

August 10, 2023

Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Ratings confirmed as final for PTCs backed by vehicle loan receivables issued by Sansar Trust June 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust June 2023	Series A1 PTCs	505.22	[ICRA]AA+(SO); provisional rating confirmed as final
	Series A2 PTCs	26.59	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In June 2023, ICRA had assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Finance Limited {SFL/originator (erstwhile Shriram Transport Finance Company Limited); rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 531.81-crore (pool principal; receivables of Rs. 671.74 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 subordination, excess interest spread (EIS) and credit collateral (CC) in the transaction
- Low obligor concentration with the top 10 obligors accounting for only 1.4% of the overall pool principal amount

Credit challenges

- 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, Series A2 PTCs are subordinate to Series A1 PTCs. During the tenure of Series A1 PTCs, the collections from the pool will be used to make the promised interest and expected principal payouts (to the extent of principal billed) to Series A1 PTCs. Post the maturity of Series A1 PTCs, the payout to Series A2 PTCs (principal payouts to Series A2 PTC investors) will be on expected basis, which will be due and payable only on the final maturity date. The final maturity date for both tranches of PTCs is July 18, 2028.

The loan pool receivables are assigned at par to the PTC investors. The first line of support for Series A1 PTCs in the transaction is in the form of subordination of 5.00% of the initial pool principal, which will be in the form of Series A2 PTCs. Further credit support is available in the form of EIS of 11.89% of the initial pool principal in the structure. CC equivalent to 5.00% of the initial pool principal (Rs. 26.59 crore) also acts as a credit enhancement in the transaction. ICRA takes note that the CC provided is 5.00% of the initial pool principal as against 3.50% indicated at the time of assigning provisional rating. The CC

would be in the form of fixed deposit maintained with a Designated Bank acceptable to ICRA. In the event of a shortfall in meeting the PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There were no overdue in the pool as on the cut-off date. The pool was well diversified with low obligator concentration and a weighted average seasoning of 9.2 months. It comprised new and used commercial vehicle (new CV:11.9% and used CV: 50.2%), new and used passenger vehicle (new PV: 1.8% and used PV: 4.1%), new and used construction equipment (new CE: 1.7% and used CE: 12.9%) and new and used tractor (new tractors: 0.2% and used tractors: 17.1%) loan contracts. The pool had moderate geographical concentration with the top-three states (Karnataka, Tamil Nadu and Madhya Pradesh) contributing 38.1% to the initial pool principal amount. It also had a high share (48.2%) of contracts with an original tenure of more than 48 months. Further, the pool's performance would remain exposed to macroeconomic 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. Overall, the performance of all live pools (which have completed minimum two payouts) has remained healthy till the June 2023 payout, with loss-cum-180+ days past due (dpd) levels of sub-2.3% for all the pools.

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 average prepayment rate for the underlying pool is estimated at 12.00% per annum.

Liquidity position: Strong for both the PTCs

As per the transaction structure, only the interest amount is promised to the Series A1 PTCs 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 comfortable to meet the promised payouts to the Series A1 PTCs. After Series A1 PTCs is fully paid, the entire principal amount to Series A2 PTCs is promised on the scheduled maturity date of the transaction.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement, would result in a rating upgrade.

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.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

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 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 of Rs. 5,979 crore on AUM of Rs. 1,85,683 crore for FY2023.

Key financial indicators

Particulars	FY2021*	FY2022*	FY2023^
	Audited	Audited	Provisional
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: STFC, ICRA Research; All ratios are as per ICRA's calculations; All Amounts 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	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
				Aug 10, 2023	Jun 29, 2023			
1 Sansar Trust June 2023	Series A1 PTCs	505.22	505.22	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-	-
	Series A2 PTCs	26.59	26.59	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	Moderately Complex
Series A2 PTCs	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 (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust June 2023	Series A1 PTCs	June 2023	8.30%	July 2028	505.22	[ICRA]AA+(SO)
	Series A2 PTCs		Residual		26.59	[ICRA]A-(SO)

*Scheduled 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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Branches



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