

July 21, 2023

## Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Ratings reaffirmed/upgraded for PTCs and second loss facility issued under two vehicle loan securitisation transactions

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Outstanding Amount after June 2023 Payout (Rs. crore)	Rating Action
Sansar Trust March 2020	PTC Series A2	143.41	143.41	9.55	[ICRA]AAA(SO); Reaffirmed
	SLF**	50.19	29.11	27.61	[ICRA]AA+(SO); Upgraded from [ICRA]BBB+(SO)
Sansar Trust Feb 2020 III	PTC Series A1	1,597.55	164.18	29.16	[ICRA]AAA(SO); Reaffirmed
	PTC Series A2	84.08	8.64	1.53	[ICRA]AAA(SO); Reaffirmed
	SLF	151.35	151.35	151.35	[ICRA]AA+(SO); Upgraded from [ICRA]BBB+(SO)

\*Instrument details are provided in Annexure I, \*\*SLF- Second Loss Facility

### Rationale

The pass-through certificates (PTCs) tabulated above are backed by commercial vehicle (CV), passenger vehicle (PV), construction equipment (CE) and tractor loan receivables originated by Shriram Finance Limited {SFL; rated [ICRA]AA+ (Stable)}. The ratings reaffirmation/upgrade factors in the sustained healthy collections witnessed in all the pools. Due to the high amortisation in all the transactions, there has been a build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools. Nonetheless, the ratings would remain exposed to any macroeconomic shocks/business disruptions.

### Pool performance summary

A summary of the performance of the pools till the May 2023 collection month has been tabulated below.

Parameter	Sansar Trust March 2020	Sansar Trust Feb 2020 III
Months post securitisation	39	36
Pool amortisation	78.53%	97.53%
PTC Series A1 amortisation (as % of initial PTC Series A1 principal)	-	98.17%
PTC Series A2 amortisation (as % of initial PTC Series A2 principal)	93.34%	98.17%
Average monthly collection efficiency for last three months <sup>1</sup>	94.63%	92.38%
Cumulative prepayment rate	15.84%	16.42%
Average monthly prepayment rate	0.44%	0.50%
Loss-cum-90+ dpd <sup>2</sup> (% of initial pool)	0.53%	1.94%
Loss-cum-180+ dpd <sup>3</sup> (% of initial pool)	0.36%	1.19%

<sup>1</sup> Average of (Total current and Overdue collections for the month as a % of Total billing for the month) for 3 months

<sup>2</sup> Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

<sup>3</sup> Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

Parameter	Sansar Trust March 2020	Sansar Trust Feb 2020 III
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency <sup>4</sup> for PTC Series A1	Nil	Nil
CC (% of balance pool)	58.64%	>100%
Excess interest spread (EIS; % of balance pool) for PTC A1 <sup>5</sup>	12.36%	9.28%

## Key rating drivers

### Credit strengths

- High amortisation of the pools, leading to lower uncertainty regarding the performance of the balance pool contracts
- Buildup in cash collateral (CC) and excess interest spread (EIS) cover available for the balance PTC payouts
- Low delinquencies observed in harder buckets across all the pools

### Credit challenges

- Performance of the pool would remain exposed to any macroeconomic shocks/business disruptions

### Description of key rating drivers highlighted above

The performance of the pools has been healthy with a cumulative collection efficiency of more than 94% as of the May 2023 collection month. The delinquencies in the Sansar Trust Feb 2020 III pool have been relatively higher due to the lower collection efficiency on account of the Covid-19 pandemic.

The shortfall in collections in the past was mostly absorbed by the EIS in the structure with low or nil CC utilisation in the transactions. CC utilisation was nil in both transactions as of the May 2023 collection month (June 2023 payout month). As these pools are highly amortised, there has been a significant build-up in the credit enhancement cover for the balance tenure of the PTC payouts even after CC utilisation.

ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the performance of the pools would remain exposed to macroeconomic shocks/business disruptions.

### Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance 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 past performance of the originator's portfolio and the rated pools, as well as the performance and 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 loss and prepayments during the balance tenure of the pools are provided in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Sansar Trust March 2020	1.0-2.0%	8-12% p.a.
2	Sansar Trust Feb 2020 III	1.0-2.0%	8-12% p.a.

<sup>4</sup> (Balance Cash flows payable to investor – CC available) / Balance Pool Cash flows

<sup>5</sup> (Pool Cash flows – Cash flows to PTC) / Pool Principal outstanding

## Liquidity position

### For PTC Series A2 of Sansar Trust March 2020 and PTC Series A1 and PTC Series A2 Sansar Trust Feb 2020 III: Superior

As per the transaction structure, only the interest amount is promised to the PTC investor 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 investors.

### For SLF of Sansar Trust March 2020 and Sansar Trust Feb 2020 III: Strong

The cash flows from the pool and the available first loss facility are expected to be comfortable for the top-up of the second loss facility (SLF), if needed, as per the defined waterfall mechanism.

## Rating sensitivities

**Positive factors** – Not applicable for the PTCs; the rating of 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 rated instruments.

**Negative factors** – The ratings for the PTCs and the SLF can be downgraded on sustained weak collections, resulting in higher-than-expected delinquency levels and a decrease in the credit enhancement cover available for the rated instruments.

## Analytical approach

The rating action is based on the performance of the pools till May 2023 (collection month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these pools.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 non-banking financial company (NBFC). As per the National Company Law Tribunal (NCLT) order of 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 renamed 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 2,922 branches. As of March 31, 2023, SFL had consolidated assets under management (AUM) of Rs. 1.9 lakh crore comprising pre-owned commercial vehicle finance (50%), passenger vehicle loans (18%), construction equipment (8%), farm equipment (2%), small and medium-sized enterprise (SME) lending (10%), personal loans (4%), gold loans (2%) and two-wheeler loans (6%).

On a standalone level, the company reported a profit after tax (PAT) of Rs. 5,979 crore on AUM of Rs. 1,85,683 crore in FY2023.

### Key financial indicators

Particulars	FY2021*	FY2022*	FY2023^
	Audited	Audited	Audited
Net worth	21,568	25,932	43,306
Profit after tax	2,487	2,708	5,979
Assets under management (AUM)	1,17,243	1,27,041	1,85,683
Gross stage 3	7.1%	7.1%	6.2%
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

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jul 21, 2023	Jul 28, 2022	Jul 30, 2021	Sep 25, 2020	Apr 17, 2020^
1	Sansar Trust March 2020	PTC Series A2	143.41	9.55	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)
		SLF	50.19	27.61	[ICRA]AA+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)

^Initial ratings assigned

S. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jul 21, 2023	Jul 28, 2022	Jul 30, 2021	Jul 27, 2020	Jun 22, 2020^
2	Sansar Trust Feb 2020 III	PTC Series A1	1,597.55	29.16	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)
		PTC Series A2	84.08	1.53	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)
		SLF	151.35	151.35	[ICRA]AA+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB-(SO)	[ICRA]BBB-(SO)	Provisional [ICRA]BBB-(SO)

^Initial ratings assigned

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Sansar Trust March 2020	PTC Series A2	Moderately Complex
	SLF	Moderately Complex
Sansar Trust Feb 2020 III	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	SLF	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
<b>Sansar Trust March 2020</b>	PTC Series A2		8.46%		9.55	[ICRA]AAA(SO)
	SLF		NA		27.61	[ICRA]AA+(SO)
<b>Sansar Trust Feb 2020 III</b>	PTC Series A1		9.10%		29.16	[ICRA]AAA(SO)
	PTC Series A2	June 2020	9.10%	June 2025	1.53	[ICRA]AAA(SO)
	SLF		NA		151.35	[ICRA]AA+(SO)

\* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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