

July 28, 2022

Shriram Transport Finance Company Limited: Ratings reaffirmed/upgraded for PTCs and second loss facility issued under three vehicle loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Outstanding Amount after June 2022 Payout (Rs. crore)	Rating Action
Sansar Trust March 2020 IV	PTC Series A1	282.55	179.88	62.55	[ICRA]AAA(SO); Reaffirmed
Sansar Trust March 2020	PTC Series A1	358.49	184.28	5.30	[ICRA]AAA(SO); Reaffirmed
	PTC Series A2	143.41	143.41	143.41	[ICRA]AAA(SO); Reaffirmed
	SLF	50.19	50.19	29.11	[ICRA]BBB+(SO); Reaffirmed
Sansar Trust Feb 2020 III	PTC Series A1	1,597.55	867.59	164.18	[ICRA]AAA(SO); Reaffirmed
	PTC Series A2	84.08	45.66	8.64	[ICRA]AAA(SO); Upgraded from [ICRA]A(SO)
	SLF	151.35	151.35	151.35	[ICRA]BBB+(SO); Upgraded from [ICRA]BBB-(SO)

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) tabulated above are backed by commercial vehicle (CV), passenger vehicle (PV), construction equipment (CE) and tractor loan receivables originated by Shriram Transport Finance Company Limited {STFC; rated [ICRA]AA+ (Stable)}. The ratings reaffirmation/upgrade factors in the sustained healthy collections witnessed in all the pools. Due to the high amortisation in all the transactions, there has been a build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools. Nonetheless, the ratings would remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic, leading to lower-than-expected collections.

Pool performance summary

Parameter	Sansar Trust March 2020 IV	Sansar Trust March 2020	Sansar Trust Feb 2020 III
Months post securitisation	27	27	24
Pool amortisation	63.37%	56.02%	89.08%
PTC Series A1 amortisation (as % of initial PTC Series A1 principal)	77.86%	98.52%	89.72%
PTC Series A2 amortisation (as % of initial PTC Series A2 principal)	NA	0.00%	89.72%
Average monthly collection efficiency for last three months ¹	123%	106%	90%

¹ Average of (Total current and Overdue collections for the month as a % of Total Billing for the month) for 3 months

Parameter	Sansar Trust March 2020 IV	Sansar Trust March 2020	Sansar Trust Feb 2020 III
Cumulative prepayment rate	30.62%	11.65%	13.41%
Average monthly prepayment rate	1.34%	0.46%	0.60%
Loss-cum-90+ dpd ² (% of initial pool)	0.62%	0.21%	2.99%
Loss-cum-180+ dpd ³ (% of initial pool)	0.34%	0.09%	0.97%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A1	28%	Nil	Nil
CC (% of balance pool)	30.08%	19.78%	>100.00%
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	18.40%	14.74%	9.48%

Reset of credit enhancement

At the request of STFC for resetting the credit enhancement for the Sansar Trust March 2020 IV and Sansar Trust March 2020 transactions, ICRA has analysed the transactions at 30% of the initial CC (16.6% and 10.2%, respectively, of the balance pool principal after June 2022 payouts) against the currently available CC of 51.9% and 34.1%, respectively. Based on the pools' performance, the ratings for the PTCs and the second loss facility (SLF) will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- High amortisation of the pools, leading to lower uncertainty regarding the performance of the balance pool contracts
- Build-up in CC and EIS cover available for balance PTC payouts
- Low delinquencies observed in harder buckets across all pools

Credit challenges

- Moderate average loan-to-value (LTV) of the contracts
- Pools' performance remains exposed to fresh disruptions caused by the pandemic

Description of key rating drivers highlighted above

All three pools had reported healthy collections, except in Q1 FY2022, when the collections were impacted by the second wave of the pandemic and the subsequent lockdowns. The monthly collection efficiency, post the September 2021 collection month, exceeded 100% for the Sansar Trust March 2020 IV and Sansar Trust March 2020 transactions. The collection efficiency for the Sansar Trust Feb 2020 III transaction has been lower, which led to a sharper rise in the 90+ days past due (dpd) compared to the other pools. The loss-cum-90+ dpd for the Sansar Trust Feb 2020 III pool stood at 2.99% for the May 2022 collection month (June 2022 payout month) compared to sub-1% for the other pools.

The shortfall in collections in the past was mostly absorbed by the EIS in the structure with low or nil CC utilisation in the transactions. For all the transactions, CC utilisation was nil as of the May 2022 collection month (June 2022 payout month). As these pools are highly amortised, there has been a significant build-up in the credit enhancement cover for the balance tenure of the PTC payouts even after CC utilisation.

² Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor – CC available)/ Balance Pool Cash flows

⁵ (Pool Cash flows – Cash flows to PTC)/ Pool Principal outstanding

ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the performance of the pools would remain exposed to any fresh disruptions that may arise due to the pandemic, leading to lower-than-expected collections.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 past performance of the originator's portfolio and the rated pools, as well as the performance and 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 loss and prepayments during the balance tenure of the pools are provided in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Sansar Trust March 2020 IV	1.0-2.0%	8-12% p.a.
2	Sansar Trust March 2020	1.0-2.0%	8-12% p.a.
3	Sansar Trust Feb 2020 III	1.0-2.0%	8-12% p.a.

Liquidity position

For PTC Series A1 of Sansar Trust March 2020 IV: 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 ~30% of the balance pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC covers the entire scheduled PTC payouts.

For PTC Series A1 and PTC Series A2 of Sansar Trust March 2020 and Sansar Trust Feb 2020 III: Superior

As per the transaction structure, only the interest amount is promised to the PTC investor on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

For SLF of Sansar Trust March 2020 and Sansar Trust Feb 2020 III: Adequate

The cash flows from the pool and the available first loss facility are adequate 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 of 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 rated instruments.

Negative factors – The ratings can be downgraded on sustained weak collections, resulting in higher-than-expected delinquency levels, thereby leading to a decrease in the credit enhancement cover available for the rated instruments.

Analytical approach

The rating action is based on the performance of the pools till May 2022 (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

Shriram Transport Finance Company Limited (STFC), incorporated in 1979 and a part of the Shriram Group, is a deposit accepting non-banking financial company. It is the market leader in pre-owned CV financing with a pan-India presence encompassing 1,854 branches and 775 rural centres as on March 31, 2022. STFC primarily provides financing for vehicles such as CVs (both pre-owned and new), tractors, and PVs. Assets under STFC's management aggregated Rs. 1,27,041 crore as on March 31, 2022.

Key financial indicators

	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Net worth	18,005	21,568	25,932
Profit after tax	2,502	2,487	2,708
Assets under management (AUM)	1,09,749	1,17,243	1,27,041
Gross stage 3	8.4%	7.1%	7.1%
Net stage 3	5.6%	4.2%	3.7%

Source: STFC, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jul 28, 2022	Jul 30, 2021	Sep 25, 2020	Mar 31, 2020 [^]	
1	Sansar Trust March 2020 IV	PTC Series A1	282.55	62.55	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	

[^]Initial ratings assigned

S. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Jul 28, 2022	Jul 30, 2021	Sep 25, 2020	Apr 17, 2020 [^]	-
2	Sansar Trust March 2020	PTC Series A1	358.49	5.30	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		PTC Series A2	143.41	143.41	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		SLF	50.19	29.11	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-

[^]Initial ratings assigned

S. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Jul 28, 2022	Jul 30, 2021	Jul 27, 2020	Jun 22, 2020 [^]	-
3	Sansar Trust Feb 2020 III	PTC Series A1	1,597.55	164.18	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		PTC Series A2	84.08	8.64	[ICRA]AAA(SO)	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)	-
		SLF	151.35	151.35	[ICRA]BBB+(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)	-

[^]Initial ratings assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Sansar Trust March 2020 IV	PTC Series A1	Simple
	PTC Series A1	Moderately Complex
Sansar Trust March 2020	PTC Series A2	Moderately Complex
	SLF	Moderately Complex
Sansar Trust Feb 2020 III	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	SLF	Moderately Complex

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 I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust March 2020 IV	PTC Series A1	March 2020	8.00%	October 2024	62.55	[ICRA]AAA(SO)
Sansar Trust March 2020	PTC Series A1	March 2020	8.46%	September 2024	5.30	[ICRA]AAA(SO)
	PTC Series A2		8.46%		143.41	[ICRA]AAA(SO)
	SLF		NA		29.11	[ICRA]BBB+(SO)
Sansar Trust Feb 2020 III	PTC Series A1	June 2020	9.10%	June 2025	164.18	[ICRA]AAA(SO)
	PTC Series A2		9.10%		8.64	[ICRA]AAA(SO)
	SLF		NA		151.35	[ICRA]BBB+(SO)

* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

Annexure II: 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.

For more information, visit www.icra.in

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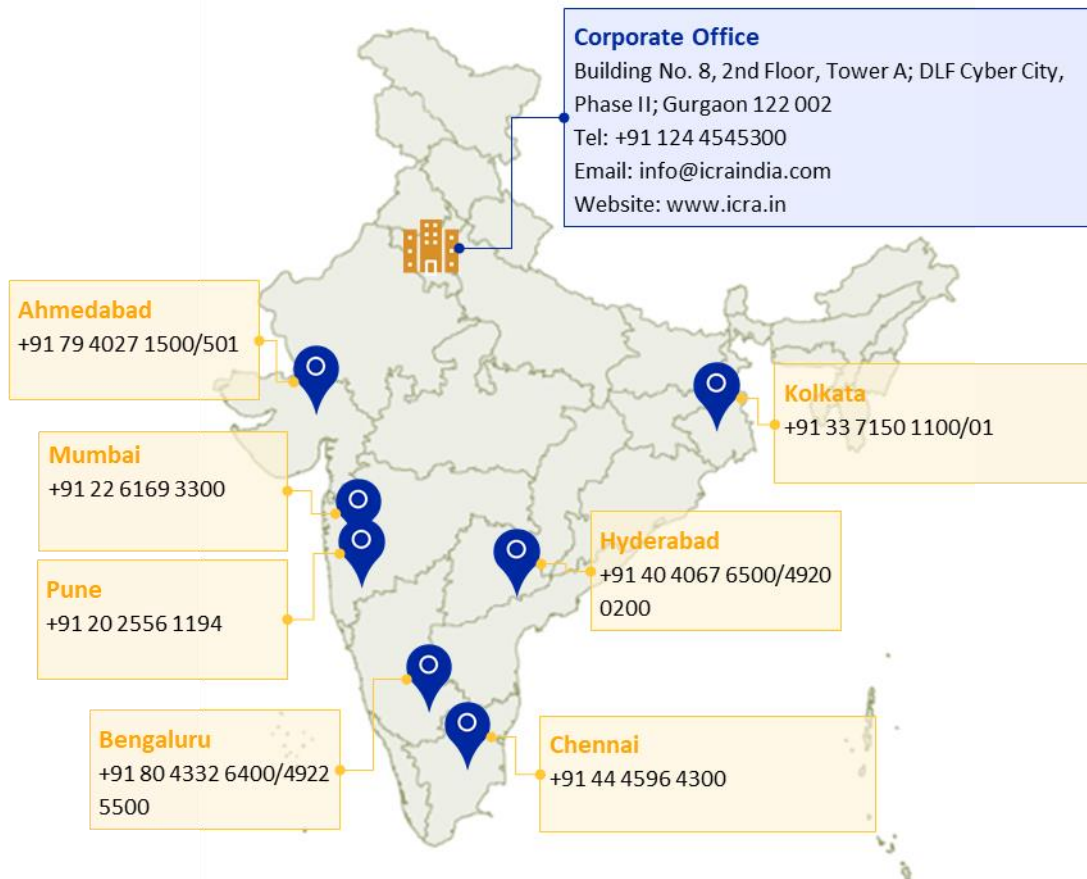
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