ICRA

December 13, 2023

Shriram Finance Limited: Rating confirmed as final for PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Trust July 2023 III

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust July 2023 III	PTC Series A	517.72	[ICRA]AAA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In August 2023, ICRA had assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Finance Limited {SFL; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 568.93 crore (pool principal; receivables of Rs. 717.42 crore) of vehicle loan receivables. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Proven track record in pre-owned commercial vehicle (CV) financing segment along with its well-established franchise.
- Availability of credit enhancement in the form of overcollateralisation, EIS and Credit Collateral (CC).
- Low obligor concentration with the top 10 obligors accounting for 0.8% of the overall pool principal amount

Credit challenges

- High share (i.e., ~44%) of contracts with original tenure more than 48 months
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (August 20, 2028). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to the PTCs, will be used to make the expected principal payouts to PTC Series A. However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The loan pool receivables will be assigned at par to the PTC investors. The first line of support for PTC Series A in the transaction is in the form of over-collateralisation of 9.00% of the initial pool principal, which will be in the form of an equity tranche. The originator's claim on the EIS in the transaction is subordinated to the PTC payouts. Thus, the EIS acts as a source of credit enhancement in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. However, on the occurrence of a PTC default or any other predefined acceleration event, the residual EIS every month shall be utilised for accelerating the principal payment due to the subscribers of PTC Series A. The acceleration event is triggered in case of servicer default, replacement of servicer or if the 150+ days past due (dpd) exceeds 5% of the outstanding pool principal.

A CC equivalent to 3.50% of the initial pool principal (Rs. 19.91crore) also acts as credit enhancement in the transaction. The CC would be in the form of a fixed deposit maintained with a Designated Bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the EIS first and then the CC to meet the shortfall.

There are no overdue in the pool as on the pool cut-off date. The pool is well diversified with low obligator concentration and a weighted average seasoning of 11.4 months. It comprises new and used CV (new CV: 7.4% and used CV: 25.6%), new and used passenger vehicle (new PV: 13.5% and used PV: 48.7%) and new and used CE (new CE: 1.3% and used CE: 3.5%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Karnataka, Telangana and Maharashtra) contributing 34.7% to the initial pool principal amount. It also has a high share (44.0%) of contracts with an original tenure of more than 48 months. Further, its performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pools: ICRA has rated over 50 pools so far, backed by new & used CV, new & used PV, new & used CE and tractor loans originated by SFL. The performance of all live pools (which have completed at least two payouts) has remained healthy till the November 2023 payout month with a cumulative collection efficiency of more than 100%.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after considering the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 3.50-4.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 7.2-27.0% per annum.

Liquidity position: Superior

As per the transaction structure, only the interest amount is promised to the PTC Series A on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be highly comfortable to meet the promised payouts to the PTC Series A.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of SFL's portfolio till June 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)], incorporated in 1979, is a part of the Shriram Group of companies and is a top-layer NBFC. Based on the National Company Law Tribunal (NCLT) order dated November 14, 2022, the operations of Shriram City Union Finance Company Limited (SCUF) and Shriram Capital Limited were merged with STFC and STFC was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in preowned commercial vehicle finance and has a pan-India presence with 2,975 branches and 708 rural centres. As of September 30, 2023, SFL had consolidated AUM of Rs. 2,02,641 crore comprising pre-owned commercial vehicle finance (49%), passenger vehicle loans (19%), construction equipment (7%), farm equipment (2%), SME lending (11%), personal loans (4%), gold loans (3%) and two-wheeler loans (5%).

The company reported PAT of Rs. 3,426 crore on an AUM of Rs. 2,02,641 crore for H1FY2024. The Gross stage 3 stood at 5.79% and Net stage 3 at 2.80% for Q2 FY2024. PAT for Q1 FY2024 stood at Rs 1,675 crore and net-worth of SFL stood at Rs 44,821 crore. The company is adequately capitalized with CRAR at 22.15% at Q2 FY2024. Total outstanding borrowings stands at Rs 1,653 billion with bank term loans and public deposits forming ~50% of the total borrowings at September 30, 2023.

Key financial indicators

	FY2022*	FY2023^	H1 FY2024^
	Audited	Audited	Audited
Net worth	25,932	43,306	46,035
Profit after tax	2,708	5,979	3,426
Assets under management (AUM)	1,27,041	1,85,683	2,02,641
Gross stage 3 (%)	7.1%	6.2%	5.79%
Net stage 3 (%)	3.7%	3.2%	2.80%

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore
**For SFL, prior to the merger with SCUF and SCL; ^Consolidated, post-merger*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					December 13, 2023	August 22, 2023	-	-	-
1	**Sansar Trust July 2023 III**	PTC Series A	517.72	517.72	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex

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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Rating
Sansar Trust July 2023 III	PTC Series A	August 2023	8.70%	August 2028	517.72	[ICRA]AAA(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
Source: Company

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.

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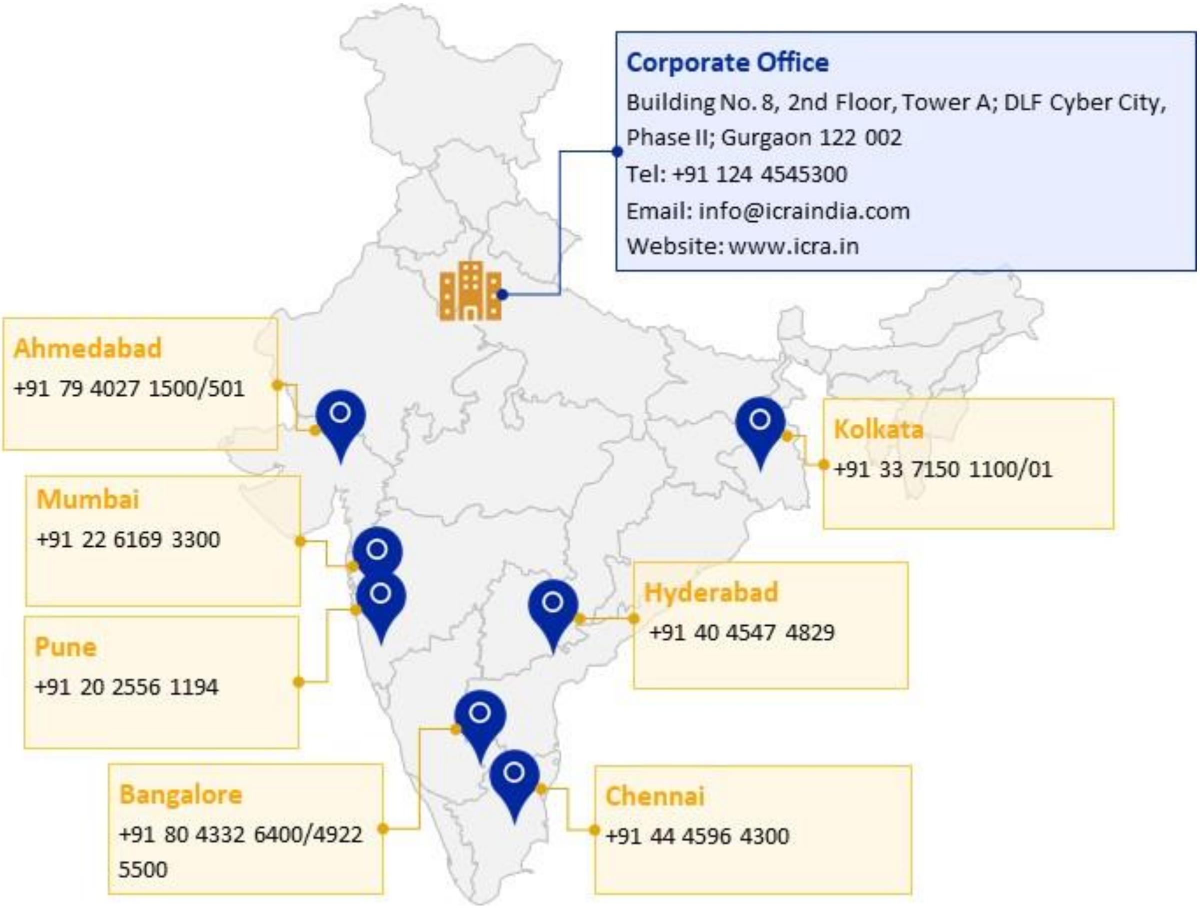

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