

June 06, 2024

Shriram Finance Limited: Rating confirmed as final for PTCs backed by vehicle loan receivables issued by Sansar Jan 24 III Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Jan 24 III Trust	PTC Series A	1,323.83	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional rating to the pass-through certificates (PTCs) issued by Sansar Jan 24 III Trust under a securitisation transaction originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of vehicle loan receivables originated by SFL with an aggregate principal outstanding of Rs. 1,454.76 crore (pool receivable of Rs. 1,844.10 crore).

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 rating is now been confirmed as final.

Pool performance summary

Parameter	Sansar Jan 24 III Trust
Payout month	March 2024
Months post securitisation	3
Pool amortisation	9.71%
PTC Series A amortisation	10.67%
Cumulative prepayment rate	1.84%
Cumulative collection efficiency ¹	109.19%
Loss-cum-0+ days past due (dpd) ²	2.10%
Loss-cum-30+ dpd ³	0.69%
Loss-cum-90+ dpd ⁴	0.00%
Cumulative cash collateral utilisation	0.00%

Transaction structure

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC Series A principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.50% of the initial pool principal, amounting to Rs. 50.92 crore, provided by the Originator, (ii) subordination of 9.00% of the initial pool principal for PTC Series A, and (iii) the EIS of 15.01% of the initial pool principal for PTC Series A.

¹ Cumulative collections including advances / (Cumulative billings + Opening overdues at the time of securitisation)

² Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitisation

³ Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

Key rating drivers and their description

Credit strengths

Track record of originator – The Originator, which is also servicing the loans in the transaction, has a well-established track record of more than four decades in the preowned commercial vehicle financing business and has adequate underwriting policies and collection procedures.

Granular pool supported by presence of credit enhancement – The pool, comprising 41,156 contracts, was granular as on the cut-off date with the top 10 contracts forming only 0.7% of the initial pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool – The pool had amortised by ~17% with seasoning of ~9 months as on the cut-off date. This reflects the borrowers' relatively better credit profile and repayment track record.

Credit challenges

Presence of long-tenure contracts – On the cut-off date, ~36% of the contracts in the pool had an original tenure of more than 48 months. The performance of such contracts has remained relatively weaker in the portfolio. Thus, the pool's performance would depend on the company's ability to limit the slippages of such borrowers.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.25% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position: Strong

The liquidity position for PTC Series A is strong after factoring in the credit enhancement available for meeting the promised payouts to the investor. The total credit enhancement would be 4.8 times the estimated loss in the pool.

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 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 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 March 31, 2024, its assets under management (consolidated) stood at Rs. 2.39 lakh crore comprising commercial vehicle finance (45%), passenger vehicle finance (18%), small and medium-sized enterprise (SME) lending (11%), construction equipment and farm equipment finance (9%), housing loans (6%; through its subsidiary – Shriram Housing Finance Limited), two-wheeler loans (5%), personal loans (4%), and gold loans (3%).

Key financial indicators

Particulars	FY2022	FY2023 [^]	FY2024 [*]
	Audited	Audited	Provisional
Total income	19,274	30,508	36,413
Profit after tax	2,721	6,011	7,391
Total managed assets [#]	1,52,742	2,23,769	2,66,453
Gross stage 3	7.1%	6.0%	5.2%
Capital-to-risk weighted assets ratio	23.0%	22.6%	20.3%

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; * Limited review

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

[^] Consolidated post-merger

[#] Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jun 06, 2024	Feb 28, 2024	-	-
Sansar Jan 24 III Trust	PTC Series A	1,323.83	1,323.83	[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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Sansar Jan 24 III Trust	PTC Series A	February 2024	8.75%	February 2029	1,323.83	[ICRA]AAA(SO)

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.

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Branches



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