

September 23, 2022

Shriram Transport Finance Company Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by vehicle loan receivables issued by Sansar Trust Aug 2022 II; Provisional [ICRA]A-(SO) assigned to second loss facility

Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------|----------------------|----------------------------------|-------------------------------------|
| Sansar Trust Aug 2022 II | PTC Series A | 655.18 | Provisional [ICRA]AAA(SO); Assigned |
| | Second Loss Facility | 29.48 | Provisional [ICRA]A-(SO); Assigned |

*Instrument details are provided in Annexure I

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| Rating in the absence of pending actions/documents | No rating would have been assigned as it would not be meaningful |
|--|--|

Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Transport Finance Company Limited {STFC; rated [ICRA]AA+ (Stable)}. STFC is the largest player in the pre-owned commercial vehicle (CV) financing segment in the country with a dominant market position. It has a proven track record, a well-established franchise and a granular retail loan book. The PTCs are backed by a pool of Rs. 655.18-crore (pool principal; receivables of Rs. 837.14 crore) of vehicle loan receivables.

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, (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

- Proven track record in pre-owned CV financing segment along with its well-established franchise
- Availability of EIS and CC in the transaction
- Low obligor concentration with the top 10 obligors together accounting for only 0.5% of the overall pool principal amount
- Relatively lower IRR contracts in the pool, which are performing better in the overall portfolio

Credit challenges

- High share of contracts with original tenure greater than 48 months i.e. ~55%;
- Pool's performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (September 20, 2027). During the tenure of PTC Series A, the collections from the pool, after making the promised interest

payouts to PTC Series A, will be used to make the expected principal payouts to PTC Series A (100% of the pool principal billing). However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The loan pool receivables will be assigned at par to the PTC investors. 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. 32.76 crore, and a second loss facility (SLF) of 4.50% of the initial pool principal amounting to Rs. 29.48 crore. The CC would be in the form of a fixed deposit maintained with a Designated Bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the EIS first and then the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The pool is well diversified with low obligator concentration and a weighted average seasoning of 8.9 months. It comprises new and used CV (new CV: 9.1% and used CV: 43.1%), new and used passenger vehicle (new PV: 1.5% and used PV: 3.7%), new and used construction equipment (new CE: 0.9% and used CE: 3.3%) and new and used tractor (new tractors: 1.5% and used tractors: 36.9%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Tamil Nadu, Madhya Pradesh and Telangana) contributing 43.6% to the initial pool principal amount. It also has a high share (54.9%) of contracts with an original tenure of more than 48 months. All the contracts in the pool have an IRR less than or equal to 17%. Further, the pool's performance 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 PV, new & used CE and tractor loans originated by STFC, and had ratings outstanding on 17 pools as of September 2022. Overall, the performance of all live pools remained healthy till the August 2022 payouts with good collections and loss-cum-180+ days past due (dpd) levels of sub-1.2% 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 3.75-4.75% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 12.0-18.0% per annum.

Liquidity position

For PTC Series A: Superior

As per the transaction structure, only the interest amount is promised to the PTC Series A holders 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 highly comfortable to meet the promised payouts to the PTC Series A investors.

For SLF: Strong

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 due to 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 June 2022, 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 ratings 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

Shriram Transport Finance Company Limited (STFC), incorporated in 1979 and a part of the Shriram Group of companies, is a deposit-accepting non-banking financial company (NBFC). It is the market leader in pre-owned CV financing with a pan-India presence encompassing 1,854 branch offices and 770 rural centres as on June 30, 2022. STFC primarily provides financing for vehicles such as CVs (both pre-owned and new), tractors, and PVs.

On December 13, 2021, the board of directors of STFC, SCUF and SCL (promoter entity) approved the merger of SCL and SCUF with STFC, subject to the receipt of requisite statutory and regulatory approvals. The transaction would be entirely through a

stock swap arrangement. Following the completion of the merger, the promoter group's shareholding in the amalgamated entity is expected to be 20.11%.

Key financial indicators

| | FY2021 | FY2022 | Q1 FY2023 |
|--------------------------------------|----------|----------|-------------|
| | Audited | Audited | Provisional |
| Net worth | 21,568 | 25,932 | 26,815 |
| Profit after tax | 2,487 | 2,708 | 965.3 |
| Assets under management (AUM) | 1,17,243 | 1,27,041 | 1,30,689 |
| Gross stage 3 | 7.1% | 7.1% | 7.0% |
| Net stage 3 | 4.2% | 3.7% | 3.5% |

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

| | 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 | |
| | | | | | September 23, 2022 | | | | |
| 1 | Sansar Trust Aug 2022 II | PTC Series A | 655.18 | 655.18 | Provisional [ICRA]AAA(SO) | - | - | - | |
| Second Loss Facility | | 29.48 | 29.48 | Provisional [ICRA]A-(SO) | | | | | |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|----------------------|----------------------|
| PTC Series A | Moderately Complex |
| Second Loss Facility | 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 Aug 2022 II | PTC Series A | September 2022 | 7.30% | September 2027 | 655.18 | Provisional [ICRA]AAA(SO) |
| | Second Loss Facility | September 2022 | 7.30% | September 2027 | 29.48 | Provisional [ICRA]A-(SO) |

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

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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.

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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