

August 10, 2023

Shriram Finance Limited (erstwhile Shriram Transport Finance Company Limited): Ratings confirmed as final for PTCs backed by vehicle loan receivables issued by Sansar Trust May 2023 III

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust May 2023 III	PTC Series A	609.39	[ICRA]AAA(SO); provisional rating confirmed as final
	Second Loss Facility	36.56	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In June 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. 609.39-crore (pool principal; receivables of Rs. 765.85 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 credit enhancement in the form of excess interest spread (EIS) and credit collateral (CC) in the transaction
- Low obligor concentration with the top 10 obligors accounting for only 0.8% of the overall pool principal amount

Credit challenges

- High share (i.e., ~57%) 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

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A on a monthly basis will comprise of interest (at the predetermined yield) on the outstanding PTC principal and the principal to the extent of 100% of the billed pool principal on each payout date. The excess available after meeting the promised payouts to the PTCs will be passed on to the originator every month as EIS.

The first line of support for meeting the scheduled PTC payouts is the subordination of the EIS (amounting to 12.20% of the total initial pool principal, as per initial cash flows) in the structure. Further credit support is available through a CC of 11.00% of the pool principal amount (Rs. 67.03 crore). The CC will be split into a first loss facility (FLF) of 5.00% of the initial pool principal amounting to Rs. 30.47 crore, and a second loss facility (SLF) of 6.00% of the initial pool principal amounting to Rs. 36.56 crore.

There are no overdue 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 months. It comprises new and used commercial vehicle (new CV: ~13% and used CV: ~32%), new and used passenger vehicle (new PV: ~10% and used PV: ~37%), new and used construction equipment (new CE: ~2% and used CE: ~5%) and new and used tractor (new tractors: 0.1% and used tractors: ~2%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Tamil Nadu, Andhra Pradesh and Karnataka) contributing ~35% to the initial pool principal amount. Contracts with an original tenure of more than 48 months accounts for ~22% of the pool. The pool has a high share of contracts (~57%) 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 the live pools (which have completed minimum of two payouts) has remained healthy till the June 2023 payout, with loss-cum-180+ days past due (dpd) levels of sub-2.3% 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 average prepayment rate for the underlying pool is estimated at 18.0-24.0% per annum.

Liquidity position

For PTC Series A: 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 credit collateral amounting to 11.00% of the pool principal amount. Even assuming a monthly collection efficiency of only 50% in the underlying pool contracts in a stress scenario, the credit collateral would cover the shortfalls in the scheduled PTC payouts for a period of 6 months.

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 PTC; the rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool 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 < 90% 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 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). 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 of Rs. 5,979 crore on AUM of Rs. 1,85,683 crore for FY2023.

Key financial indicators

Particulars	FY2021*	FY2022*	FY2023^
	Audited	Audited	Provisional
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: STFC, ICRA Research; All ratios are as per ICRA's calculations; All Amounts 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

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
				Aug 10, 2023	Jun 05, 2023			
1 Sansar Trust May 2023 III	PTC Series A	609.39	609.39	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
	Second Loss Facility	36.56	36.56	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Simple
Second Loss Facility	Simple

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 May 2023 III	PTC Series A	May 2023	8.75%	June 2028	609.39	[ICRA]AAA(SO)
	Second Loss Facility		Residual		36.56	[ICRA]A-(SO)

*Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Anubhav Agrawal

+91 22 6114 3439

anubhav.agrawal@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



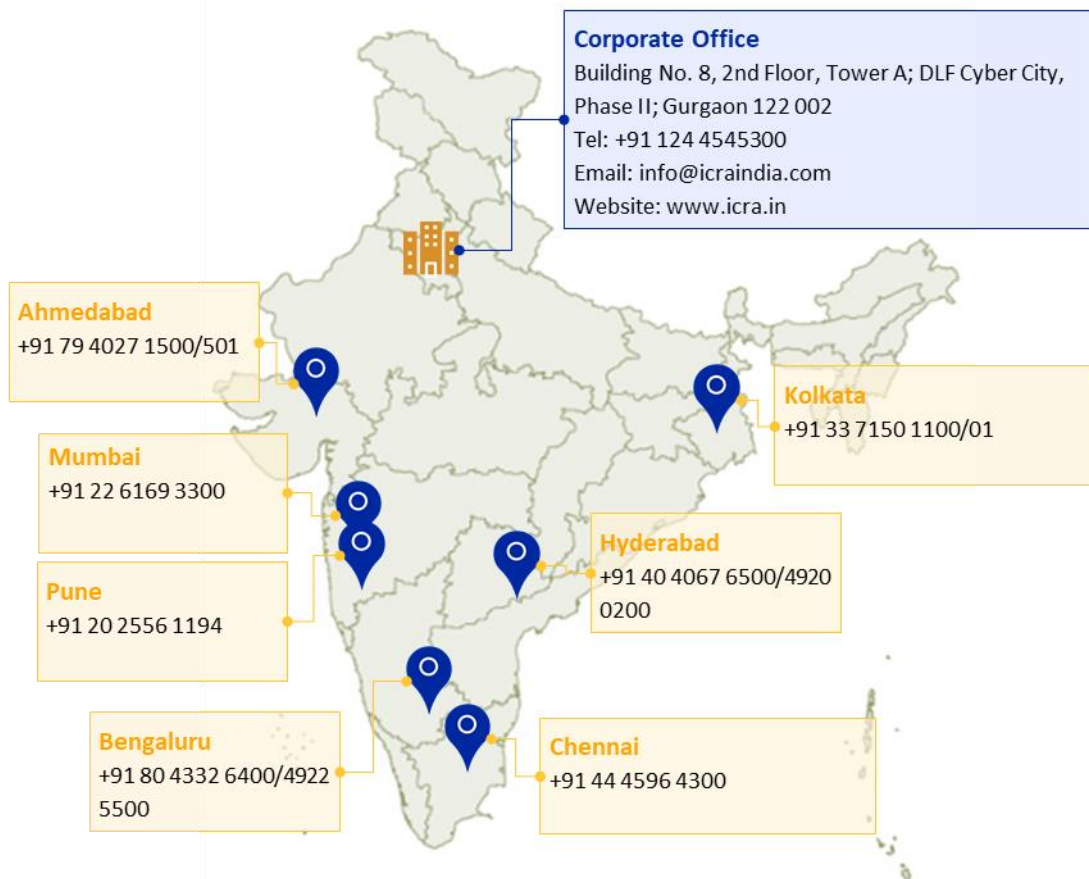
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.