June 23, 2025

# Shriram Finance Limited: Provisional ratings assigned to PTCs backed by vehicle loan receivables issued by Sansar June 2025 II Trust

## Summary of rating action

| Trust name | Instrument* | Current rated amount (Rs. crore) | Rating action |
|---|---|---|---|
| Sansar June 2025 II Trust | PTC Series A1 | 195.21 | Provisional [ICRA]AAA(SO); assigned |
| | PTC Series A2 | 83.66 | Provisional [ICRA]AAA(SO); assigned |
| | Second loss facility | 12.55 | 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

The pass-through certificates (PTCs) are backed by a pool of commercial vehicle, passenger vehicle, construction equipment, and tractor loan receivables originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)} with an aggregate principal outstanding of Rs. 278.87 crore (pool receivables of Rs. 351.05 crore). SFL would be the servicer for the transaction.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

## 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 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. Following the complete repayment of the PTC Series A1 principal, the collections will be used for the expected principal payouts to PTC Series A2. Any 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 A1 principal and, following its complete repayment, towards the prepayment of the PTC Series A2 principal. The cash collateral (CC), if utilised in any month, will not be replenished from the EIS in subsequent months.

The credit enhancement available in the structure is in the form of (i) a CC of 9.50% of the initial pool principal, amounting to Rs. 26.49 crore, provided by the Originator, and (ii) the EIS of 13.27% of the initial pool principal. The CC is split into a first loss facility (FLF), amounting to Rs. 13.94 crore (5.00% of initial pool principal), and a second loss facility (SLF) amounting to Rs. 12.55 crore (4.50% of initial pool principal).

## Key rating drivers and their description

### Credit strengths

**Adequate servicing capability of Originator** – SFL, which is also servicing the loans in the transaction, has an established track record of more than four decades in the preowned commercial vehicle financing business with adequate underwriting policies and collection procedures across a wide geography. It also has satisfactory processes for servicing the loan accounts in the securitised pool.

**Granular pool supported by presence of credit enhancement** – The pool was granular as on the cut-off date, comprising 6,483 contracts, with the top 10 contracts forming only 1.66% 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 a part of the losses in the pool and provide support in meeting the PTC payouts.

**Seasoned contracts in the pool** – The pool had amortised by ~20% with seasoning of ~11 months as of the cut-off date. This reflects the relatively better credit profile and repayment track record of the borrowers.

### Credit challenges

**Presence of long-tenure contracts** – On the cut-off date, ~52% 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 be dependent on the company's ability to limit the slippage 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 18.0% 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 ratings for the instruments.

## Liquidity position

**PTC Series A1 and PTC Series A2: Strong**

The liquidity position for PTC Series A1 and 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 4.0 times the estimated loss in the pool.

**SLF: Adequate**

The available FLF provides adequate enhancement for the SLF, if needed, as per the defined waterfall mechanism.

## Rating sensitivities

**Positive factors** – Not applicable for PTC Series A1 and PTC Series A2

For SLF: 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. Weakening in the credit profile of the servicer (SFL) 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 December 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

| Analytical approach | Comments |
|---|---|
| **Applicable rating methodologies** | 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 rating 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 rating 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 3,220 branches and other offices. As on March 31, 2025, the company's assets under management (AUM) stood at Rs. 2.63 lakh crore comprising commercial vehicle finance (45%), passenger vehicle finance (20%), construction equipment and farm equipment finance (9%), small and medium-sized enterprise (SME) lending (14%), personal loans (4%), gold loans (2%) and two-wheeler loans (6%).

### Key financial indicators

| Shriram Finance Limited (standalone) | FY2023 | FY2024 | FY2025 |
|---|---|---|---|
| **Total income** | 29,803 | 34,998 | 41,859 |
| **Profit after tax** | 5,979 | 7,190 | 9,761 |
| **Total managed assets** | 2,16,010 | 2,52,802 | 3,11,330 |
| **Gross stage 3 assets** | 6.2% | 5.5% | 4.6% |
| **Capital-to-risk weighted assets ratio** | 22.6% | 20.3% | 20.7% |

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

| S. no. | Trust name | Current rating (FY2026) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Instrument | Initial rated amount (Rs. crore) | Current rated amount (Rs. crore) | Date & rating in FY2026 | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 |
| | | | | | June 23, 2025 | - | - | - |
| 1 | Sansar June 2025 II Trust | PTC Series A1 | 195.21 | 195.21 | **Provisional [ICRA]AAA(SO)** | - | - | - |
| | | PTC Series A2 | 83.66 | 83.66 | **Provisional [ICRA]AAA(SO)** | - | - | - |
| | | Second loss facility | 12.55 | 12.55 | **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 | Current rated amount (Rs. crore) | Current rating |
|---|---|---|---|---|---|---|
| **Sansar June 2025 II Trust** | PTC Series A1 | June 27, 2025 | 6.95% | July 20, 2030 | 195.21 | Provisional [ICRA]AAA(SO) |
| | PTC Series A2 | | 6.95% | | 83.66 | Provisional [ICRA]AAA(SO) |
| | Second loss facility | | Residual | | 12.55 | Provisional [ICRA]A-(SO) |

*Source: Company; *Fixed rate*

## 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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