

September 22, 2023

Shriram Finance Limited: Provisional [ICRA]AA+(SO) assigned to Series A1 PTCs and Provisional [ICRA]A-(SO) assigned to Series A2 PTCs backed by vehicle loan receivables issued by Sansar Trust Sep 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Trust Sep 2023	Series A1 PTCs	475.90	Provisional [ICRA]AA+(SO); Assigned
	Series A2 PTCs	25.05	Provisional [ICRA]A-(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 provisional ratings 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. 500.95-crore (pool principal; receivables of Rs. 621.98 crore) vehicle loan receivables.

The provisional ratings are 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) a credit collateral (CC) of 3.75% of the initial pool principal, (ii) subordination of 5.00% of the initial pool principal for Series A1 PTCs, and (iii) excess interest spread (EIS) of 11.60% of the initial pool principal in the structure, as well as the integrity of the legal structure. The ratings are 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 a well-established franchise
- Availability of credit enhancement in the form of subordination, EIS and CC in the transaction
- Low obligor concentration with top 10 obligors accounting for only 0.9% of the overall pool principal amount

Credit challenges

- High share (~39%) of contracts with original tenure of more than 48 months
- Performance of the pool would remain exposed to macroeconomic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, Series A2 PTCs are subordinate to Series A1 PTCs. During the tenure of Series A1 PTCs, the collections from the pool will be used to make the promised interest and expected principal payouts (to the extent of principal billed) to Series A1 PTCs. Post the maturity of Series A1 PTCs, the payout to Series A2 PTCs (principal payouts to Series A2 PTC investors) will be on expected basis, which will be due and payable only on the final maturity date. The final maturity date for both tranches of PTCs is September 18, 2028.

The loan pool receivables will be assigned at par to the PTC investors. The first line of support for Series A1 PTCs in the transaction is in the form of a subordination of 5.00% of the initial pool principal, which will be in the form of Series A2 PTCs. Further credit support is available in the form of the EIS. CC equivalent to 3.75% of the initial pool principal (Rs. 18.79 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 PTC payouts during any month, the Trustee will utilise the CC to meet the same.

There are no overdues in the pool as on the cut-off date. The pool is well diversified with low obligor concentration and a weighted average seasoning of 10.3 months. It comprises new and used commercial vehicle (new CV: 6.2% and used CV: 40.1%), new and used construction equipment (new CE: 0.8% and used CE: 3.9%) and new and used tractor (new tractors: 3.2% and used tractors: 45.8%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Karnataka, Rajasthan and Maharashtra) contributing 36.7% to the initial pool principal amount. It also has a high share (~39%) of contracts with an original tenure of more than 48 months. Further, the pool's performance would remain exposed to macroeconomic 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 July 2023 payout with a cumulative collection efficiency of more than 100%.

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 average prepayment rate for the underlying pool is estimated at 12.00% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to Series A1 PTCs 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 comfortable to meet the promised payouts to Series A1 PTCs. After Series A1 PTCs are fully paid, the entire principal amount to Series A2 PTCs is promised on the scheduled maturity date of the transaction.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement, would result in a rating upgrade.

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 June 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 ratings are 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 ratings 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 ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

Shriram Finance Limited (SFL), 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 CV finance and has a pan-India presence with 2,922 branches. As of March 31, 2023, its consolidated assets under management (AUM) stood at Rs. 1.9 lakh crore, comprising pre-owned CV finance (50%), PV loans (18%), CE (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 basis, the company reported a profit after tax (PAT) of Rs. 5,979 crore on AUM of Rs. 1,85,683 crore.

Key financial indicators (SFL)

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

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 Sep 2023				Sep 22, 2023	-	-	-
	Series A1 PTCs	475.90	475.90	Provisional [ICRA]AA+(SO)	-	-	-
	Series A2 PTCs	25.05	25.05	Provisional [ICRA]A-(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	Moderately Complex
Series A2 PTCs	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 Sep 2023	Series A1 PTCs	Sep 2023	8.30%	Sep 2028	475.90	Provisional [ICRA]AA+(SO)
	Series A2 PTCs		Residual	Sep 2028	25.05	Provisional [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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