

December 23, 2022

Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Provisional [ICRA]AAA(SO) assigned to PTCs backed by vehicle loan receivables issued by Sansar Trust Dec 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust Dec 2022	Series A1 PTCs	1,070.02	Provisional [ICRA]AAA(SO); Assigned
	Series A2 PTCs	1,070.02	Provisional [ICRA]AAA(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
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Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Finance Limited {SFL (erstwhile Shriram Transport Finance Company Limited); rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 2,140.04-crore (pool principal; receivables of Rs. 2,728.36 crore) of 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 available in the form of (i) a credit collateral (CC) of 12.00% of the pool principal to be provided by the originator, (ii) excess interest spread (EIS) of 14.71% 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 the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Proven track record in pre-owned commercial vehicle (CV) financing segment along with its well-established franchise
- Availability of EIS and CC in the transaction
- Low obligor concentration with the top 10 obligors together accounting for only 0.1% of the overall pool principal amount

Credit challenges

- High share of contracts with original tenure greater than 48 months i.e. ~50%
- Increase in the commingling risk, if Series A2 PTCs investors do not exercise the option to receive monthly pool prepayment entirely, after Series A1 PTCs are fully paid
- Pool's performance would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables have been assigned at par to the PTC investors and the Trust will issue two series of PTCs backed by the same. The scheduled cash flow promised to the PTCs on each payout date includes the principal (including overdue) as well as the interest (including overdue) on a pro rata basis at the contracted yield. Series A2 PTCs are promised the principal on a monthly basis (equivalent to 50% of the initial pool principal billing for PTC A2, adjusted for the scheduled principal prepayments made in prior periods). Series A2 PTCs are also promised scheduled prepayments equivalent to 0.8% of the outstanding Series A2 PTCs' principal on a monthly basis for the first six months and 0.6% every month thereafter. Series A1 PTCs are promised a monthly principal payment equivalent to the difference between the revised monthly pool principal billing and the scheduled principal payment to Series A2 PTCs. Series A1 PTCs are promised any pool prepayment collections in excess of the scheduled prepayments to Series A2 PTCs.

The first line of support for meeting the scheduled PTC payouts is the subordination of the EIS in the structure. Further credit support is available through a CC of 12.00% of the pool principal amount. 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.

After the Series A1 PTCs have been fully redeemed, Series A2 PTC investors have an option to receive the entire prepayments or else continue with the receipt of only prepayments of 0.6% of the outstanding principal every month. The excess amount will be held by SFL for the benefit of the Trust and would be paid to the investors in case of shortfalls in future payouts. ICRA notes that in the event that the investors do not exercise the option of receiving the entire pool principal prepayments, the commingling risk in the transaction will increase. However, ICRA notes that the pool is likely to have amortised substantially by then, leading to significant build-up of cash collateral as a percentage of the balance PTC outstanding.

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 ~15 months (based on the first EMI date). It comprises new and used CV (new CV: 5.5% and used CV: 44.2%), new and used passenger vehicle (new PV: 6.3% and used PV: 33.2%) and new and used construction equipment (new CE: 2.1% and used CE: 8.7%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Tamil Nadu, Uttar Pradesh and Karnataka) contributing 33.8% to the initial pool principal amount. It also has a high share (49.9%) of contracts with an original tenure of more than 48 months. Further, the pool's performance would remain exposed to macro-economic shocks/business disruptions.

Past rated pools: ICRA has rated over 50 pools so far, backed by new & used CV, new & used PV, new & used CE and tractor loans originated by SFL, and had ratings outstanding on 18 pools at the end of November 2022. Overall, the performance of all the live pools remained healthy till the November 2022 payouts with good collections and loss-cum-180+ days past due (dpd) levels of sub-1.7%.

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 3.75-4.75% of the initial pool principal, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position: Superior

The liquidity of the rated transaction is expected to be superior, supported by the healthy collections expected from the pool of contracts and the presence of a CC amounting to 12.00% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfalls in the scheduled PTC payouts for a period of six months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could emerge due to the weakening collection performance of the underlying pool (monthly collection efficiency < 90% on a sustained basis).

Analytical approach

The rating action is based on the analysis of the performance of SFL's portfolio till September 2022, 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	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 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 company

Shriram Finance Limited (SFL; erstwhile Shriram Transport Finance Company Limited), 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 758 rural centres as on September 30, 2022. SFL 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 Shriram Transport Finance Limited (STFC), Shriram City Union Finance Ltd. (SCUF) and Shriram Capital Limited (SCL; promoter entity) approved the merger of SCL and SCUF with STFC, subject to the receipt of requisite statutory and regulatory approvals. Further, on November 30, 2022, STFC, SCUF and SCL merged to form SFL.

Key financial indicators*

	FY2021	FY2022	H1 FY2023
	Audited	Audited	Provisional
Net worth	21,568	25,932	27,856
Profit after tax	2,487	2,708	2,032
Assets under management (AUM)	1,17,243	1,27,041	1,35,249
Gross stage 3	7.1%	7.1%	6.9%
Net stage 3	4.2%	3.7%	3.5%

Source: STFC, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *For STFC, prior to the merger with SCUF and SCL

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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					December 23, 2022	-	-	-
1	Sansar Trust Dec 2022	Series A1 PTCs	1,070.02	1,070.02	Provisional [ICRA]AAA(SO)	-	-	-
		Series A2 PTCs	1,070.02	1,070.02	Provisional [ICRA]AAA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	Moderately Complex
Series A2 PTCs	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 Trust Dec 2022	Series A1 PTCs	December 2022	8.01%	December 2027	1,070.02	Provisional [ICRA]AAA(SO)
	Series A2 PTCs	December 2022	8.01%	December 2027	1,070.02	Provisional [ICRA]AAA(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.

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