

SEC/FILING/BSE-NSE/15-16/68A-B

March 17, 2016

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.: Ratings by Standard & Poor's

We are attaching herewith the Standard & Poor's Ratings regarding our Company, Shriram Transport Finance Company Limited.

The Rating actions are as follows:

Shriram Transport Finance Company Limited

“BB+” long-term and “B” short -term issuer credit ratings.

This is in compliance with the applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you.

Yours faithfully,

For SHRIRAM TRANSPORT FINANCE COMPANY LIMITED



VIVEK ACHWAL
COMPANY SECRETARY

Shriram Transport Finance Company Limited

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

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Research Update:

Shriram Transport Finance Co. Ltd. Assigned 'BB+/B' Ratings; Outlook Is Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Shriram Transport Finance Co. Ltd. Assigned 'BB+/B' Ratings; Outlook Is Stable

Overview

- India-based finance company STFC has a good business position, capitalization, and earnings profile. Its inherently high credit costs temper these strengths.
- We are assigning our 'BB+' long-term and 'B' short-term issuer credit ratings to STFC.
- The stable outlook reflects our expectation that STFC will sustain its good market position in the preowned CV financing segment along with stable growth, capitalization, and earnings over the next 12-18 months.

Rating Action

On March 17, 2016, Standard & Poor's Ratings Services assigned its 'BB+' long-term and 'B' short-term issuer credit ratings to India-based Shriram Transport Finance Co. Ltd. (STFC). The outlook on the long-term rating is stable.

Rationale

The rating on STFC reflects the company's good business position, capitalization, and earnings profile. However, the company's inherently high credit costs temper these strengths. We assess STFC's stand-alone credit profile as 'bb+'.

We believe that Indian finance companies (fincos) like STFC face greater industry risk relative to banks because fincos usually have no access to central bank funding, and have lower barriers to entry and less stable revenues. Fincos also have less onerous regulations, notwithstanding some requirements on capital adequacy, asset quality, and asset-liability management. Our 'bb' anchor for STFC is therefore two notches below the bank anchor derived from our Banking Industry Country Risk Assessment for India. Like other Indian financial institutions, fincos benefit from low economic imbalances, intermediate private sector leverage, and relatively limited competition. India's low income economy and weak foreclosure laws temper these advantages.

We expect STFC to maintain its dominant position in its niche market for pre-owned commercial vehicles (CV). STFC's asset base accounts for less than 1% of the Indian financial system; however, the company has a strong market position as the largest CV financier in India. In the pre-owned segment, STFC

has a 25%-27% share (92% of assets under management). The company has good customer loyalty, given its long track record (of over 30 years) in the business and distribution network of 822 branches and 779 rural centers as of December 2015; STFC has also set up a secondary CV sales market place. We expect STFC to continue to generate most of its operating revenues from interest income (more than 90% on average over the past five years). Although most of its earnings are derived from vehicle financing within India, the company has some diversification, given its pan-India presence and focus on different vehicle categories. Heavy CVs account for 48% of assets under management, compared with medium and light CVs (21%), and passenger vehicles (23%).

The management and governance of STFC is satisfactory, in our view. The board includes a majority of independent directors, and the company has a track record of identifying a market niche with limited competition from organized financiers (including banks) and increasing its portfolio with satisfactory profitability.

Our assessment of STFC's capital, leverage, and earnings reflects our expectation that the company's pre-diversification risk-adjusted capital (RAC) ratio will remain above 10% over the next 12-18 months, compared with 11.4% as of March 2015. STFC's earnings are characterized by higher yield on the pre-owned CV portfolio and low operating costs to compensate for high cost of wholesale borrowings and credit costs. STFC's return on assets of 3.2% in the past five years is higher than the banking industry average of 1% and comparable to some of the other fincos that we rate in India, such as Power Finance Corp. Ltd. and Kotak Mahindra Prime Ltd.

We expect STFC's assets to grow at 13%-14% on average over the next 12-18 months, with some improvement in net interest margins. Our view reflects a reduction of interest rates in India, resulting in improving profitability.

Credit costs for STFC are likely to remain high. The company's profitability has declined in the past three to four years due to higher wholesale funding rates in India, lower income from securitization, and higher credit costs.

Our assessment of STFC's risk position reflects the company's elevated credit costs due to inherent weakness in its borrowers and asset profile, and cyclical weakness in the rural economy and infrastructure activity in India. STFC caters to small road transport owners, which typically own two to three trucks and rely on the financed assets to generate income for debt servicing. The cash flows of such borrowers could be erratic. STFC's portfolio has been further affected by weak infrastructure activity in India over the past few years and two consecutive below-par monsoon seasons that have undermined the rural economy.

We expect the credit provisions for STFC to remain high over the next 12-18 months as: (1) the company moves to tighter recognition norms for nonperforming assets (NPAs) (the regulator has tightened the NPA recognition from 180 days past due to 90 days by March 2018); and (2) recovery in the

rural economy remains contingent on a normal monsoon season this year. The commercial equipment business of STFC's subsidiary may also require provisioning. Despite such challenges and to mitigate the risks, the company has relied on domain knowledge of the CV market in valuing the pre-owned vehicles and ascertaining the debt-servicing ability of borrowers, granularity of loan ticket size, relationship-based new customer referrals, and tight collection mechanism.

STFC's liquidity is adequate, in our view, and its assets and liabilities are well matched. For liquidity purposes, the company maintains sizable liquid investments. STFC relies on primarily wholesale funding although it can collect term deposits as well. The company has access to diversified funding from nonconvertible debentures and subordinated debt (49% of borrowing in fiscal 2015), bank and institutional loans (39%), and deposits (12%). The company has relationships with over 60 banks. While STFC's securitization has declined, it remains an avenue since its portfolio qualifies as priority sector advance for commercial banks.

Outlook

Our stable outlook reflects our expectation that STFC will sustain its good market position in the pre-owned CV financing segment along with stable growth, capitalization, and earnings over next 12-18 months.

Downside scenario

We may lower the rating if STFC's RAC ratio declines below 10%, which could happen if: (1) the company grows more than our expectations; (2) its profitability deteriorates and credit costs increase sharply; or (3) economic risk in India increases.

Upside scenario

We are unlikely to raise the rating in the outlook horizon because used CVs, which comprise a majority of STFC's assets, are highly sensitive to economic fluctuations, in our view.

Ratings Score Snapshot

Issuer credit rating: BB+/Stable/B

SACP: bb+

Anchor: bb

- Business position: Strong (+1)
- Capital, leverage and earnings: Strong (+1)
- Risk position: Moderate (-1)

Research Update: Shriram Transport Finance Co. Ltd. Assigned 'BB+/B' Ratings; Outlook Is Stable

- Funding and liquidity: Adequate (0)

External influence: 0

- Government influence: 0
- Group influence: 0
- Guarantees or other external influences: 0
- Rating above the sovereign: 0

Related Criteria And Research

Related Criteria

- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Banks: Commercial Paper I: Banks, March 23, 2004
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

New Rating

Shriram Transport Finance Co. Ltd.
Counterparty Credit Rating

BB+/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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