January 23, 2023

Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Ratings confirmed as final for PTCs and second loss facility backed by vehicle loan receivables issued by Sansar Trust Aug 2022 II

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust Aug 2022 II	PTC Series A	655.18	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	29.48	[ICRA]A-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

In September 2022, ICRA had assigned Provisional [ICRA]AAA(SO) rating to the pass-through certificates (PTCs) and Provisional [ICRA]A-(SO) rating to the second loss facility. The PTCs are backed by a pool of Rs. 655.18-crore (pool principal; receivables of Rs. 837.14 crore) of vehicle loan receivables originated by Shriram Finance Limited {SFL/Originator (erstwhile Shriram Transport Finance Company Limited); rated [ICRA]AA+ (Stable)}. 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.

Key rating drivers

Credit strengths

- Proven track record in pre-owned 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 0.5% of the overall pool principal amount
- Relatively lower IRR contracts in the pool, which are performing better in the overall portfolio

Credit challenges

- High share of contracts with original tenure greater than 48 months i.e. ~55%;
- Pool's performance would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise 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 (September 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 (100% of the pool principal billing). 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 have been assigned at par to the PTC investors. The first line of support for meeting the scheduled PTC payouts is the EIS of 13.57% in the structure. Further credit support is available through a CC of 9.50% of the pool principal amount provided by SFL. The CC has been split into a first loss facility (FLF) of 5.00% of the initial pool principal, amounting to Rs. 32.76 crore, and a second loss facility (SLF) of 4.50% of the initial pool principal amounting to Rs. 29.48 crore. 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 8.9 months. It comprises new and used CV (new CV: 9.1% and used CV: 43.1%), new and used passenger vehicle (new PV: 1.5% and used PV: 3.7%), new and used construction equipment (new CE: 0.9% and used CE: 3.3%) and new and used tractor (new tractors: 1.5% and used tractors: 36.9%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Tamil Nadu, Madhya Pradesh and Telangana) contributing 43.6% to the initial pool principal amount. It also has a high share (54.9%) of contracts with an original tenure of more than 48 months. All the contracts in the pool have an IRR less than or equal to 17%. 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 prepayment rate for the underlying pool is estimated at 12.0-18.0% 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.

For SLF: Strong

The cash flows from the pool and the available FLF are comfortable for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

Rating sensitivities

Positive factors – Not applicable for the PTCs; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool of contracts, resulting in an increase in the credit enhancement cover available for the SLF.

Negative factors – Pressure on the ratings could emerge due to 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 analysis of the performance of STFC '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

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 is a top-layer NBFC. Based on the National Company Law Tribunal (NCLT) order dated November 14, 2022, the operations of Shriram City Union Finance Company Limited (SCUF) and Shriram Capital Limited were merged with STFC and STFC 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 3,633 branches and other offices. As of September 30, 2022, SFL (post-merger) is estimated to have had an AUM of Rs. 1.7 lakh crore comprising preowned commercial vehicle finance (76%), small and medium-sized enterprise (SME) lending (10%), personal loans (2%), gold loans (3%) 2-wheeler loans (5%) and housing loans (4%; through its subsidiary – Shriram Housing Finance Limited)[1].

As of September 30, 2022, SFL's (post-merger) financial profile is estimated to have been characterised by a consolidated net worth of about Rs. 40,900 crore (as reported by SFL)[2] and capital adequacy of 23.1%.

Key financial indicators

SFL (estimates, as reported by the company in corporate presentation)	H1 FY2023
PAT	2,900
Net worth	40,900
Assets under management (AUM)	1,78,000
Return on average assets	2.7%
Return on average equity	15.1%
Gearing (times)	3.9
CRAR (%)	23.1%
Gross stage 3 (%)	6.7%
Net stage 3 (%)	3.4%
Solvency (Net stage 3/ Net worth)	13.6%

Source: As reported by company; Amount in Rs. crore; Amount rounded off to the nearest multiple of 100; AUM includes the housing finance business

[1]SFL holds an 85% stake in Shriram Housing Finance Limited while the balance is held by Valiant Mauritius Partners FDI Limited

[2] ~Rs. 38,152 crore as per ICRA's estimates (summation of net worth of STFC and SCUF-C)

STFC – Standalone	FY2021 Audited	FY2022 Audited	H1 FY2023 Limited Review
PAT	2,487	2,708	2,032
Net worth	21,568	25,932	27,856
Assets under management (AUM)	1,17,243	1,27,041	1,35,249
Return on average assets	1.9%	1.9%	2.6%
Return on average equity	12.6%	11.1%	15.1%
Gearing (times)	4.9	4.4	4.1
CRAR	22.5%	23.0%	22.5%
Gross stage 3 (%)	7.1%	7.1%	6.9%
Net stage 3 (%)	4.2%	3.7%	3.5%
Solvency (Net stage 3/ Net worth)	22.3%	17.2%	16.1%

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

SCUF – Consolidated	FY2021 Audited	FY2022 Audited	H1 FY2023 Limited Review
PAT	1,078	1,165	739
Net worth	8,388	9,278	10,112
Assets under management (AUM)	33,500	38,541	42,663
Return on average assets	3.0%	2.8%	3.2%
Return on average equity	13.6%	13.2%	15.2%
Gearing (times)	3.4	3.7	3.7
CRAR^	28.6%	26.8%	26.2%
Gross stage 3 (%)^	6.4%	6.3%	5.9%
Net stage 3 (%)^	3.1%	3.3%	3.3%
Solvency (Net stage 3/ Net worth)^	10.8%	11.8%	11.4%

Source: SCUF, ICRA Research; All ratios as per ICRA's calculations; Consolidated: Including Shriram Housing Finance Limited; ^Details for SCUF (standalone) 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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					January 23, 2023	September 23, 2022	-	-	-
1	Sansar Trust Aug 2022 II	PTC Series A	655.18	655.18	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
		Second Loss Facility	29.48	29.48	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust Aug 2022 II	PTC Series A	September 2022	7.30%	September 2027	655.18	[ICRA]AAA(SO)
	Second Loss Facility	September 2022	7.30%	September 2027	29.48	[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.

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