

May 16, 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 March 2023 VII

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust March 2023 VII	PTC Series A	625.13	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2023, ICRA had assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Finance Limited {SFL/originator (erstwhile Shriram Transport Finance Company Limited); rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 665.03 crore (pool principal; receivables of Rs. 872.91 crore) of vehicle loan receivables. 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 commercial vehicle (CV) financing segment along with its well-established franchise
- Availability of over-collateralisation, excess interest spread (EIS) and credit collateral (CC) in the transaction
- Low obligor concentration with the top 10 obligors accounting for only 0.7% of the overall pool principal amount

Credit challenges

- High share (i.e. ~40%) of contracts with original tenure of more than 48 months
- High share (i.e. ~62%) of contracts with IRR greater than 17%;
- Performance of the pool 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 (April 20, 2028). 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 have been 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, 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. 33.25 crore) also acts as credit enhancement in the transaction. 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 7.4 months. It comprises new and used commercial vehicle (new CV: 2.4% and used CV: 34.7%), new and used passenger vehicle (new PV: 5.0% and used PV: 46.8%), new and used construction equipment (new CE: 0.5% and used CE: 5.6%) and new and used tractor (new tractors: 0.9% and used tractors: 4.3%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Tamil Nadu, Andhra Pradesh and Karnataka) contributing 35.6% to the initial pool principal amount. It also has a high share (40.0%) of contracts with an original tenure of more than 48 months. The pool has a high share of contracts (62.0%) with IRR of more than 17%. Further, its 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. Overall, the performance of all live pools (which have completed at least two payouts) has remained healthy till the February 2023 payouts with good collections and loss-cum-180+ dpd levels of sub-1.6% 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 considering 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 4.00-5.00% 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: 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. 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 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 December 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 company

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 non-banking financial company (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 the resultant entity was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in pre-owned commercial vehicle finance and has a pan-India presence with 2,910 branches. As of December 31, 2022, its consolidated assets under management (AUM) was Rs. 1.8 lakh crore, comprising pre-owned commercial vehicle finance (76%), small and medium-sized enterprise (SME) lending (10%), personal loans (3%), gold loans (2%), two-wheeler loans (5%) and housing finance (4%; through its subsidiary – Shriram Housing Financing Limited).

In 9M FY2023, on a consolidated basis, SFL reported a net profit of Rs. 4,726 crore on AUM of Rs. 1,84,678 crore and its net worth of Rs. 41,140 crore#. On a standalone level, the company reported a profit after tax (PAT) of Rs. 4,671 crore on an AUM of Rs. 1,77,498 crore. Its reported capital adequacy stood at 22.99% as of December 31, 2022.

Key financial indicators

	FY2021*	FY2022*	9M FY2023^
	Audited	Audited	Provisional
Net worth	21,568	25,932	41,140#
Profit after tax	2,487	2,708	4,726
Assets under management (AUM)	1,17,243	1,27,041	1,84,678
Gross stage 3	7.1%	7.1%	6.1%
Net stage 3	4.2%	3.7%	3.2%

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

*For SFL, prior to the merger with SCUF and SCL; ^Consolidated, post-merger

#Adjusted for goodwill of Rs. 1,408.6 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in			
					FY2024	FY2023	FY2022	FY2021
					May 16, 2023	March 31, 2023	-	-
1	Sansar Trust March 2023 VII	PTC Series A	625.13	625.13	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Rating
Sansar Trust March 2023 VII	PTC Series A	March 2023	8.75%	April 2028	625.13	[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:

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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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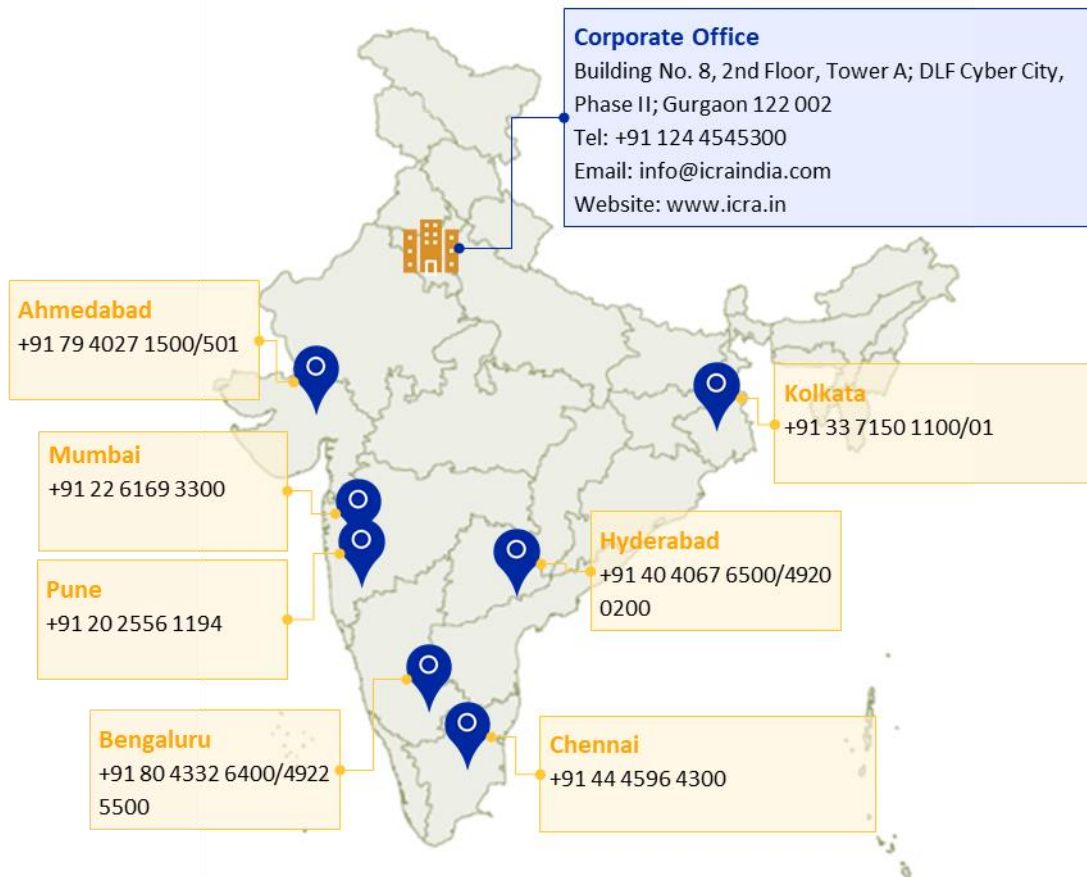
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