

July 21, 2023

Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Rating reaffirmed for assignee payouts issued under two 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 June 2023 Payout (Rs. crore)	Rating Action
Bank of India – PCG MAR-2020	Assignee Payouts	234.76	86.38	25.46	[ICRA]AA+(SO); reaffirmed
IB PCG STFC Sep 2020	Assignee Payouts	500.00	130.49	20.48	[ICRA]AA+(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

ICRA has reaffirmed the rating for the assignee payouts issued under two vehicle loan securitisation transactions originated by Shriram Finance Limited {SFL; rated [ICRA]AA+ (Stable)}, as tabulated above. The rating has been reaffirmed on account of the high amortisation in both transactions, which has led to significant build-up of the credit enhancement cover over the future assignee payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools. Nonetheless, the rating would remain exposed to any macroeconomic shocks/business disruptions.

Pool performance summary

A summary of the performance of the pools till the May 2023 collection month has been tabulated below.

Parameter	Bank of India – PCG MAR-2020	IB PCG STFC Sep 2020
Months post securitisation	39	33
Assignee amortisation (as % of initial assignee payout principal)	89.80%	91.29%
Cumulative collection efficiency ¹	111.35%	103.44%
Cumulative prepayment rate	44.63%	61.24%
Average monthly prepayment rate	1.50%	2.83%
Loss-cum-90+ dpd ² (% of initial pool)	0.73%	1.34%
Loss-cum-180+ dpd ³ (% of initial pool)	0.56%	1.15%
Cumulative credit collateral (CC) utilisation ⁴	0.00%	0.00%
CC (% of balance pool)	58.85%	80.40%

Key rating drivers

Credit strengths

- High amortisation of the pools, leading to lower uncertainty regarding performance of the balance pool contracts
- Buildup in credit collateral (CC) and excess interest spread (EIS) cover available for balance assignee payouts
- Low delinquencies observed in harder buckets across both pools

¹ Cumulative collections till date (including advance collections) / (Cumulative billings till date + Opening overdues)

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 CC is available in the form of an unconditional and irrevocable guarantee from SFL

Credit challenges

- Performance of the pool would remain exposed to any macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

Both pools had reported healthy collections till the June 2023 payout month with the monthly collection efficiency exceeding 98%. Delinquencies in the softer buckets had spiked in both pools post the onset of the Covid-19 pandemic, though the performance has improved as of the May 2023 collection month (June 2023 payout month).

The shortfall in collections in the past was mostly absorbed by the subordination/EIS in the structure with nil CC utilisation in the transactions. As the pools are highly amortised, there has been a significant build-up in the credit enhancement cover for the balance tenure of the assignee payouts.

ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the performance of the pools would remain exposed to macroeconomic 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 considering 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 pools are provided in the following table.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Bank of India – PCG MAR-2020	1.5-2.5%	11-13% p.a.
2	IB PCG STFC Sep 2020	1.5-2.5%	11-13% p.a.

Liquidity position: Strong

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

Rating sensitivities

Positive factors – The rating can be upgraded if there is an improvement in SFL's credit profile along with healthy pool performance.

Negative factors – The rating could be downgraded on sustained weak collections, resulting in higher-than-expected delinquency levels, or on a deterioration in SFL's credit profile.

Analytical approach

The rating action is based on the performance of the pools till May 2023 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

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

About the originator

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 financial company (NBFC). As per the National Company Law Tribunal (NCLT) order of November 14, 2022, the operations of Shriram City Union Finance Company Limited (SCUF) and Shriram Capital Limited were merged with STFC, and the resultant entity was renamed Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in pre-owned commercial vehicle finance and has a pan-India presence with 2,922 branches. As of March 31, 2023, SFL had consolidated assets under management (AUM) of Rs. 1.9 lakh crore comprising pre-owned commercial vehicle finance (50%), passenger vehicle loans (18%), construction equipment (8%), farm equipment (2%), small and medium-sized enterprise (SME) lending (10%), personal loans (4%), gold loans (2%) and two-wheeler loans (6%).

On a standalone level, the company reported a profit after tax (PAT) of Rs. 5,979 crore on AUM of Rs. 1,85,683 crore in FY2023.

Key financial indicators

Particulars	FY2021*	FY2022*	FY2023^
	Audited	Audited	Audited
Net worth	21,568	25,932	43,306
Profit after tax	2,487	2,708	5,979
Assets under management (AUM)	1,17,243	1,27,041	1,85,683
Gross stage 3	7.1%	7.1%	6.2%
Net stage 3	4.2%	3.7%	3.2%

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

S. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jul 21, 2023	Jul 28, 2022	Jul 30, 2021	Aug 20, 2020	May 11, 2020^
1	Bank of India – PCG MAR-2020	Assignee Payouts	234.76	25.46	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

^Initial ratings assigned

S. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jul 21, 2023	Jul 28, 2022	Jul 30, 2021	Oct 5, 2020	Sep 18, 2020^
2	IB PCG STFC Sep 2020	Assignee Payouts	500.00	20.48	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

^Initial ratings assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Bank of India – PCG MAR-2020	Assignee Payouts	Moderately Complex
IB PCG STFC Sep 2020	Assignee Payouts	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
Bank of India – PCG MAR-2020	Assignee Payouts	March 2020	9.00%	December 2025	25.46	[ICRA]AA+(SO)
IB PCG STFC Sep 2020	Assignee Payouts	September 2020	9.20%	February 2026	20.48	[ICRA]AA+(SO)

* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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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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