SHRIRAM
Transport Finance Company Limited
A WINNING RELATIONSHIP

SEC/FILING/BSE-NSE/22-23/68A-B

September 30, 2022

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 Non-Convertible Debenture (NCDs)

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 ICRA Ratings has assigned “ICRA AA+ /Stable” Rating for NCDs proposed to be issued by the Company up to INR 500 crore.

The Rating Rationale dated September 30, 2022 published by ICRA Ratings 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**

U BALASUNDARARO
COMPANY SECRETARY
Encl.a/a

September 30, 2022

Shriram Transport Finance Company Limited: [ICRA]AA+ (Stable) assigned/reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	-	-	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debenture programme	-	500.0	[ICRA]AA+ (Stable); assigned
Total	**-**	**500.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in Shriram Transport Finance Company Limited's (STFC) continued leadership position in the pre-owned commercial vehicle (CV) financing segment with a long-standing track record, established brand, strong customer reach and a granular retail loan book. The rating also considers the company's track record of healthy profitability, notwithstanding intermittent pressures amid a challenging environment. ICRA notes that STFC raised sizeable equity capital over the last two years, which helped to further augment the capitalisation profile with the gearing improving to 4.4 times as of June 2022 (compared to 5.3 times as on March 31, 2020) and the total capital adequacy ratio standing at 22.5% as on June 30, 2022.

The rating is, however, constrained by STFC's relatively moderate asset quality indicators led by its exposure to a high-yielding borrower segment with modest credit profiles. Nonetheless, ICRA favourably notes that the reported asset quality remained range-bound (7.1-8.4%) during the Covid-19 pandemic-impacted period (FY2021 and FY2022), in line with the 5-year average of 8% (i.e. the period since STFC adopted 90 days past due (dpd) recognition policy). STFC's reported gross non-performing assets (GNPAs) stood at 7.0% as on June 30, 2022. The rating also takes cognisance of the vulnerability in the asset quality data due to the relief extended to the borrowers through the Emergency Credit Line Guarantee Scheme (ECLGS; 0.4% of the loan book as on March 31, 2022) and the restructured book of 0.6% as of March 2022. Nonetheless, ICRA draws comfort from STFC's track record of reporting a swift recovery in its collection efficiency through cycles, though the asset quality metrics would remain a key monitorable.

STFC has a track record of raising retail borrowings, besides tapping funds from a diverse set of investors. This has facilitated a diversified borrowing mix for supporting its large-scale operations and borrowing programme. However, STFC's borrowing cost has remained relatively higher than its peers with instances of adverse fluctuations in yields. In this regard, STFC's sustained ability to mobilise funds from different sources at competitive rates remains imperative.

ICRA is aware of the proposed merger of STFC, Shriram City Union Finance Ltd. (SCUF) and their promoter entity – Shriram Capital Limited (SCL). The transaction would be entirely through a stock swap arrangement[1]. Following the completion of the merger, the promoter group's shareholding in the amalgamated entity is expected to be 20.11%. ICRA notes the strategic rationale behind the merger, which would help the Group bring together all its lending products – CVs, two-wheeler loans, gold loan, personal loans, auto loans and small enterprise finance – under a single roof. The Group envisages synergies related to customer acquisition costs/cross-selling opportunities, employee productivity/better operating efficiency on account of back office operations, liabilities strategy, etc. ICRA expects the merger to be completed by October-November 2022.

[1] The proposed transaction is entirely non-cash and is based on a share swap arrangement, wherein, pursuant to the merger, STFC will issue 1.55 shares for every share of SCUF and 0.09783305 share for every share of SCL

Key rating drivers and their description

Credit strengths

Leadership position in pre-owned CV financing segment – STFC is the largest player in the pre-owned CV financing segment in the country with a dominant market position. The company's proven track record, along with its well-established franchise (1,854 branches and 770 rural centres as on June 30, 2022), results in a strong customer reach and a granular retail loan book. It also provides loans for new CVs, passenger vehicles (PVs), tractors and business loans for equipment finance and the working capital requirements of small road transport operators.

The assets under management (AUM) stood at Rs. 1,30,689 crore (year-on-year (YoY) growth of 9.5% and sequential growth of 2.9%) as on June 30, 2022 with the loan book consisting of used vehicles (~93%), new vehicles (~4%) and small business loans (the balance). Given its wide geographical reach and understanding of its borrower's credit profile, the company is expected to maintain its competitive position in the pre-owned CV financing segment.

Healthy profitability trajectory – STFC has a track record of healthy profitability as reflected by the 10-year average return on managed assets (RoMA) and return on equity (RoE) of 2.0% and 15%, respectively. The company's average yield on advances and lending spread have remained range-bound at about 15% and 6%, respectively, which is commensurate with the underlying credit risk. This, coupled with the scale-led operating efficiency and hence the low operating expense ratio (1.5-1.7% of average managed assets), has supported the overall profitability trajectory, notwithstanding the intermittent pressures amid the challenging environment due to elevated credit costs post March 2020. Nonetheless, the annual net credit cost (as a percentage of average total assets) trajectory has largely remained under control in the range of 2-3% with a 10-year average of 2.5%. Despite the pressures arising from the pandemic-led challenges, STFC continued to report satisfactory profitability between Q4 FY2020 and Q4 FY2022 with average quarterly net credit costs of 2.9%, quarterly RoMA of 1.8% and quarterly RoE of 11%. In Q1 FY2023, the company reported net credit costs of 2.2%, RoMA of 2.5% and RoE of 14.6%.

Comfortable capitalisation – STFC's capitalisation profile remains comfortable with a net worth of Rs. 26,815 crore as on June 30, 2022. The capitalisation level remains supported by the healthy internal accruals, besides capital infusions of Rs. 1,493 crore in FY2021 and Rs. 2,479 crore in FY2022. STFC's reported gearing improved to 4.4 times as on June 30, 2022 from 6.0 times in March 2018. The current capitalisation indicators remain comfortable for the scale of operations with Tier-I and total capital adequacy ratios of 20.6% and 22.5%, respectively, as on June 30, 2022. Given the stable-state growth trajectory and the satisfactory pace of internal capital generation, STFC's capitalisation is expected to remain at a reasonable level with comfortable cushion over the regulatory minimum, provided it is able to control fresh slippages.

Credit challenges

Modest borrower profile and moderate asset quality – Notwithstanding its strong market position, STFC caters to a high-yielding borrower segment with modest credit profiles, comprising mostly first-time users and buyers and owners-cum-drivers. The customers generally have a limited credit history and restricted buffer to absorb income shocks. Hence, the inherent credit risk in the portfolio remains high. Also, the company's high portfolio concentration towards the used vehicle segment (~93% of AUM as on June 30, 2022) exposes it to industry-specific risks.

In line with the inherent credit risk in the portfolio, STFC's asset quality indicators remain moderate with the gross stage 3 assets typically amounting to 8-9% of the loan book, notwithstanding the improvement in the reported figures in recent quarters. Although the reported gross stage 3 assets (%) declined to 7.0% as on June 30, 2022 from the quarterly average of 7.9% in FY2022, ICRA has factored in the opaqueness in the asset quality data due to the relief availed by borrowers under the ECLGS (0.4% of the loan book) and the restructuring of loans (0.6% of the loan book as of March 2022). Nonetheless, ICRA draws comfort from STFC's track record of reporting a swift recovery in its collection efficiency through cycles, though the asset quality metrics would remain a key monitorable.

Relatively modest borrowing profile, notwithstanding established track record of raising funds from diverse sources – STFC has a track record of raising retail borrowings, besides tapping funds from a diverse set of investors through securitisation, external commercial borrowings, domestic debt markets, money markets, development finance institutions, banks and other financial institutions. This has facilitated a diversified borrowing mix for supporting its large-scale operations and borrowing programme. As on June 30, 2022, STFC's borrowing mix comprised bonds (19%), subordinated debt (4%), foreign currency borrowings (23%), term loans (19%), public deposits (19%) and securitisation (16%).

However, ICRA notes that STFC's borrowing cost has remained relatively higher vis-à-vis its peers with instances of adverse volatility in yields. Also, the share of various sources in incremental borrowings has fluctuated, wherein a constrained ability to raise funds, at times, from certain sources at commensurate rates cannot be ruled out. In this regard, STFC's sustained ability to mobilise funds from diverse sources, at competitive rates, will remain a monitorable and will be critical for growth.

Liquidity position: Adequate

STFC's asset-liability maturity (ALM) profile, in the normal course of business, is mostly characterised by positive cumulative mismatches across the near-term and medium-term maturity buckets, supported by the relatively comfortable matching of the average tenor of the assets and liabilities and modest on-balance sheet liquidity. As on June 30, 2022, STFC had unencumbered on-balance sheet liquidity of Rs. 15,920 crore vis-à-vis debt repayment obligations (excluding interest) of ~Rs. 10,417 crore due over the next three months. The liquidity position is further supported by the availability of unutilised working capital lines of Rs. 2,100 crore as on June 30, 2022, thereby providing adequate liquidity buffer to meet contingencies, if any.

Rating sensitivities

Positive factors – An improvement in portfolio diversification and in the asset quality trajectory (gross stage 3 assets below 5%), resulting in a sustained improvement in the solvency and profitability indicators, while maintaining adequate capitalisation, could lead to an upward revision in the outlook and/or the credit rating.

Negative factors – A deterioration in the asset quality indicators, leading to the sustained weakening of the solvency and/or profitability, could warrant a revision in the outlook and/or the credit rating. A weakening in the Tier-I capital adequacy below 12% would also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Shriram Transport Finance Company Limited (STFC), incorporated in 1979 and a part of the Shriram Group, is a deposit-accepting non-banking financial company. It is the market leader in pre-owned CV financing with a pan-India presence encompassing 1,854 branches 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 PVs. Assets under STFC's management aggregated Rs. 1,30,689 crore as on June 30, 2022.

In Q1 FY2023, STFC reported a net profit of Rs. 965 crore on AUM of Rs. 1,30,689 crore. It reported a net profit of Rs. 2,708 crore on AUM of Rs. 1,27,041 crore in FY2022 against a net profit of Rs. 2,487 crore on AUM of Rs. 1,17,243 crore in FY2021. As on June 30, 2022, the company's capitalisation was characterised by a net worth of Rs. 26,815 crore and a total capital adequacy ratio of 22.5%.

On December 13, 2021, the board of directors of STFC, SCUF and SCL (promoter entity) approved the merger of SCL and SCUF with STFC. 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%. While the transaction is approved by the company's shareholders and creditors, Insurance Regulatory and Development Authority (IRDA), Competition Commission of India (CCI), the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), final clearance from the National Company Law Tribunal (NCLT) is awaited.

Key financial indicators

	FY2021 Audited	FY2022 Audited	Q1 FY2023* Limited Review
PAT	2,487	2,708	965
Net worth	21,568	25,932	26,815
Assets under management (AUM)	1,17,243	1,27,041	1,30,689
Return on average assets	1.9%	1.9%	2.5%^
Return on average equity	12.6%	11.1%	14.6%
Gearing (times)	4.9	4.4	4.4
Net worth/ AUM	18.4%	20.4%	20.5%
CRAR	22.5%	23.0%	22.5%
Gross stage 3 (%)	7.1%	7.1%	7.0%
Net stage 3 (%)	4.2%	3.7%	3.5%
Provision coverage – Stage 3 (%)	42.0%	50.0%	51.6%
Solvency (Net stage 3/ Net worth)	22.3%	17.2%	16.3%

Source: STFC, ICRA Research; All ratios as per ICRA's calculation; ^ As reported by STFC
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Sep 30, 2022	Jun 17, 2022	Date & Rating in FY2022: Dec 21, 2021	Date & Rating in FY2022: Jun 22, 2021	Date & Rating in FY2021: May 26, 2020	Date & Rating in FY2020: Apr 05, 2019
1	Fixed deposit programme	Long term	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)
2	NCD programme	Long term	500.0	-	[ICRA]AA+ (Stable)	-	-	-	-	-

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed deposit programme	Very Simple
NCD programme	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fixed deposit programme**	NA	NA	NA	NA	[ICRA]AA+ (Stable)
NA	**NCD programme (yet to be placed)**	-	-	-	500.0	[ICRA]AA+ (Stable)

Source: ICRA Research

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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