



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

November 11, 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 Principal Protected - Market Linked Debenture (PP-MLDs)

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 PP-MLD AAA(CE) emr/Stable” Rating for Structured Principal Protected - Market Linked Debenture (PP-MLDs) proposed to be issued by the Company up to INR 1600 million.

The Rating dated November 10, 2020 published by India Ratings and Research in respect of the PP-MLDs is enclosed in compliance with the above Circular issued by SEBI.

Thanking you.

Yours faithfully,

For **SHRIRAM TRANSPORT FINANCE COMPANY LIMITED**

VIVEK
MADHUKAR ACHWAL
R ACHWAL

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MADHUKAR ACHWAL
DN: CN = VIVEK
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IN O = Personal
Date: 2020.11.11 12:16:15 +
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VIVEK ACHWAL
COMPANY SECRETARY

Encl.a/a

Shriram Transport Finance Company Limited

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

India Ratings Assigns Shriram Transport Finance Company's PP-MLDs 'Provisional IND PP-MLD AAA(CE) emr'/Stable



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 principal protected - market linked debenture (PP-MLDs), 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
PP-MLDs	-	-	-	INR1,600	'Provisional IND PP-MLD AAA(CE) emr'/ Stable	Assigned

The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. The rating of the market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index (to be detailed in the information memorandum of the issue). PP-MLD refers to full principal protection in the market linked notes, wherein the issuer is obligated to pay the full principal upon maturity. 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+/Rating Watch Negative (RWN)'. Ind-Ra had placed STFC's Long-Term Issuer Rating of 'IND AA+' on RWN to reflect the limited near-term visibility on the impact of the measures taken by the authorities to contain the spread of the COVID-19 pandemic on STFC's asset quality, funding costs and credit costs.

The PP-MLDs 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 PP-MLDs reflects the creditworthiness of STFC, the credit quality of underlying pool, and a fixed deposit to ensure payment continuity. The rating addresses ultimate payment of principal and interest by the final maturity date, in accordance with the transaction documentation. The PP-MLDs have an expected maturity date that is 25 months from the date of issuance, and post that, a tail period of another 25 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 PP-MLDs will have first recourse to STFC and would also benefit from:

- first ranked exclusive charge on a dynamically managed pool of loans, providing a 1.2x cover to the PP-MLDs' outstanding obligations at all times till maturity
- covenants that protect the quality of the pool and ensure that the entire proceeds of the pool are available for meeting PP-MLD obligations and for PP-MLD prepayment, on the occurrence of events that are agreed upon at transaction closure
- cash collateral in the form of FD that is maintained at 5.0% of the issuance amount and applicable accrued interest till the end of the previous quarter.

The interest payouts to the PP-MLD holders will depend on the yield of the underlying reference index (currently 5.79% G-Sec 2030). If the yield of the underlying reference index is less than or equal to 12% on the final fixing date, the yield on the PP-MLDs will be 8.1% on XIRR basis. Else, if the yield of the underlying reference index is greater 12% but less than or equal to 18% on the final fixing date, the yield on the PP-MLDs will be 8.05% on XIRR basis. Furthermore, if the yield on the underlying reference index increases beyond 18%, the PP-MLDs will yield 0%. Upon the occurrence of any trigger event, the interest on the PP-MLD would be payable monthly. Also, if the trigger event is due to the issuer not calling the bonds by the expected maturity date, the monthly coupon rate applicable will be 11.84% per annum payable monthly.

KEY RATING DRIVERS

Dual Recourse: As per the transaction documents, STFC is expected to service the PP-MLDs 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 PP-MLD obligations, followed by replenishment of utilised external credit enhancement (CE) and any excess thereof for the accelerated redemption of the PP-MLDs. Until the PP-MLDs are completely paid down, all the pool

cashflows shall flow to the PP-MLD investors or be utilised for replenishing the credit enhancement. Any shortfall in meeting PP-MLD obligations will be paid out by STFC to the PP-MLD 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 PP-MLDs; 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 5% 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 PP-MLDs 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 PP-MLDs 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 PP-MLDs within the final maturity date and there would be no requirement of the sale of the loan pool.
3. The tail period of 25 months, allowing the pay down of PP-MLDs from the cover pool during the period, in case the company does not choose to repay the PP-MLDs on the expected maturity date (in the 25th month).

Asset Segregation: The PP-MLDs 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 PP-MLDs. The access to the collateral pool for PP-MLD 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 applicable accrued interest till the end of the previous quarter (INR80 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. Before the trigger event, the CE shall be replenished on a quarterly basis to ensure that it is equal to 5% of the outstanding amounts in relation to the PP-MLDs, including accrued interest, till the end of the previous quarter. 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 PP-MLDs constitute an aggregate outstanding principal balance of INR1,920.4 million, as on the pool cut-off date of 20 October 2020. The 13,187-loan pool has a weighted average net seasoning of 18.6 months and a weighted average amortisation of 25.7%, implying a moderate repayment track record of underlying borrowers. Also, the average current loan balance is INR145,627 and the weighted average internal rate of return is 15.7 %. As on cut-off date, none of the loans in the pool were overdue. The pool consists of 4.8% new vehicle loans and 95.2% used vehicle loans. Heavy commercial vehicle, light commercial vehicle and passenger car loans accounted for 42.8%, 31.5% and 25.6%, respectively, of the initial pool principal at transaction closing. The weighted average residual tenor of the hypothecated pool is 31.6 months as on the pool cut-off date.

Liquidity Indicators – Adequate: At end-August 2020, STFC had a positive cumulative surplus in the one-year time frame of structural liquidity statement. Also, it had 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 the government's partial guarantee scheme. The on-balance sheet liquidity (liquid investments and unencumbered cash and investments) stood at INR18.7 billion at end-August 2020 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 partial guarantee schemes). Even if Ind-Ra assumes 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 the next 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 PP-MLDs will be downgraded on the downgrade of STFC's rating below 'IND AA', as the issuer's rating forms the starting point for the rating of these PP-MLDs.

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. STFC could witness further downward rating action, by a notch, if in Ind-Ra's opinion, its business prospects are materially impacted or it faces funding or liquidity challenges that could hinder its repayment capabilities.

COMPANY PROFILE

TRANSACTION STRUCTURE

At Transaction Closure and Pre-Trigger: The on-balance sheet PP-MLDs issued by STFC have an expected bullet maturity, along with accrued interest, at the end of 25 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 quarterly basis. STFC shall fund the PP-MLD pay-out account one day prior to the payment dates. The downgrade of the PP-MLDs 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 PP-MLDs. The encumbrance on the security package in favour of the PP-MLDs 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 PP-MLD obligations. The coupon on the PP-MLD is payable on a monthly basis. The cash flows from the cover pool is used to meet the PP-MLDs obligations and any excess collection will be used to prepay the PP-MLDs on an accelerated basis. No cash flows from the pool collections will flow back to STFC until the PP-MLDs are repaid in full. Any shortfall in meeting PP-MLD obligations will be paid out by STFC to the PP-MLD holders. The collections from the pool would be accumulated for a month to repay the PP-MLDs in the next month. Post the complete redemption of PP-MLD 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. Overdue loan contracts (by more than 1 day) shall not constitute more than 5% of the pool at the time of origination
3. First time borrowers of STFC shall not account for more than 20% of the pool
4. The weighted average loan-to-value ratio of the loans is less than 75% at the time of disbursement
5. The average ticket size of the underlying security provided should not be greater than INR0.5 million.
6. 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
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 15% of the underlying pool
9. Restructured loans, if any, shall not form more than 5% of the pool

10. All loans have been disbursed against the security of new or used vehicles. Pool concentration in line with STFCs existing book - HCV up to 50%; M&LCV up to 35%; passenger vehicles up to 25% and not to include any Uber/Ola or similar aggregator app based passenger vehicles.
 11. Loans that have been used for financing new vehicles will not constitute more than 10% of the total pool
 12. 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. The loans must be unencumbered and not sold or assigned by the issuer
 13. The weighted average rate of return of the loans is less than 22%
 14. All loans have been fully disbursed by the company. The company has not sold or encumbered the loan assets, either directly or indirectly
 15. All loans have a fixed repayment schedule and not in the nature of revolving credit. None of the contracts in the pool have a bullet repayment schedule for the principal and interest
 16. At all times, the total principal amount of security of the underlying loans divided by the amounts due under the PP-MLDs (principal and accrued interest) should be at least equal to 1.2x. This is to be tested on each month-end date
- 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. 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-1 mechanism)
4. The company's net stage 3 assets cross 10%
5. The capital adequacy ratio of the company falls below 15%
6. The company has a cumulative asset liability mismatch in the first 12 months on each quarter end date, anytime during the tenure of the PP-MLDs
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 with respect 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 the 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 PP-MLD 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 the date of 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, resulting in a material adverse effect, in the opinion of the debenture trustee;
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 PP-MLDs in full at the end of 25 months using the call option available
18. Any change in regulation / guidelines that, in the opinion of the majority debenture holders, invalidates the subsequent assignment of security pool assets to the trust; however, for triggering such an event, a legal opinion from one of the identified legal counsels shall be obtained (and shared with the Trustee) confirming the invalidation of assignment of the receivables

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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.

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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.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)

[Structured Finance Rating Criteria](#)

[Rating Criteria for Indian Asset-Backed Securitisations](#)

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