

June 11, 2024

Shriram Finance Limited: Ratings confirmed as final for 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	[ICRA]AAA(SO); provisional rating confirmed as final
	PTC Series A2	210.41	[ICRA]AAA(SO); provisional rating confirmed as final
	Second loss facility	35.07	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned provisional ratings to the pass-through certificates (PTC) issued by Sansar Jan 24 II Trust and second loss facility 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. 701.43-crore (pool receivable of Rs. 872.51-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 ratings have now been confirmed as final.

Pool performance summary

Parameter	Sansar Jan 24 II Trust
Payout month	March 2024
Months post securitisation	3
Pool amortisation	8.75%
PTC Series A1 amortisation	12.50%
PTC Series A2 amortisation	0.00%
Cumulative prepayment rate	1.31%
Cumulative collection efficiency ¹	106.70%
Loss-cum 0+ days past due (dpd) ²	4.07%
Loss cum 30+ dpd ³	0.27%
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 on a pro rata basis to PTC Series A1 and PTC Series A2. 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 for both tranches. 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, and following complete

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

repayment of PTC Series A1 principal, towards expected principal payouts to PTC Series A2. 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 PTC Series A1 principal and following complete repayment of PTC Series A1 principal, towards prepayment of PTC Series A2 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 10.00% of the initial pool principal amounting to Rs. 70.14 crore provided by the Originator, and (ii) excess interest spread (EIS) of 11.20% of the initial pool principal. The CC is split into a first loss facility (FLF) and a second loss facility (SLF), amounting to Rs. 35.07 crore (5.00% of initial pool principal) each.

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 in the pre-owned commercial vehicle financing business of more than four decades and has adequate underwriting policies and collection procedures.

Granular pool supported by presence of credit enhancement – The pool is granular as on the cut-off date and comprises 17,082 contracts, with 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 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 has amortised by ~19% with seasoning of ~12 months as on the cut-off date thereby reflecting the borrowers' relatively better credit profile and repayment track record.

Credit challenges

Presence of long tenure contracts – On the cut-off date, ~44% of the contracts in the pool had original tenure of more than 48 months. The performance of such contracts has remained relatively weaker in the portfolio, and pool's performance would thus be dependent on 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 4.00% 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 for PTCs

The liquidity position for PTC Series A1 and PTC Series A2 is strong after factoring in the credit enhancement available for meeting the promised payouts to the investor. The total credit enhancement would be ~4 times the estimated loss in the pool.

Adequate for SLF

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 PTC; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool contracts (monthly collection efficiency >95%), leading to lower than expected delinquency levels and an increase in the credit enhancement cover available for the future payouts from the credit enhancement.

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; 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	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 11, 2024	Feb 09, 2024	-	-
Sansar Jan 24 II Trust	PTC Series A1	491.02	491.02	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
	PTC Series A2	210.41	210.41	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
	Second loss facility	35.07	35.07	[ICRA]A-(SO)	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 (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Rating
Sansar Jan 24 II Trust	PTC Series A1	February 2024	7.70%	May 2026	491.02	[ICRA]AAA(SO)
	PTC Series A2		7.70%	February 2029	210.41	[ICRA]AAA(SO)
	Second loss facility		NA	February 2029	35.07	[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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