October 19, 2022

Shriram Transport Finance Company Limited: Rating confirmed as final for PTCs backed by vehicle loan receivables issued by Sansar Trust June 2022 V

Summary of rating action

Trust Name	Instrument*	Initial rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust June 2022 V	PTC Series A	326.73	323.29	[ICRA]AAA(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure-1*

Rationale

In July 2022, ICRA had assigned Provisional [ICRA]AAA(SO) rating to the pass-through certificates (PTC) Series A issued under a securitisation transaction originated by Shriram Transport Finance Company Limited {STFC; rated [ICRA]AA+(Stable)}. The PTCs are backed by a pool of Rs. 343.93-crore (pool principal; receivables of Rs. 462.83 crore) of vehicle loan receivables. The provisional rating was based on credit enhancement in the form of (i) overcollateralization of 5.00% of initial pool principal (ii) a credit collateral (CC) of 5.00% of the pool principal to be provided by the STFC and (iii) initial entire excess interest spread (EIS) of 22.19%. ICRA takes note of higher overcollateralisation in the trust (6% of pool principal outstanding as opposed to 5% at the time of initial rating) whilst reviewing the executed documents. Since the executed transaction documents are in line with the rating conditions (for PTC Series A amounting to Rs 323.29) and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the pool's performance after the September 2022 payouts is shown in the table below:

Parameter	Sansar Trust June 2022 V
Months post securitisation	2
Pool amortisation	8.77%
Series A PTC Amortisation	9.33%
Average monthly prepayment rate %	1.80%
Cumulative collection efficiency*	112.84%
Loss cum 0+ dpd	9.40%
Loss cum 30+ dpd	1.24%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

**including overdue collections*

Key rating drivers

Credit strengths

- Proven track record in pre-owned CV financing segment along with its well-established franchise
- Availability of overcollateralisation, excess interest spread (EIS) and credit collateral (CC) in the transaction
- Low obligor concentration with the top 10 obligors together accounting for only 0.7% of the overall initial pool principal amount;
- Average seasoning of the initial pool is ~11 months

Credit challenges

- High share of contracts with original tenure greater than 48 months in the initial pool i.e. ~48%;
- High share of contracts with IRR greater than 17% in the initial pool i.e. ~89%

- Pool performance will remain exposed to any fresh disruptions that may arise from the Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises of the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (June 20, 2027). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to PTC Series A, will be used to make the expected principal payouts to PTC Series A. However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The loan pool receivables were assigned at par to the PTC investors. The first line of support for PTC Series A in the transaction is in the form of over-collateralisation of 6.00% of the pool principal (as against 5.00% during initial rating exercise), which will be in the form of an equity tranche. The originator's claim on the EIS in the transaction is subordinated to the PTC payouts. Thus, the EIS acts as a source of credit enhancement in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. However, on the occurrence of a PTC default or any other predefined acceleration event, the residual EIS every month shall be utilised for accelerating the principal payment due to PTC Series A. An acceleration event is triggered in case of servicer default, replacement of servicer or if the 150+ days past due (dpd) exceeds 5% of the outstanding pool principal.

A CC equivalent to 5.00% of the initial pool principal (Rs. 17.20 crore) also acts as credit enhancement in the transaction. The CC is in the form of a fixed deposit maintained with a Designated Bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the EIS first and then the CC to meet the shortfall.

There are 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 11.4 months. It comprises new and used commercial vehicle (new CV: 2.0% and used CV: 41.6%), new and used passenger vehicle (new PV: 7.1% and used PV: 16.8%), new and used construction equipment (new CE: 0.2% and used CE: 8.1%) and new and used tractor (new tractors: 1.3% and used tractors: 22.8%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Tamil Nadu, Maharashtra and Karnataka) contributing 37.8% to the initial pool principal amount. It also has a high share (48.3%) of contracts with an original tenure of more than 48 months. The pool has a high share of contracts (89.2%) with IRR of more than 17%. Further, the pool's performance would remain exposed to any fresh disruptions that may arise on account of the pandemic.

Past rated pools: ICRA has rated over 50 pools so far, backed by new & used CV, new & used passenger vehicle (PV), new & used construction equipment (CE) and tractor loans originated by STFC, and had ratings outstanding on 17 pools as of September 2022. Overall, the performance of all live pools remained healthy till the August 2022 payouts with good collections and loss-cum-180+ days past due (dpd) levels of sub-1.2% 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 taking into account 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 4.0-5.0% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 18.0-24.0% per annum.

Liquidity position

For PTC Series A: Superior

As per the transaction structure, only the interest amount is promised to the PTC Series A holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available credit enhancement are expected to be highly comfortable to meet the promised payouts to the PTC Series A investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge on the weakening collection performance of the underlying pool (monthly collection efficiency <85% on a sustained basis).

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 Transport Finance Company Limited (STFC), incorporated in 1979 and a part of the Shriram Group of companies, is a deposit-accepting non-banking financial company (NBFC). It is the market leader in pre-owned CV financing with a pan-India presence encompassing 1,854 branch offices and 770 rural centres as on June 30, 2022. STFC primarily provides financing for vehicles such as CVs (both pre-owned and new), tractors, and PVs.

On December 13, 2021, the board of directors of STFC, SCUF and SCL (promoter entity) approved the merger of SCL and SCUF with STFC, subject to the receipt of requisite statutory and regulatory approvals. The transaction would be entirely through a stock swap arrangement. Following the completion of the merger, the promoter group's shareholding in the amalgamated entity is expected to be 20.11%.

Key financial indicators

	FY2021	FY2022	Q1 FY2023
	Audited	Audited	Provisional
Net worth	21,568	25,932	26,815
Profit after tax	2,487	2,708	965.3
Assets under management (AUM)	1,17,243	1,27,041	1,30,689
Gross stage 3	7.1%	7.1%	7.0%
Net stage 3	4.2%	3.7%	3.5%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Instrument	Initial rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					October 19, 2022	July 19, 2022	-	-	-
1	Sansar Trust June 2022 V	PTC Series A	326.73	323.29^	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-

^Pool was initially rated for Rs 326.73 crore, however over-collateralisation component which was earlier at 5% has been increased to 6%, because of which rated amount has reduced to Rs 323.29 crore

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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust June 2022 V	PTC Series A	July 2022	8.00%	June 2027	323.29	[ICRA]AAA(SO)

** Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
Source: *Company*

Annexure-2: 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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