

August 22, 2023

Shriram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Trust July 2023 III

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust July 2023 III	PTC Series A	517.72	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 a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Shriram Finance Limited {SFL/originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of Rs. 568.93 crore (pool principal; receivables of Rs. 717.42 crore) of vehicle and construction equipment (CE) loan receivables.

The provisional rating is 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) over-collateralisation of 9.00% of the initial pool principal, (ii) a credit collateral (CC) of 3.50% of the initial pool principal to be provided by the originator, (iii) excess interest spread (EIS) of 11.81% of the initial pool principal in the structure, as well as the integrity of the legal structure. The rating is 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 over-collateralisation, EIS and CC in the transaction
- Low obligor concentration with top 10 obligors accounting for 0.8% of the overall pool principal amount

Credit challenges

- High share (i.e. ~44%) of contracts with original tenure of more than 48 months
- 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 (August 20, 2028). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to the PTCs, 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 will be 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 9.00% of the initial 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 the subscribers of 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 3.50% of the initial pool principal (Rs. 19.91 crore) also acts as credit enhancement in the transaction. The CC would be in the form of a fixed deposit maintained with a Designated Bank acceptable to ICRA. 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 pool cut-off date. The pool is well diversified with low obligator concentration and a weighted average seasoning of 11.4 months. It comprises new and used CV (new CV: 7.4% and used CV: 25.6%), new and used passenger vehicle (new PV: 13.5% and used PV: 48.7%) and new and used CE (new CE: 1.3% and used CE: 3.5%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Karnataka, Telangana and Maharashtra) contributing 34.7% to the initial pool principal amount. It also has a high share (44.0%) of contracts with an original tenure of more than 48 months. 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 June 2023 payouts with good collections and loss-cum-180+ dpd levels of sub-2.5% 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 3.50-4.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated at 7.2-27.0% per annum.

Liquidity position: Superior

As per the transaction structure, only the interest amount is promised to the PTC Series A 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.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating action is based on the analysis of the performance of SFL's portfolio till March 2023, 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 rating is 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 rating 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 rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

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). 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 June 30, 2023, its consolidated AUM stood at Rs. 1.932 lakh crore, comprising pre-owned CV finance (50%), PV loans (19%), CE (8%), farm equipment (2%), SME lending (10%), personal loans (4%), gold loans (3%) and two-wheeler loans (5%).

The company had total on-book AUM of Rs. 1,90,722 crore (98.70%) and off-book AUM of Rs. 2,493 crore (1.30%) as of June 2023.

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: STFC, 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

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
1 Sansar Trust July 2023 III	PTC Series A	517.72	517.72	Aug 22, 2023	-	-	-
				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 (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust July 2023 III	PTC Series A	August 2023	8.70%	August 2028	517.72	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.

For more information, visit www.icra.in

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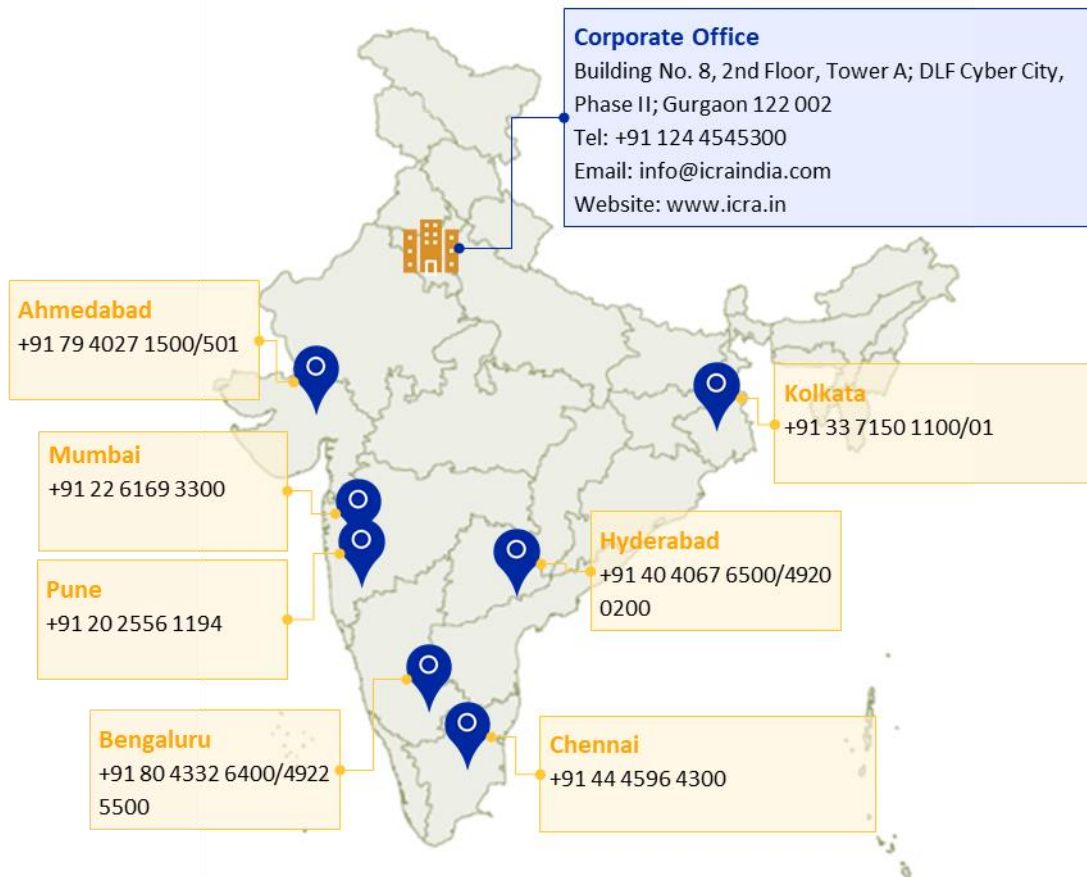
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