV) for the pool is low, i.e. ~65%

Credit challenges

- High share of contracts with original tenure of more than 48 months, i.e. ~61%

- Moderate state-level concentration with top 3 states constituting ~54%
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan receivables will be assigned at par to the PTC investors. The Trust would issue four series of PTCs backed by these loan receivables. The promised cash flow schedule for all the PTC series includes interest (including overdues) on a pro rata basis at the contracted yield and the principal to the extent of 100% of the billed pool principal as per the waterfall on each payout date. Till PTC Series A1 (a) is live, 100% of the monthly billed principal on the pool is promised to PTC Series A1 (a). Once PTC Series A1 (a) has matured, 100% of the monthly billed principal on the pool is then promised to PTC Series A1 (b) and so on. All the prepayment proceeds shall be utilised to amortise PTC Series A1 (a) till PTC Series A1 (a) is live followed by PTC Series A1 (b) till PTC Series A1 (b) is live and so on. The excess available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

The first line of support for meeting the scheduled PTC payouts is the subordination of the EIS in the structure. Further credit support is available through a CC of 9.50% of the pool principal amount. The CC will be split into a first loss facility (FLF) of 5.00% of the initial pool principal amounting to Rs. 5.13 crore and an SLF of 4.50% of the initial pool principal amounting to Rs. 4.61 crore.

There are no overdues in the pool as on the cut-off date. The pool is well diversified with low obligor concentration and has a weighted average seasoning of 7.0 months. It comprises new and used commercial vehicle (new CV: 1.4% and used CV: 42.9%) and new and used tractor (new tractors: 7.6% and used tractors: 48.0%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Andhra Pradesh, Rajasthan and Telangana) contributing 53.8% to the initial pool principal amount. It also has a high share of contracts with an original tenure of more than 48 months, i.e. 60.5%. Further, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic.

Past rated pools: ICRA has rated over 50 pools so far, backed by new & used CV, new & used passenger vehicle (PV), new & used construction equipment and tractor loans originated by STFC, and had ratings outstanding on 19 pools as of February 2022. Overall, the performance of all live pools remained healthy till the February 2022 payouts with good collections and a loss-cum-180+ days past due (dpd) level of sub-1.0% for all the pools.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (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 coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 8.0-12.0% per annum.

Liquidity position

For PTC Series A1: Superior

The liquidity of the rated transaction is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 9.50% of the pool principal amount. Even assuming a monthly collection

efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall in the scheduled PTC payouts for a period of nine months.

For SLF : Adequate

The cash flows from the pool and the available FLF are comfortable for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive factors – Not applicable for the PTCs; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool of contracts, resulting in an increase in the credit enhancement cover available for the SLF.

Negative factors – Pressure on the ratings could emerge on the weakening collection performance of the underlying pool (monthly collection efficiency <85% on a sustained basis).

Analytical approach

The rating action is based on the analysis of the performance of STFC 's portfolio till December 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee compliance letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

STFC, incorporated in 1979 and a part of the Shriram Group of companies, is a deposit-accepting non-banking financial company. It is the market leader in pre-owned CV financing with a pan-India presence encompassing 1,834 branches and 792 rural centres as on December 30, 2021. STFC primarily provides financing for vehicles such as CVs (pre-owned and new), tractors, and PVs. Assets under STFC's management aggregated Rs. 1,24,602 crore as on December 31, 2021.

Key financial indicators

	FY2020	FY2021	H1 FY2022
	Audited	Audited	Unaudited
Net Worth	18,005	21,568	24,592
Profit after Tax	2,502	2,487	941
Assets under Management (AUM)	1,09,749	1,17,243	1,21,647
Gross Stage 3 (%)	8.4%	7.1%	7.8%
Net Stage 3 (%)	5.6%	4.2%	4.2%

Source: STFC, ICRA Research

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1	Sansar Trust Feb 2022 II	PTC Series A1 (a)	54.74	49.47	April 06, 2022 Provisional [ICRA]AAA(SO); reaffirmed	March 29, 2022 Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1 (b)	14.74	10.53	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1 (c)	44.21	36.74	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1 (d)	14.57	5.80	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		Second Loss Facility	4.49	4.61	Provisional [ICRA]BBB+(SO); reaffirmed	Provisional [ICRA]BBB+(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1 (a), PTC Series A1 (b), PTC Series A1 (c), PTC Series A1 (d)	Simple

Second Loss Facility	Simple
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The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust Feb 2022 II	PTC Series A1 (a)	March 2022	5.95%	January 2024	49.47	Provisional [ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (b)	March 2022	5.95%	May 2024	10.53	Provisional [ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (c)	March 2022	5.95%	March 2026	36.74	Provisional [ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (d)	March 2022	5.95%	September 2026	5.80	Provisional [ICRA]AAA(SO); Reaffirmed
	Second Loss Facility	March 2022	-	September 2026	4.61	Provisional [ICRA]BBB+(SO); Reaffirmed

* Scheduled PTC maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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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