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

December 25, 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 Debenture (NCDs) - Dual Recourse Bonds

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 NCDs – dual recourse bonds proposed to be issued by the Company up to INR 5000 million.

The Rating dated December 24, 2020 published by India Ratings and Research in respect of the Structured NCDs – dual recourse bonds is enclosed in compliance with the above Circular issued by SEBI.

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

VIVEK MADHUKAR ACHWAL
Digitally signed by: VIVEK MADHUKAR ACHWAL
DN: CN = VIVEK MADHUKAR ACHWAL C = IN O = Personal
Date: 2020.12.25 16:34:26 +05'30'

VIVEK ACHWAL
COMPANY SECRETARY
Encl.a/a

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Shriram Transport Dual Recourse Bond Dec 2020s 'Provisional IND AAA(CE)'/Stable

24
DEC 2020

By Payal Anand

India Ratings and Research (Ind-Ra) has rated Shriram Transport Finance Company Limited's (STFC; 'IND AA+'/Stable/'IND A1+') structured non-convertible debenture (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	-	-	-	INR5,000	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, is 'IND AA+'/Stable. Ind-Ra had placed STFC's Long-Term Issuer Rating of 'IND AA+' on RWN in May 2020 and has subsequently resolved it with to a Stable Outlook. The RWN resolution reflects a significant recovery in the funding and liquidity scenario, and a gradual month-on-month recovery in STFC's operations and key operating metrics, including collections and disbursements over April-October 2020.

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 creditworthiness of STFC, the credit quality of underlying pool, and a fixed deposit to ensure payment continuity. The rating addresses the timely payment of interest and ultimate payment of the principal by the final maturity date, in accordance with the transaction documentation. The NCDs have an expected maturity date that is 30 months from the date of issuance, and post that, a tail period of another 24 months 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 1.2x 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 FD that is maintained at 5.0% of the outstanding NCD obligations.

Upon the occurrence of any trigger event, the interest on the NCDs would continue to be payable monthly. Also, if the instrument rating is downgraded to 'IND AA+', STFC, within 10 business days from the date of such an event will to bring in fresh cash collateral, such that the rating is maintained at 'IND AAA(CE)' level. If the same is not possible, STFC will have an option to call the bonds. If the issuer does not exercise the call option, the monthly coupon rate applicable will increase by 250bp.

KEY RATING DRIVERS

Dual Recourse: As per the transaction documents**,** STFC is expected to service the NCDs throughout 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, followed by replenishment of utilised external credit enhancement (CE) and any excess thereof for the accelerated redemption of the NCDs. Until the NCDs are completely paid down, all the pool cashflows shall flow to the NCD investors or be utilised for replenishing the credit enhancement. Any shortfall in meeting NCD obligations will be paid out by STFC to the NCD holders.

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 or restructured loans only to the extent of 10% of the pool, and any loans moving into the 60+ days past due (dpd) delinquency bucket will be replaced with current loans. The other qualifying criteria for the inclusion of loans in the security package have been presented in Annexure 1. Prior to the trigger event, the collateral pool would be 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. Monthly 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 would be 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 would be no requirement of the sale of the loan pool.
3. The tail period of 24 months, 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 30th month).

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.

CE: The CE of 5% of the issuance amount and accrued interest (INR250 million initially), 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. The CE shall be tested on a monthly basis to ensure that it is equal to 5% of the outstanding amounts in relation to the NCDs, including accrued interest, if any. Upon the occurrence of the trigger event, all the rights, 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. If CE is utilised at any time and the issuer has not replenished the cash collateral, then the debenture trustee is required to utilise the cashflows arising from the identified pool of receivables for reinstating it to original level. 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 ratings are 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 INR6,000.1 million, as on the pool cut-off date of 30 November 2020. The 35,514-loan pool has a weighted average net seasoning of 27.3 months and a weighted average amortisation of 35%, implying a significant repayment track record of underlying borrowers. Also, the average current loan balance is INR168,949 and the weighted average internal rate of return is 14.8 %. As on cut-off date, none of the loans in the pool were overdue. The pool consists of 2.4% new vehicle loans and 97.6% used vehicle loans. Heavy commercial vehicle, light commercial vehicle and passenger car loans accounted for 48.9%, 38.4% and 11.1%, respectively, of the initial pool principal at transaction closing. The weighted average residual tenor of the hypothecated pool is 33.1 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 at end-October 2020. Despite stressing the structural liquidity statement, the company still has a positive cumulative surplus. At end-October 2020, STFC maintained sanctioned and committed but undrawn bank lines of INR101.6 billion from various banks, including unutilised cash credit lines and commitments from banks on account of securitisation and government's partial guarantee scheme. The company had on-balance sheet liquidity (liquid investments, and unencumbered cash and investments) of INR7.9 billion. This is against a scheduled debt repayment of INR36.9 billion over November 2020-January 2021. The management remains committed to maintaining liquidity for next the three months on a rolling basis.

The transaction also benefits from the liquidity provided by the 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 the issuer's rating forms the starting point for the rating of these NCDs.

For Unsupported Rating:

Positive: A significantly strengthened, stable funding profile that could emerge through significantly larger proportion of granular retail funding and significantly increased credit costs absorbing buffers, while maintaining the dominant franchise in the used commercial vehicle financing segment, could strengthen the credit profile.

Negative: A sharp increase in the credit cost, leading to depletion of operating buffers on a sustained basis and/or capital buffers leading to tier I capital level falling below 14%, reduced resource raising ability impacting the liquidity, and/or a significant loss of franchise could result in a negative rating action.

TRANSACTION STRUCTURE

At Transaction Closure and Pre-Trigger: The on-balance sheet NCDs issued by STFC have a monthly interest payment and an expected monthly amortisation in 30 months. The security package (revolving cover pool and credit enhancement) stays on the company's balance-sheet. The CE level and minimum-security cover are tested on a monthly basis. STFC shall fund the NCD pay-out account two day prior to the payment dates. The downgrade of the NCDs will result in accelerated full redemption, as per the transaction documents.

At Trigger Event: The security package shall be assigned to the SPV (without any further deed, notice or action), which 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 basis. 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 cash flows from the pool collections will flow back to STFC until the NCDs are repaid in full. Any shortfall in meeting NCD obligations will be paid out by STFC to the NCD holders. The collections from the pool would be accumulated for a month to repay the NCDs in the next month. Post the complete redemption of NCD obligations, the company will be the residual beneficiary of the 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 investors 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 laws.

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 NBFC in the asset finance segment in India. It is the flagship company of the 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			

ANNEXURE

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. The identified obligors who are first time borrowers of the company shall not exceed 20% of the total number of identified obligors
3. The aggregate number of loans in the pool which are overdue beyond one day and the loans which are restructured shall not comprise over 10% of the total loans in the pool
4. The tenure of any loan in the pool does not exceed the tenure of the debentures
5. Weighted average loan-to-value of the pool should be less than 75%
6. Minimum seasoning of three months for loans of original tenure up to two years, six months for loans with original tenure between two and five years and 12 months for loans with original tenure above five years
7. Weighted average seasoning of the pool to be at least six months
8. Geographic concentration – loans from any single state not to form more than 20% of the underlying pool
9. Average ticket size of the underlying security provided should be not greater than INR0.5 million
10. Weighted avg. IRR of the pool should be less than 22%

11. The Issuer should have originated each of the loans

12. The loans must be unencumbered and not sold or assigned by the issuer

13. The hypothecated loans must only be originated by the branches owned controlled and operated by the issuer directly and not through branches operated by any origination partner

14. The hypothecated loans must have been originated while complying with all the extant KYC norms specified by the RBI

15. Pool concentration: in line with STFC's existing book heavy commercial vehicle - 50%; medium and light commercial vehicle - 35%; passenger vehicles - 15% and not to include any Uber/Ola or similar aggregator app-based passenger vehicles.

16. Loans which have been used for financing new vehicles, will not be more 10% of total pool.

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.

ANNEXURE 2 - TRIGGER EVENT

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

1. Failure to meet the minimum security cover requirement
2. Failure to maintain CE at the stipulated level
3. Failure by the issuer to meet the prefunding requirement i.e., credit of amounts in the designated account at least two business days prior to each coupon payment date or the maturity date, as the case may be
4. Any default by the issuer in relation to any financial indebtedness availed of by the issuer;
5. 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, (insolvency event).
6. Any legal proceedings or regulatory proceedings (except insolvency event) commenced against the Issuer, which has a material adverse effect.
7. Any default by the issuer in relation to its servicing obligations under any securitisation transaction.
8. The net Stage 3 assets on the books of the issuer crossing 7%
9. Capital adequacy ratio of the Issuer falling below 15%
10. Cumulative Asset liability mismatch in the first 12 months on each quarter end date
11. Rating of the Issuer is downgraded below AA
12. Failure to perform obligations as a consequence of an instrument ratings trigger event
13. Failure of the issuer to comply with any of the covenants and if breached not remedied within 30 days
14. Failure on the part of the company to satisfy all or any part of payments in relation to the debentures on the expected payout dates and the issuer has not redeemed the debentures in full by end of expected maturity date.
15. 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.
16. 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.
17. 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.
18. If the debenture documents or any part thereof ceases, for any reason whatsoever, to be valid and binding or in full force and effect.
19. If the company fails to comply with or pay any sum due from it under any final judgment or any order made or given by a court of competent jurisdiction within the time provided under such judgment or order.
20. One or more events, conditions or circumstances whether related or not, has occurred or is reasonably expected to occur which, in the opinion of the debenture trustee, could have a material adverse effect.
21. In the event the company creates or attempts to create any charge on the Secured Property or any part thereof without the prior approval of the debenture trustee, other than as permitted under the Transaction Documents;
22. In the opinion of the debenture trustee the Security is in jeopardy;
23. The company ceasing or threatening to cease to carry on its respective business;
24. The company repudiates a debenture document to which it is a party or evidences an intention to repudiate debenture documents to which it is a party.

COMPLEXITY LEVEL OF INSTRUMENTS

The complexity level of the instrument is high.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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

Financial Institutions Rating Criteria
Structured Finance Rating Criteria
Rating Criteria for Indian Asset-Backed Securitisations

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NSE

National Stock Exchange Of India Limited

Date of 25-Dec-2020

NSE Acknowledgement

Symbol:-	SRTRANSFIN
Name of the Company: -	Shriram Transport Finance Company Limited
Submission Type:-	Announcements
Short Description:-	Credit Rating
Date of Submission:-	25-Dec-2020 04:40:20 PM
NEAPS App. No:-	2020/Dec/5067/5074

Date & Time of Download : 25/12/2020 16:42:26

BSE ACKNOWLEDGEMENT

Acknowledgement Number	2393190
Date and Time of Submission	12/25/2020 4:40:09 PM
Scripcode and Company Name	960258 - SHRIRAM TRANSPORT FINANCE CO.LTD.
Subject / Compliance Regulation	Announcement under Regulation 30 (LODR)-Credit Rating
Submitted By	Mathew
Designation	Designated Officer for Filing

Disclaimer : - Contents of filings has not been verified at the time of submission.