

March 17, 2023

Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Rating action for PTCs issued under vehicle loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Outstanding Amount after Feb-23 Payout (Rs. crore)	Rating Action
Sansar Trust Dec 2021 IV	PTC Series A	372.86	NA	172.16	[ICRA]AAA(SO); Reaffirmed
	Second Loss Facility	11.19	NA	11.19	[ICRA]BBB+(SO); Reaffirmed
Sansar Trust Feb 2022 II	PTC Series A1(a)	49.47	NA	12.25	[ICRA]AAA(SO); Reaffirmed
	PTC Series A1(b)	10.53	NA	10.53	[ICRA]AAA(SO); Reaffirmed
	PTC Series A1(c)	36.74	NA	36.74	[ICRA]AAA(SO); Reaffirmed
	PTC Series A1(d)	5.80	NA	5.80	[ICRA]AAA(SO); Reaffirmed
	Second Loss Facility	4.61	NA	4.61	[ICRA]BBB+(SO); Reaffirmed
Sansar Trust May 2019 II	PTC Series A	216.48	49.66	0.00	[ICRA]AAA(SO); Withdrawn
	Second Loss Facility	10.82	10.82	0.00	[ICRA]AA(SO); Withdrawn

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) tabulated above are backed by commercial vehicle (CV), passenger vehicle (PV), construction equipment and tractor loan receivables originated by Shriram Finance Limited {SFL/Originator (erstwhile Shriram Transport Finance Company Limited); rated [ICRA]AA+(Stable)}. The rating reaffirmation factors in the sustained healthy collections witnessed in the pool. Due to the amortisation in the transaction, there has been a build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

ICRA has also withdrawn the ratings for PTC Series A and second loss facility (SLF) under Sansar Trust May 2019 II as all the payouts have been made and no further payments are due to the investors. The previous detailed rating rationale of surveillance exercise for this transaction is available at the following link: [Click here](#)

Pool performance summary

Parameter	Sansar Trust Dec 2021 IV	Sansar Trust Feb 2022 II
Months post securitisation	14	10
Pool amortisation	53.83%	36.30%
PTC Series A/A1 amortisation	53.83%	36.30%
Cumulative collection efficiency ¹	116.52%	116.13%
Cumulative prepayment rate	27.97%	17.06%

¹ Cumulative collections till date (including advance collections) / (cumulative billings till date plus opening overdues)

Parameter	Sansar Trust Dec 2021 IV	Sansar Trust Feb 2022 II
Average monthly prepayment rate	2.32%	1.85%
Loss-cum-90+ dpd ² (% of initial pool)	2.04%	0.41%
Loss-cum-180+ dpd ³ (% of initial pool)	0.73%	0.24%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A/A1(a)	75%	75%
CC (% of balance pool)	17.33%	14.91%
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	14.02%	15.70%

Key rating drivers

Credit strengths

- Proven track record in pre-owned CV financing segment along with its well-established franchise
- Healthy amortisation of the pools leading to lower uncertainty regarding the performance of the balance pool of contracts
- Build-up in CC and EIS cover available for balance PTC payouts
- Low delinquencies observed in harder buckets in both the pools

Credit challenges

- Performance of the pools would remain exposed to macro-economic shocks/business disruption, if any

Description of key rating drivers highlighted above

The underlying pools in both the transactions (Sansar Trust Dec 2021 IV and Sansar Trust Feb 2022 II) have reported healthy collections with the monthly collection efficiency exceeding 99%, since the first payout month. The loss-cum-30+ days past due (dpd) for both the pools was in the range of 4.6-9.4%, as of the January 2023 collection month (February 2023 payout month). Despite the higher 30+dpd numbers, the 90+dpd remains low for both the transactions.

The shortfall in collections in the past was mostly absorbed by the EIS in the structure with nil CC utilisation in the transaction. As the amortisation for both the pool remains healthy, there has been a build-up in the CE cover for the balance tenure of the PTC payouts even after CE utilisation.

ICRA will continue to monitor the performance of the transactions. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the performance of the pool would remain exposed to macro-economic shocks/business disruptions.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools, as well as the performance and 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 loss and prepayments during the balance tenure of the pool are provided in the table below.

² Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

⁴ (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

⁵ (Pool Cash flows – Cash flows to PTC) / Pool Principal outstanding

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
Sansar Trust Dec 2021 IV	2.0%-3.0%	8-12% p.a.
Sansar Trust Feb 2022 II	3.0%-4.0%	8-12% p.a.

Liquidity position:

For Sansar Trust Dec 2021 IV and Sansar Trust Feb 2022 II: Superior

The liquidity of the rated transactions is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of a credit collateral in both the transactions. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the scheduled PTC payouts for a period of 12 and 10 months for Dec-21 IV and Feb-21 II transactions respectively.

Rating sensitivities

Positive factors – Not applicable for the PTCs

The rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool contracts, resulting in an increase in the credit enhancement cover available for the SLF.

Negative factors – Pressure on the ratings could emerge on the weakening collection performance of the underlying pool (monthly collection efficiency <80% on a sustained basis)

Analytical approach

The rating action is based on the performance of the pool till January 2023 (collection month), the present delinquency levels and the CE available in the pool, and the performance expected over the balance tenure of the pool.

Analytical Approach	Comments
Applicable rating methodologies	Policy on withdrawal of credit ratings 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 non-banking finance company (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 and the entity was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys leadership position in pre-owned commercial vehicle finance and has a pan-India presence with 2,910 branches. As of December 31, 2022, SFL had consolidated AUM of Rs. 1.8 lakh crore comprising pre-owned commercial vehicle finance (76%), SME lending (10%), personal loans (3%), gold loans (2%), two-wheeler loans (5%) and housing finance (4%; through its subsidiary SHFL).

In 9M FY2023, on a consolidated basis, SFL reported a net profit of Rs. 4,726 crore on an AUM of Rs. 1,84,676 crore and net worth of Rs. 41,140 crore[#].

On a standalone level, the company reported PAT of Rs. 4,671 crore on an AUM of Rs. 1,77,498 crore. Its reported capital adequacy stood at 22.99% as of December 31, 2022.

Key financial indicators

	FY2021*	FY2022*	9M FY2023^
	Audited	Audited	Provisional
Net worth	21,568	25,932	41,140 [#]
Profit after tax	2,487	2,708	4,726
Assets under management (AUM)	1,17,243	1,27,041	1,84,678
Gross stage 3 (%)	7.1%	7.1%	6.1%
Net stage 3 (%)	4.2%	3.7%	3.2%

Source: STFC, 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.

[#]Adjusted for goodwill of Rs 1,408.6 crore

Amount is Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Mar 17, 2023	Mar 31, 2022	Dec 31, 2021 [^]		
1	Sansar Trust Dec 2021 IV	PTC Series A	372.86	172.16	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
		Second Loss Facility	11.19	11.19	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-	-

[^]Initial rating assigned

S. No.	Trust Name	Current Rating (FY2023)						Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 17, 2023	Jun 20, 2022	Apr 06, 2022			
2	Sansar Trust Feb 2022 II	PTC Series A1(a)	49.47	12.25	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-	-
		PTC Series A1(b)	10.53	10.53	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)		
		PTC Series A1(c)	36.74	36.74	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)		

		PTC Series A1(d)	5.80	5.80	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)		
		Second Loss Facility	4.61	4.61	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO); reaffirmed	Provisional [ICRA]BBB+(SO)	-	-

[^]Initial rating assigned

S. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
					Mar 17, 2023	Mar 17, 2022	Mar 23, 2021	Feb 07, 2020	Nov 14 2019	May 24, 2019
3	Sansar Trust May 2019 II	PTC Series A	216.48	0.00	[ICRA]AAA(SO); withdrawn	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)
		Second Loss Facility	10.82	0.00	[ICRA]AA(SO); withdrawn	[ICRA]AA(SO)	[ICRA]A-(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Sansar Trust Dec 2021 IV	PTC Series A	Simple
	Second Loss Facility	Simple
Sansar Trust Feb 2022 II	PTC Series A1(a)	Simple
	PTC Series A1(b)	Simple
	PTC Series A1(c)	Simple
	PTC Series A1(d)	Simple
	Second Loss Facility	Simple
Sansar Trust May 2019 II	PTC Series A	Moderately Complex
	Second Loss Facility	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)	Current Rating
Sansar Trust Dec 2021 IV	PTC Series A	December 2021	6.85%	November 2026	172.16	[ICRA]AAA(SO)
	Second Loss Facility		-		11.19	[ICRA]BBB+(SO)
Sansar Trust Feb 2022 II	PTC Series A1(a)	March 2022	5.95%	January 2024	12.25	[ICRA]AAA(SO)
	PTC Series A1(b)		5.95%	May 2024	10.53	[ICRA]AAA(SO)
	PTC Series A1(c)		5.95%	March 2026	36.74	[ICRA]AAA(SO)
	PTC Series A1(d)		5.95%	September 2026	5.80	[ICRA]AAA(SO)
	Second Loss Facility		-	September 2026	4.61	[ICRA]BBB+(SO)
Sansar Trust May 2019 II	PTC Series A	May 2019	8.80%	December 2023	0.00	[ICRA]AAA(SO); withdrawn
	Second Loss Facility		-		0.00	[ICRA]AA(SO); withdrawn

* 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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