

November 28, 2022

Shriram Transport Finance Company Limited: Rating reaffirmed for PTCs issued under vehicle loan securitisation transaction

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 2022 Payout (Rs. crore)	Rating Action
Sansar Trust Sep 2021 VI	PTC Series A	767.22	-	353.01	[ICRA]AAA(SO); Reaffirmed

*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 and tractor loan receivables originated by Shriram Transport Finance Company Limited {STFC; rated [ICRA]AA+ (Stable)}. The rating reaffirmation factors in the sustained healthy collections witnessed in the pool. Due to the amortisation in the transaction, there has been a build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Sansar Trust Sep 2021 VI
Months post securitisation	12
Pool amortisation	45.64%
PTC Series A amortisation	53.99%
Cumulative collection efficiency ¹	107%
Cumulative prepayment rate	25.67%
Average monthly prepayment rate	2.44%
Loss-cum-90+ dpd ² (% of initial pool)	2.08%
Loss-cum-180+ dpd ³ (% of initial pool)	0.82%
Cumulative credit collateral (CC) utilisation	0.00%
Breakeven collection efficiency ⁴ for PTC Series A	53%
CC (% of balance pool)	23.45%
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	23.75%

Key rating drivers

Credit strengths

- Proven track record in pre-owned CV financing segment along with its well-established franchise
- Moderate amortisation of the pool 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 PTC payouts

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

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

- Low delinquencies observed in harder buckets

Credit challenges

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

Description of key rating drivers highlighted above

The pool has reported healthy collections with the monthly collection efficiency exceeding 98% since the first payout month. The loss-cum-30+ days past due (dpd) for the pool was 6.8% as of the September 2022 collection month (October 2022 payout month). Despite the higher 30+dpd numbers, the 90+dpd remains low at 2.1% for the transaction.

The shortfall in collections in the past was mostly absorbed by the EIS in the structure with nil CC utilisation in the transaction. As the pool is moderately amortised, there has been a build-up in the CE cover for the balance tenure of the PTC payouts even after CE utilisation.

ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool 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 pool 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 pool are provided in the table below.

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
Sansar Trust Sep 2021 VI	2.5-3.5%	8-12% p.a.

Liquidity position: 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 ~23% 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 would cover the shortfall in the scheduled PTC payouts for a period of 23 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge on the weakening collection performance of the underlying pool (monthly collection efficiency <80% on a sustained basis).

Analytical approach

The rating action is based on the performance of the pool till September 2022 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

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 17, 2021	Oct 20, 2021		
1	Sansar Trust Sep 2021 VI	PTC Series A	767.22	353.01	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

[^]Initial rating assigned

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Simple

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
Sansar Trust Sep 2021 VI	PTC Series A	October 2021	7.00%	June 2028	353.01	[ICRA]AAA(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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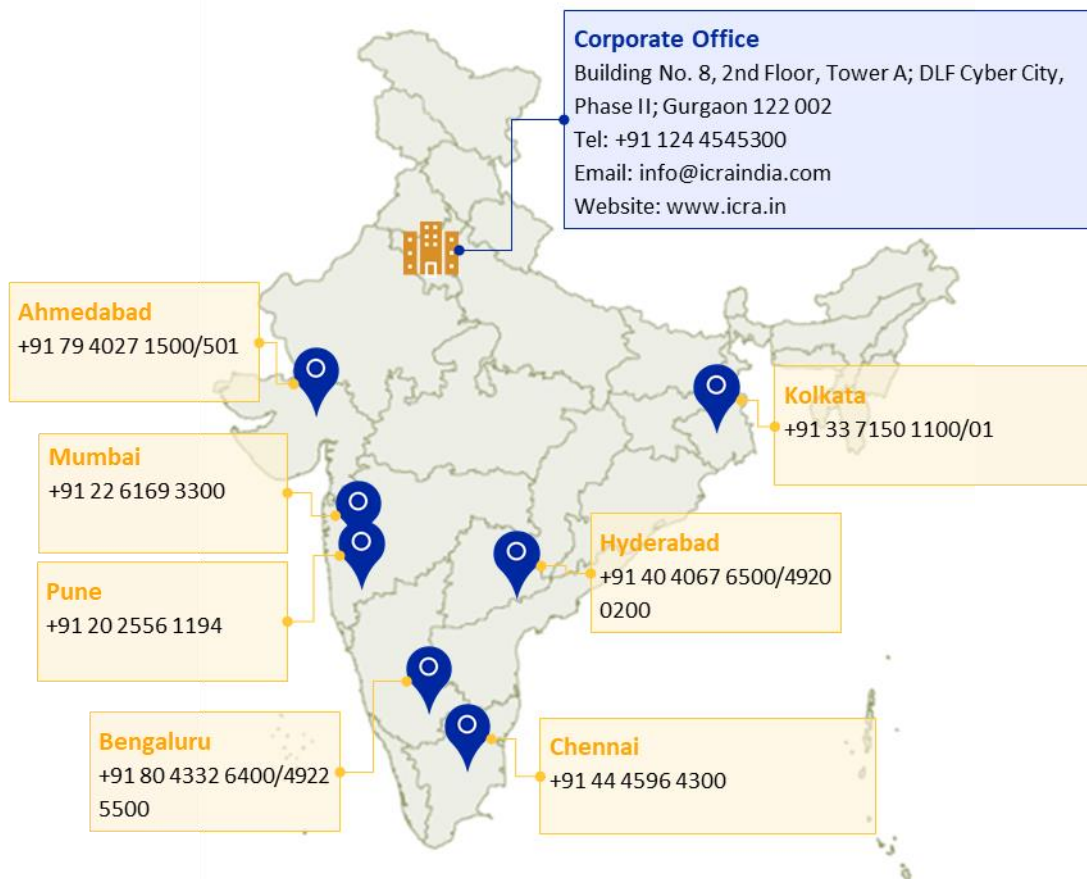
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