

July 28, 2022

Shriram Transport Finance Company Limited: Rating upgraded for assignee payouts issued under two 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
Bank of India – PCG MAR-2020	Assignee Payouts	234.76	161.84	86.38	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)
IB PCG STFC Sep 2020	Assignee Payouts	500.00	347.29	130.49	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the rating for the assignee payouts issued under two vehicle loan securitisation transactions originated by Shriram Transport Finance Company Limited {STFC; rated [ICRA]AA+ (Stable)}, as tabulated above. The upgrade factors in the sustained healthy collections witnessed in both pools. Due to the high amortisation in both transactions, there has been a significant build-up of the credit enhancement cover over the future assignee payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools. Nonetheless, the rating 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	Bank of India – PCG MAR-2020	IB PCG STFC Sep 2020
Months post securitisation	27	21
Assignee amortisation (as % of initial assignee payout principal)	63.20%	73.90%
Cumulative collection efficiency ¹	94.83%	101.37%
Cumulative prepayment rate	30.10%	44.81%
Average monthly prepayment rate	1.32%	2.79%
Loss-cum-90+ dpd ² (% of initial pool)	0.77%	1.19%
Loss-cum-180+ dpd ³ (% of initial pool)	0.53%	0.61%
Cumulative credit collateral (CC) utilisation ⁴	0.00%	0.00%
CC (% of balance pool)	16.31%	21.54%

¹ Cumulative collections till date (including advance collections) / (cumulative billings till date, plus opening overdues)

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 CC is available in the form of an unconditional and irrevocable guarantee from STFC

Key rating drivers

Credit strengths

- High amortisation of the pools, leading to lower uncertainty regarding the performance of the balance pool of contracts
- Build-up in credit collateral (CC) and excess interest spread (EIS) cover available for balance assignee payouts
- Low delinquencies observed in harder buckets across both pools

Credit challenges

- High share of contracts with original tenure of more than 48 months
- Pools' performance remains exposed to fresh disruptions caused by the pandemic

Description of key rating drivers highlighted above

Both pools had reported healthy collections, except in Q1 FY2022, when the collections for IB PCG STFC Sep 2020 were impacted by the pandemic-induced restrictions. The monthly collection efficiency, post the September 2021 collection month, exceeded 94% for both pools. The loss-cum-30+ days past due (dpd) for the Bank of India – PCG MAR-2020 and IB PCG STFC Sep 2020 transactions remained at 6.4% and 8.7%, respectively, as of the May 2022 collection month (June 2022 payout month). Despite the rise in the 30+dpd, the 90+dpd remains low for both transactions.

The shortfall in collections in the past was mostly absorbed by the subordination/EIS in the structure with nil CC utilisation in the transactions. As the pools are highly amortised, there has been a significant build-up in the credit enhancement cover for the balance tenure of the assignee payouts even after CC utilisation.

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	Bank of India – PCG MAR-2020	1.5-2.5%	11-13% p.a.
2	IB PCG STFC Sep 2020	1.5-2.5%	11-13% p.a.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the assignee on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the assignee.

Rating sensitivities

Positive factors – The rating can be upgraded if there is an improvement in the credit profile of STFC coupled with healthy pool performance.

Negative factors – The rating could be downgraded on sustained weak collections, resulting in higher-than-expected delinquency levels, or a deterioration in the credit profile of STFC.

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 commercial vehicle (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 passenger vehicles. 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	Aug 20, 2020	May 11, 2020 [^]	-
1	Bank of India – PCG MAR-2020	Assignee Payouts	234.76	86.38	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(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	Oct 5, 2020	Sep 18, 2020 [^]	-
2	IB PCG STFC Sep 2020	Assignee Payouts	500.00	130.49	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Bank of India – PCG MAR-2020	Assignee Payouts	Moderately Complex
IB PCG STFC Sep 2020	Assignee Payouts	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
Bank of India – PCG MAR-2020	Assignee Payouts	March 2020	9.00%	December 2025	86.38	[ICRA]AA+(SO)
IB PCG STFC Sep 2020	Assignee Payouts	September 2020	9.20%	February 2026	130.49	[ICRA]AA+(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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About ICRA Limited:

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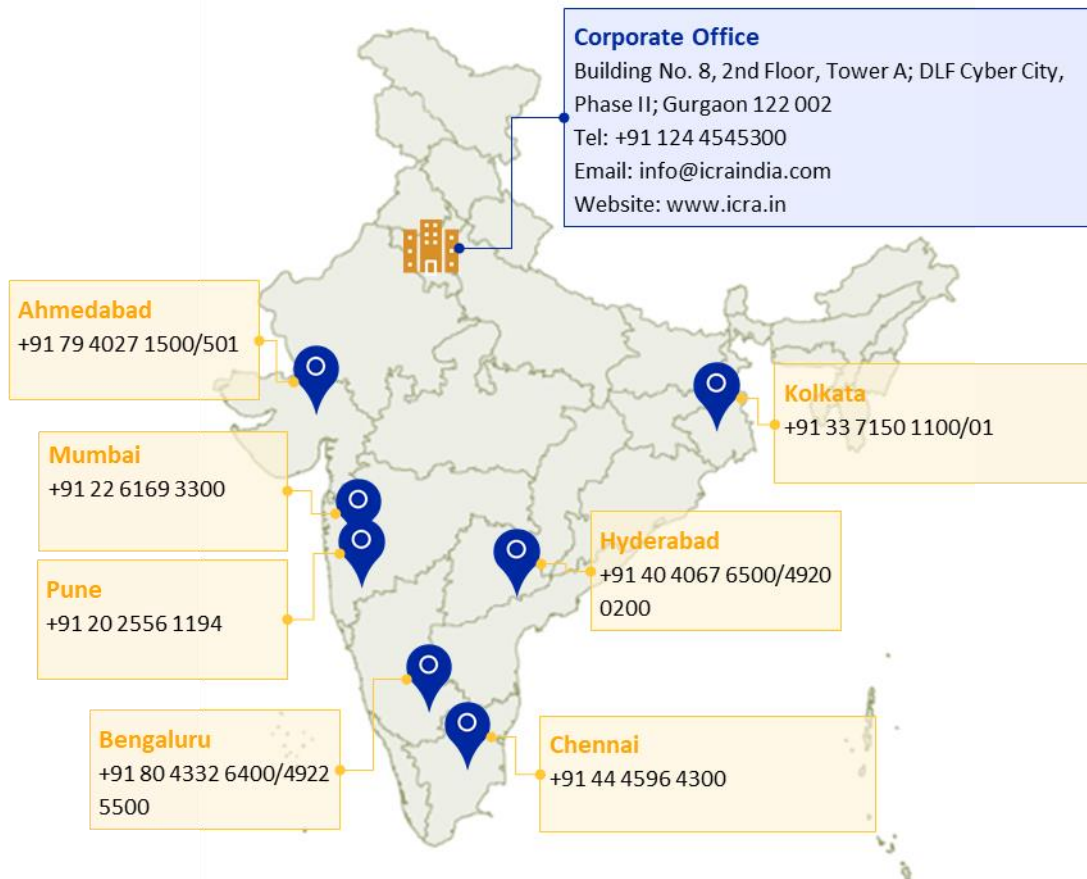
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