February 09, 2024

Shriram Finance Limited: Provisional ratings assigned to PTCs, backed by vehicle loan receivables issued by Sansar Jan 24 II Trust, and second loss facility

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Jan 24 II Trust	PTC Series A1	491.02	Provisional [ICRA]AAA(SO); Assigned
	PTC Series A2	210.41	Provisional [ICRA]AAA(SO); Assigned
	Second loss facility	35.07	Provisional [ICRA]A-(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Finance Limited {SFL/originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 701.43-crore (pool principal; receivables of Rs. 872.51 crore) vehicle loan receivables.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, SFL's track record in the vehicle loan business and the credit enhancement (CE) available in the form of (i) a credit collateral (CC) of 10.00% of the initial pool principal (Rs. 49.10 crore) and (ii) excess interest spread (EIS) of 11.20% of the initial pool principal in the structure (Rs. 54.99 crore), as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Proven track record in preowned commercial vehicle (CV) financing segment along with a well-established franchise
- Availability of CE in the form of EIS and CC in the transaction
- Low obligor concentration with top 10 obligors accounting for 0.68% of the overall pool principal amount

Credit challenges

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

Description of key rating drivers highlighted above

As per the transaction structure, the trust would issue two series of PTCs backed by these loan receivables. The promised cash flow schedule for all the PTC series includes the interest (including overdues) on a pro rata basis at the contracted yield and the entire principal on the final maturity date (February 20, 2029). During the tenure of the PTCs, 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 A1. Once PTC Series A1 is paid off, collections from the pool will be used to make the expected principal payouts to PTC Series A2, though these payouts are not promised and any shortfall in making the expected principal payments to the PTCs would be carried forward to the subsequent payouts.

The loan pool receivables will be assigned at par to the PTC investors. The originator's claim in the EIS is subordinated to the PTC payouts. Thus, the EIS (amounting to 11.20% of the initial pool principal) acts as a source of CE in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. A CC equivalent to 10.00% of the initial pool principal also acts as CE in the transaction. The CC will be split into a first loss facility (FLF) and a second loss facility (SLF) of 5.00% each of the initial pool principal, amounting to Rs. 35.07 crore. The FLF and SLF would be in the form of a fixed deposit maintained with a designated bank acceptable to ICRA. However, SFL might replace the fixed deposit with a bank guarantee later, subject to the guarantor and the terms of the guarantee being acceptable to ICRA.

There were no overdues in the pool as on the cut-off date. The pool is well diversified with low obligator concentration and a weighted average seasoning of 8.3 months. It comprises new and used CV (new: ~11% and used: ~32%), new and used passenger vehicle (new: ~1% and used: ~7%), new and used construction equipment (new: 0.04% and used: ~5%) and tractor (new: ~3% and used: ~41%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Madhya Pradesh, Tamil Nadu and Karnataka) contributing ~37% to the initial pool principal amount. It also has a high share of contracts (~44%) 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 construction equipment and tractor loans, originated by SFL. Overall, the performance of all live pools (which have completed at least two payouts) has remained healthy till the January 2024 payout, 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 average prepayment rate for the underlying pool is estimated at 12.00% per annum.

Liquidity position:

For PTC Series A1 and PTC Series A2: Strong

The liquidity position for PTC Series A1 and PTC Series A2 is strong after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be 4.0 times the estimated loss in the pool.

For SLF: Adequate

The liquidity position for the SLF is adequate after factoring in the FLF available for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

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 of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and an increase in the CE cover available for the future payouts.

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 CE utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Analytical approach

The rating action is based on the analysis of the performance of SFL's portfolio till September 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee compliance letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional ratings would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

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 an upper layer non-banking financial company. Based on the National Company Law Tribunal order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited (SCL) were merged with STFC, which 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 3,700+ branches and other offices. As of December 31, 2023, SFL's assets under management (consolidated) stood at Rs. 2.26 lakh crore, comprising commercial vehicle finance (45%), passenger vehicle finance (18%), construction equipment and farm equipment finance (8%), small and medium-sized enterprise lending (10%), personal loans (4%), gold loans (3%) two-wheeler loans (5%)

and housing loans (5%; through its subsidiary – Shriram Housing Finance Limited).

Key financial indicators (SFL)

	FY2022*	FY2023^	9M FY2024^
	Audited	Audited	Audited
Total income	19,274	30,508	26,459
Profit after tax	2,721	6,011	5,373
Total managed assets#	1,52,742	2,23,769	2,54,307
Return on average managed assets (annualised)	1.9%	2.8%	3.0%
Managed gearing (times)	4.5	4.0	4.2
Gross stage 3	7.1%	6.0%	5.5%
CRAR	23.0%	22.6%	21.0%

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore
With the scheme of arrangement and amalgamation of STFC, SCUF and SCL becoming effective, figures for the year ended March 31, 2023, are not comparable with the figures for the year ended March 31, 2022
**For SFL, prior to the merger with SCUF and SCL; ^Consolidated post-merger*
#Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill; Managed gearing includes off-book portfolio as debt

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
					February 9, 2024	-	-	-
1	Sansar Jan 24 II Trust	PTC Series A1	491.02	491.02	Provisional [ICRA]AAA(SO)	-	-	-
		PTC Series A2	210.41	210.41	Provisional [ICRA]AAA(SO			
		Second loss facility	35.07	35.07	Provisional [ICRA]A-(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
PTC Series A2	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 Jan 24 II Trust	PTC Series A1	February 2024	7.70%	May 2026	491.02	Provisional [ICRA]AAA(SO)
	PTC Series A2		7.70%	February 2029	210.41	Provisional [ICRA]AAA(SO)
	Second loss facility		NA	February 2029	35.07	Provisional [ICRA]A-(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.

For more information, visit www.icra.in

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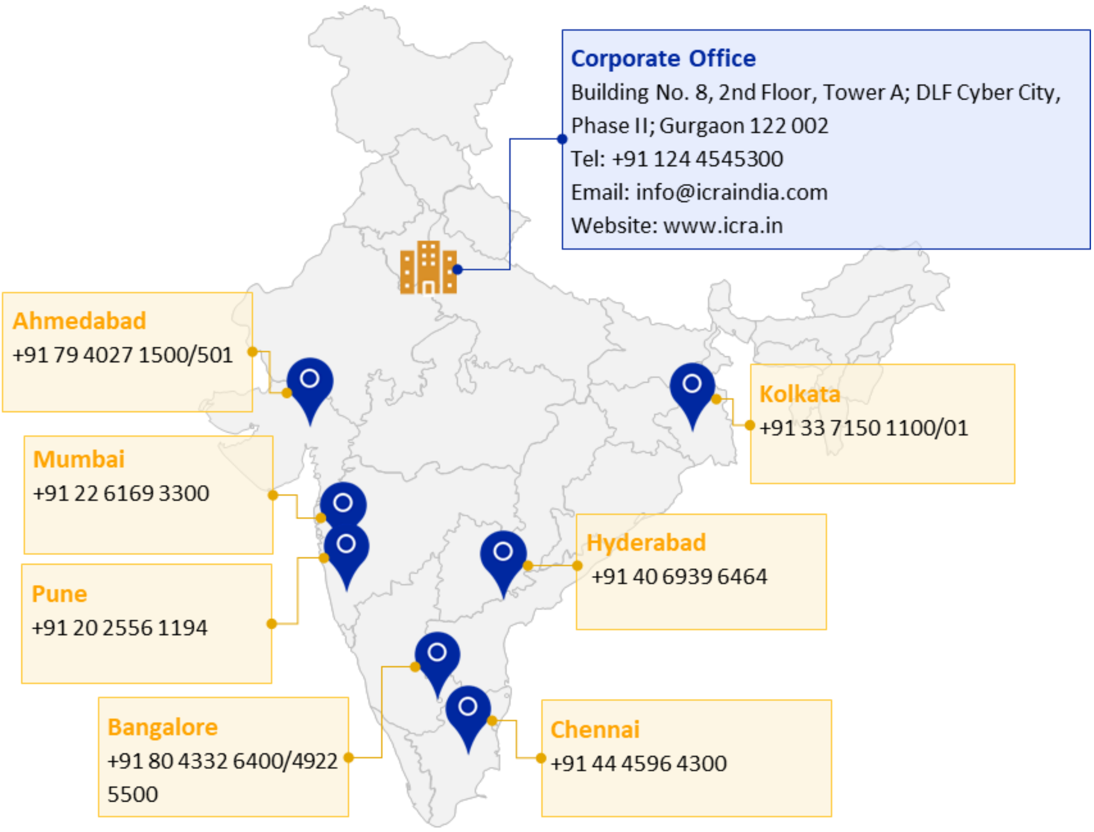

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