

November 28, 2022

Shriram Transport Finance Company Limited: Rating upgraded for assignee payouts issued under four 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 Oct-22 Payout (Rs. crore)	Rating Action
Bank of India_May 2020	Assignee Payouts	291.01	184.70	83.47	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)
STFC BOI _ June 2020	Assignee Payouts	175.00	119.61	61.79	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)
STFC BOI_July 2020	Assignee Payouts	138.47	100.64	52.64	[ICRA]AA+(SO); upgraded from [ICRA]AA(SO)
STFC BOI SEP 2020	Assignee Payouts	160.10	115.28	49.31	[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 four 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 all the pools. Due to the high amortisation, there has been a significant build-up of the credit enhancement (CE) cover over the future assignee payouts for all the transactions. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Bank of India_May 2020	STFC BOI _ June 2020	STFC BOI_July 2020	STFC BOI SEP 2020
Months post securitisation	28	28	26	24
Assignee amortisation	71.32%	64.69%	61.99%	69.22%
Cumulative collection efficiency ¹	101.9%	98.4%	111.4%	105.2%
Cumulative prepayment rate	29.9%	36.8%	43.6%	40.7%
Average monthly prepayment rate	1.3%	1.6%	2.2%	2.2%
Loss-cum-90+ dpd ² (% of initial pool)	1.0%	1.2%	1.2%	0.9%
Loss-cum-180+ dpd ³ (% of initial pool)	0.5%	0.7%	0.5%	0.5%
Cumulative credit collateral (CC) utilisation ⁴	0.0%	0.0%	0.0%	0.0%
Breakeven collection efficiency ⁵ for assignee payouts	68.4%	74.2%	67.0%	72.2%
CC (% of balance pool)	24.4%	24.5%	20.8%	30.9%
Excess interest spread (EIS; % of balance pool) for assignee payouts ⁶	2.8%	9.5%	15.7%	3.5%

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

⁵ (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

⁶ (Pool Cash flows – Cash flows to Assignee) / Pool Principal outstanding

Key rating drivers

Credit strengths

- Proven track record in pre-owned commercial vehicles (CV) financing segment along with its well-established franchise
- 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 the four pools

Credit challenges

- Performance of the pools would remain exposed to macro-economic shocks/business disruptions, if any

Description of key rating drivers highlighted above

Following the end of the moratorium (in August 2020), all the pools had reported healthy collections, except in Q1 FY2022, when collections were impacted by the Covid-19 pandemic-induced restrictions. The monthly collection efficiency, post the September 2021 collection month, exceeded 96% for all the pools. The loss-cum-30+ days past due (dpd) for the pools was in the range of 4.5-10.5%, as of the September 2022 collection month (October 2022 payout month). Despite the higher 30+dpd numbers, the 90+dpd remains low for all the transactions.

The shortfall in collections in the past was mostly absorbed by the 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 CE cover for the balance tenure of the assignee payouts even after CE 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 CE 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 macro-economic shocks/business disruptions.

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_May 2020	1.0-2.0%	11-13% p.a.
2	STFC BOI _ June 2020	2.0-3.0%	11-13% p.a.
3	STFC BOI_July 2020	2.0-3.0%	11-13% p.a.
4	STFC BOI 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 pools and the available CE are expected to be comfortable to meet the promised payouts to the assignees.

Rating sensitivities

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

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

Analytical approach

The rating action is based on the performance of the pools till September 2022 (collection month), the present delinquency levels and the CE 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 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 passenger vehicles (PVs).

On December 13, 2021, the board of directors of STFC, Shriram City Union Finance Ltd. (SCUF) and Shriram Capital Limited (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

Standalone	FY2021	FY2022	H1 FY2023
	Audited	Audited	Provisional
Total income	21,568	25,932	27,856
Profit after tax	2,487	2,708	2,032
Assets under management (AUM)	1,17,243	1,27,041	1,35,249
Gross stage 3	7.1%	7.1%	6.9%
Net stage 3	4.2%	3.7%	3.5%

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

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
					Nov 28, 2022	Nov 26, 2021	Nov 09, 2020	May 18, 2020	-
1	Bank of India_May 2020	Assignee Payouts	291.01 [^]	83.47	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

[^] Initial rated amount was Rs. 450.63 crore of which Rs. 159.62 crore was withdrawn on Nov 9, 2020

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
					Nov 28, 2022	Nov 26, 2021	Nov 09, 2020	Jul 08, 2020	-
2	STFC BOI _ June 2020	Assignee Payouts	175.00	61.79	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

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
					Nov 28, 2022	Nov 26, 2021	Nov 24, 2020	Jul 31, 2020	-
3	STFC BOI_July 2020	Assignee Payouts	138.47	52.64	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-

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
					Nov 28, 2022	Nov 26, 2021	Nov 24, 2020	Oct 12, 2020	-
4	STFC BOI SEP 2020	Assignee Payouts	160.10	49.31	[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_May 2020	Assignee Payouts	Moderately Complex
STFC BOI _ June 2020	Assignee Payouts	Moderately Complex
STFC BOI_July 2020	Assignee Payouts	Moderately Complex
STFC BOI 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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Bank of India_May 2020	Assignee Payouts	May 2020	9.00%	July 2026	83.47	[ICRA]AA+(SO)
STFC BOI _ June 2020	Assignee Payouts	June 2020	9.00%	March 2026	61.79	[ICRA]AA+(SO)
STFC BOI_July 2020	Assignee Payouts	July 2020	9.00%	March 2026	52.64	[ICRA]AA+(SO)
STFC BOI SEP 2020	Assignee Payouts	September 2020	9.00%	September 2026	49.31	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Samriddhi Chowdhary

+91 22 6114 3462

samriddhi.chowdhary@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3304

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:

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.