SEC/FILING/BSE-NSE/20-21/68A-B

November 20, 2020

BSE Limited
P. J. Towers,
Dalal Street, Fort,
Mumbai – 400 001.
Scrip Code: 511218

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th Floor,
Plot no. C/1, G- Block,
Bandra-Kurla Complex,
Mumbai – 400 051.
NSE Symbol: SRTRANSFIN

Dear Sirs,

Sub.: Credit Ratings in respect of the Structured Non-Convertible Debentures

The SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015 with regard to Continuous Disclosure Requirements for Listed Entities - Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, inter alia, requires a listed entity to notify any new rating assigned from a credit rating agency to any debt instrument proposed to be issued by the listed entity for mobilization of funds.

We wish to inform you that India Ratings and Research has assigned “Provisional IND AAA(CE) /Stable” Rating for Structured Non-Convertible Debentures (NCDs) proposed to be issued by the Company up to INR 40,000 million.

The Rating dated November 19, 2020 published by India Ratings and Research in respect of the NCDs is enclosed in compliance with the above Circular issued by SEBI.

Thanking you.
Yours faithfully,
For **SHRIRAM TRANSPORT FINANCE COMPANY LIMITED**

VIVEK MADHUKAR ACHWAL

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COMPANY SECRETARY
Encl.a/a

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Website: www.stfc.in | Corporate Identity Number (CIN) — L65191TN1979PLC007874

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Shriram Transport Finance Company's NCDs 'Provisional IND AAA(CE)'/Stable

19
NOV 2020

By Prajeesh Jayaram

India Ratings and Research (Ind-Ra) has rated Shriram Transport Finance Company Limited's (STFC, issuer; 'IND AA+'/RWN/'IND A1+') structured non-convertible debentures (NCDs), with trigger-based collateral segregation, as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Final Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs	-	-	-	INR40,000	Provisional IND AAA(CE)/Stable	Assigned

The final rating will be assigned following the issuance and the receipt of final executed transaction documentation, conforming to the information already received by Ind-Ra.

The unsupported rating in compliance with the Securities Exchange Board of India's circular dated 13 June, 2019, which requires credit rating agencies to disclose unsupported ratings without factoring in the explicit credit enhancement (CE) is IND AA+/RWN. Ind-Ra had placed STFC's Long-Term Issuer Rating of 'IND AA+' on Rating Watch Negative (RWN) to reflect limited near-term visibility on the impact of the measures taken by the authorities to contain the spread of the COVID-19 pandemic on STCF's asset quality, funding costs and credit costs.

The NCDs are structured as dual recourse bonds with recourse to STFC and to a guarantee backed by identified pool of loans originated by STFC. Hence, the rating of the NCDs reflects the credit worthiness of STFC, the credit quality of the underlying pool, and a fixed deposit to ensure payment continuity. The rating addresses timely payment of interest and ultimate payment of principal by the final maturity date, in accordance with transaction documentation. The NCDs have an expected maturity date which is seven years from date of issuance (equal principal repayment in the fifth, sixth and seventh year) and post that a tail period of three years until final maturity. One of the covenants of the transaction is that borrowings by way of credit enhanced/covered bonds shall not exceed 15% of the company's total borrowings.

The NCDs will have first recourse to STFC and would also benefit from:

(a) first ranked exclusive charge on a dynamically managed pool of loans, providing a 1.25x cover to the NCDs' outstanding obligations at all times till maturity

(b) covenants that protect the quality of the pool and ensure that the entire proceeds of the pool are available for meeting NCD obligations and for NCD prepayment, on the occurrence of events that are agreed upon at transaction closure

(c) cash collateral in the form of fixed deposit that is maintained at 5.0% of the issuance amount.

KEY RATING DRIVERS

Dual Recourse: STFC is expected to service the NCDs through the tenor of the instrument. However, on the occurrence of any of the certain specified events (trigger event - as presented in Annexure 2), the hypothecated pool and the cash collateral would be transferred to a special purpose vehicle (SPV) without the requirement of any further deed or action. The transaction from this point on would benefit from the guarantee backed by cash flows from the hypothecated pool to be used for meeting the NCD obligations and any excess thereof for accelerated redemption of the NCDs. Any shortfall in pool collections with respect to the scheduled cashflows of the pool, while at the time of assignment will be paid out by STFC. Until the NCDs are completely paid down all the pool cashflows shall flow to the NCD investors.

Collateral Quality and Cover: Ind-Ra's analysis of the collateral pool takes into account the sufficiency of available cover against the following key risks: (i) an expected credit loss in case of a stressed default and recovery, equivalent to the target rating level stresses; (ii) mismatches in the cash flow profile of the collateral pool with that of the NCDs; and (iii) an expected loss in case of a distressed sale of the collateral pool, when enforced by the debenture trustee during the insolvency of STFC. According to the proposed covenants in the transaction documents, the pool will have overdue loans only to the extent of 15% of the pool, and any loans moving into the 60+ days past due (dpd) delinquency bucket will be replaced with current loans. Other qualifying criteria for inclusion of loans in the security package are presented in Annexure 1. Prior to the trigger event, the collateral pool is revolving with the pool being refreshed on a monthly basis; post the trigger event, the pool shall be static. Ind-Ra has taken into consideration the benefits of:

1. Rundown of NCDs from the cover pool cash flows post the trigger event, thereby avoiding negative carry in the transaction
2. The condition that only principal repayments scheduled within the expiry of the NCDs from the security cover are considered for the calculation of the minimum security cover. Thus, the cash flows from the cover pool can completely pay down the NCDs within the final maturity date and there is no requirement of the sale of the loan pool.
3. Tail period of three years, allowing the pay down of NCDs from the cover pool during the period, in case the company does not choose to repay the NCDs on the expected maturity date (in the seventh year).

Asset Segregation: The NCDs are structured in such a way that the security package (hypothecated pool and cash collateral) is held on the company's balance sheet at transaction closure. In its borrowing programmes, the company typically identifies the exact set of loan receivables that are hypothecated to each of its borrowings. On the transaction settlement date, the company shall execute an assignment agreement, wherein it agrees to assign the security package to an already constituted SPV in case of a trigger event during the tenure of the NCDs. The access to the collateral pool for NCD run down, much ahead of any possible default by the company, mitigates the impact of a lower and delayed recovery post default, if any, of the company.

Credit Enhancement: The CE of INR2,000 million (5% of the issuance amount) is proposed to be provided in the form of fixed deposits held with bank(s) rated 'AAA' and with a lien marked in favour of the debenture trustee. Upon the occurrence of the trigger event, all right, title and interest of STFC in the cash collateral shall be transferred to the SPV. The CE helps with payment continuity in case of non-payment by the company and/or the SPV. In the event of downgrade of the bank with which the CE is held, the fixed deposit shall be moved to another bank rated 'AAA' within 30 days. The fixed deposit would be used to maintain payment continuity in the event of non-payment by the company.

STFC's Portfolio Quality: The provisional rating is based on the origination, servicing, collection and recovery capabilities of STFC, the legal and financial structure of the transaction, and the CE provided in the transaction. The agency is of the opinion that STFC's origination and servicing capabilities are of acceptable standards. The company's origination practices primarily focus on the customer profile, the territory of operations and the product being financed. Along with a relationship-based credit appraisal, a thorough review of the underlying obligor and the vehicle is conducted. A field executive at STFC is typically given the responsibility of tracking collections. STFC repossesses vehicles only as the last resort and prefers to understand the problem of a borrower and tries to take necessary action.

Pool Composition: The initial indicative pool, expected to be hypothecated, that secures the NCDs constitute an aggregate outstanding principal balance of INR50,003.5 million, as on the pool cut-off date of 30 September 2020. The 71,618-loan pool has a weighted average net seasoning of 18.4 months and a weighted average amortisation of 20.2%, implying a moderate repayment track record of underlying borrowers. Also, the average current loan balance is INR698,198 and the weighted average internal rate of return is 15.1 %. As on cut-off date, 1.5% of the principal outstanding in the pool constitute of loans that were overdue by 1-30 days. The pool consists of 34.1% new vehicle loans and 65.9% used vehicle loans. Heavy commercial vehicle, light commercial vehicle and passenger car loans accounted for 47.9%, 22.4% and 29.8%, respectively, of the initial pool principal at transaction closing. The weighted average residual tenor of the hypothecated pool is 41.4 months as on the pool cut-off date.

Liquidity Indicators – Adequate: STFC had a positive cumulative surplus in the one-year time frame of structural liquidity statement as of end-August 2020. At end-August 2020, STFC maintained sanctioned and committed but undrawn bank lines of INR50.0 billion from various banks in addition to having another INR50.4 billion in commitments from banks on account of securitisation and government's partial guarantee scheme. The on-balance sheet liquidity (liquid investments and unencumbered cash and investments) stood at INR18.7 billion against a scheduled debt repayment of INR64.3 billion over September-October 2020, which the agency believes can be met by STFC even without any inflows via its cash and bank balances and undrawn bank lines (excluding for securitisation and PCG). Even, if we include that only 50% of inflows will be collected, STFC will have enough liquidity to meet more than three months of debt repayments. The management remains committed to maintaining liquidity for next three months on a rolling basis.

The transaction also benefits from the liquidity provided by the external CE and the prepayments that shall kick in, in case of a trigger event.

RATING SENSITIVITIES

The rating of the NCDs will be downgraded on downgrade of STFC's rating below 'IND AA', as issuer's rating forms the starting point for the rating of these NCDs.

For Unsupported Rating: The RWN indicates that the ratings could either be affirmed or downgraded. The RWN will be resolved as and when the agency gets more clarity on the impact of the lockdown on the asset quality of STFC, which could be post 2QFY21 results or earlier. STFC could witness further downward rating action, by a notch, if in Ind-Ra's opinion, its business prospects get materially impacted or it faces funding or liquidity challenges that could hinder its repayment capabilities.

TRANSACTION STRUCTURE

At Transaction Closure and Pre-Trigger: The on-balance sheet NCDs issued by STFC have a quarterly coupon payment and an expected maturity at the end of seventh year with equal repayment at the end of fifth, sixth and seventh year. The security package (revolving cover pool and external CE stays on the company's balance-sheet and minimum security cover is tested on a quarterly basis. STFC shall fund the NCD pay-out account five days prior to the payment dates.

At Trigger Event: The security package shall be assigned to the SPV (without any further deed, notice or action), which in turn, shall guarantee the NCDs. The encumbrance on the security package in favour of the NCDs shall continue post the assignment to the SPV as well. The SPV shall appoint the company as the servicer for the cover pool transferred. The SPV may choose to appoint a servicer other than the company.

Post Trigger: The company continues to meet NCD obligations. The coupon on the NCD is payable on a monthly frequency and the cash flows from the cover pool is used to meet the NCDs obligations and any excess collection will be used to prepay the NCDs on an accelerated basis. No cashflows from the pool collections, will flow back of STFC until the NCDs are repaid in full. Any shortfall in collections with respect to the scheduled cashflows of the pool while at the time of assignment will be paid out by STFC to the NCD holders. The collections from the pool for a month are accumulated, to repay the NCDs in the next month. Post complete redemption of NCD obligations, the company will be the residual beneficiary of SPV's cash-flows.

Based on the representations made by the issuer and the legal counsel, Ind-Ra understands that the transaction documents and security package are enforceable; the cash collateral is payable on demand and unconditional, without any set-off rights; and the lender can treat STFC as the primary obligor post trigger as well. Ind-Ra expects to receive an executed legal opinion on the enforceability of the security package, legality, validity and enforceability of the Assignment Agreement and that the transaction is not in violation of existing regulations and law.

This commentary does not constitute and should not be used or interpreted as legal, tax and/or structuring advice from Ind-Ra. Should the readers of this commentary need legal, tax and/or structuring advice, they are urged to contact relevant advisers in relevant jurisdictions.

COMPANY PROFILE

STFC is the largest non-bank financing company in the asset finance segment in India. It is the flagship company of Chennai-based Shriram Group, which operates in consumer finance and insurance segments.

Particulars	2QFY21	FY20	FY19
Total assets (INR million)	1,179,228	1,141,286	1,052,925
Total equity (INR million)	203,124	180,052	158,363
Net income (INR million)	6,846	25,019	25,640
Return on average assets (%)	2.22	2.28	2.53
Equity/Assets (%)	17.23	15.75	15.01
Tier 1 capital (%)	20.13	18.13	15.62
GNPA (%)	7.26	8.36	8.37
Source: STFC, Ind-Ra			

COMPLEXITY LEVEL OF INSTRUMENTS

The complexity level of the instrument is high.

ANNEXURE 1- POOL INCLUSION CRITERIA

The selection criteria for inclusion of loans in the cover pool are as follows:

1. None of the loan contracts should have overdues of more than 30 days at the time of any replacement/additions and 30 days at the time of closing

2. Loan-to-value ratio of loans are less than 75% at the time of disbursement

3. Minimum seasoning of three months/six months/12 months for loans with original tenure up to two years/two-to-five years/above five years, respectively

4. Weighted average seasoning of the pool to be at least six months

5. Maximum restructured contracts in the pool will not be more than 5%

6. All loans have been disbursed against the security of new or used vehicles. Pool concentration requirements based on the category of vehicle finance should be met, which is: heavy commercial vehicles – 40%-50% light commercial vehicles 25-35%% passenger 20-30%

7. All loans are originated by the company through branches owned and operated directly and not through branches operated by any origination partner. The company has complied with all the extant guidelines issued by the Reserve Bank of India pertaining to know your customer (KYC), with respect to each of the obligors

8. The amount disbursed under any loan should not be higher than INR2.5 million for financing against used vehicles and INR3.5 million for financing against new vehicles. The weighted average rate of return of the loans is less than 22%

9. All loans have been fully disbursed by the company. The company has not sold or encumbered the loan assets, either directly or indirectly

10. All loans have fixed repayment schedule and not in the nature of revolving credit. None of the contracts in the pool to have bullet repayment schedule for

principal and interest

All cash flows forming part of identified loan receivables, which are scheduled to be payable after the expiry of the tenure of the debentures, shall be excluded, for testing whether the minimum security cover is being maintained. Also, if the principal amounts outstanding under an overdue identified loan agreement exceeds 15% of the total principal outstanding under the said identified loan agreements, then the principal amounts from the said overdue loan will not be taken into consideration.

ANNEXURE 2 - TRIGGER EVENT

A trigger event in the transaction is one or more of the below events:

1. The rating of the company is downgraded below 'AA' by any of the rating agencies

2. Failure to ensure minimum security cover

3. Failure on the part of the company to meet the prefunding obligations as per payment mechanism (T-5 mechanism)

4. The company's gross non-performing assets cross 12%

5. The capital adequacy ratio of the company falls below 15%

6. The company has an cumulative asset liability mismatch in the first 12 months on each quarter end date , anytime during the tenure of the NCDs

7. The company has defaulted in making any payments due on its financial indebtedness

8. Any corporate action, legal proceedings or other procedure or step is taken in relation to the company in relation to the suspension of payments, a moratorium of any indebtedness, winding-up, insolvency (proceedings commenced if not withdrawn within 10 business days), dissolution, administration or re-organisation of the company with an intention of winding up or liquidating or declaring the company insolvent (by way of voluntary arrangement, scheme of arrangement or otherwise); or a composition, compromise, assignment or arrangement with any creditor of the company; or appointment of a liquidator, supervisor, receiver, administrative receiver, administrator, compulsory manager, trustee or other similar officer in respect of the company or any of its assets.

9. One or more legal or governmental proceedings have been initiated against the company, which has a material adverse effect, in the opinion of the debenture trustee

10. The company is in default in relation to servicing obligations undertaken for securitisation transactions, wherein the originator is the company

11. The company fails to comply with any of the covenants set out under any of the NCD documents or any of the assignment documents (the breach of which, if capable of being remedied, has not been remedied to the satisfaction of the debenture Trustee, within a maximum period of 30 days from occurrence)

12. Any or all of the representations and warranties provided by the company under any debenture document or any of the assignment documents, being untrue, incomplete, incorrect or misleading;

13. Any expropriation, attachment, sequestration, distress or execution affects any assets of the company, which in the opinion of the debenture trustee has a material adverse effect;

14. It is, or becomes, unlawful for the company to perform any of its obligations under the debenture documents, including those related to the outstanding amounts and/or the security;

15. The company repudiates a debenture document to which it is a party or evidences an intention to repudiate the debenture documents

16. If the debenture documents or any part thereof ceases, for any reason whatsoever, to be valid and binding or in full force and effect

17. The company has not redeemed the NCDs in full at the end of seven years from the date of allotment of NCDs

SOLICITATION DISCLOSURES

ABOUT INDIA RATINGS AND RESEARCH

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Structured Finance Rating Criteria

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National Stock Exchange Of India Limited

Date of 20-Nov-2020

NSE Acknowledgement

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