

October 25, 2023

Shriram Finance Limited: Rating reaffirmed for assignee payouts issued under four 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 Sep-23 Payout (Rs. crore)	Rating Action
Bank of India_May 2020	Assignee Payouts	291.01	83.47	29.61	[ICRA]AA+(SO); reaffirmed
STFC BOI _ June 2020	Assignee Payouts	175.00	61.79	25.34	[ICRA]AA+(SO); reaffirmed
STFC BOI_July 2020	Assignee Payouts	138.47	52.64	20.93	[ICRA]AA+(SO); reaffirmed
STFC BOI SEP 2020	Assignee Payouts	160.10	49.31	17.19	[ICRA]AA+(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

ICRA has reaffirmed the rating for the assignee payouts issued under four vehicle loan securitisation transactions originated by Shriram Finance Limited (SFL; rated [ICRA]AA+ (Stable)), as tabulated above. The reaffirmation factors in the sustained healthy collections witnessed in all the pools. There has been a significant build-up of the credit enhancement (CE) cover over the future assignee payouts for all the transactions due to the high amortisation. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Bank of India_May 2020	STFC BOI _ June 2020	STFC BOI_July 2020	STFC BOI SEP 2020
Months post securitisation	39	39	37	35
Assignee payout amortisation	90.63%	85.52%	84.89%	89.73%
Cumulative collection efficiency ¹	106.19%	101.78%	113.95%	108.45%
Cumulative prepayment rate	41.12%	52.00%	60.37%	54.64%
Average monthly prepayment rate	1.35%	1.86%	2.47%	2.23%
Loss-cum-90+ dpd ² (% of initial pool principal)	1.60%	1.94%	2.31%	1.75%
Loss-cum-180+ dpd ³ (% of initial pool principal)	1.09%	1.30%	1.59%	1.08%
Cumulative credit collateral (CC) utilisation ⁴	0.00%	0.00%	0.00%	0.00%
Breakeven collection efficiency ⁵ for assignee payouts	3.25%	47.00%	38.75%	15.93%
CC (% of balance pool)	106.77%	61.43%	48.73%	92.34%
Excess interest spread (EIS; % of balance pool) for assignee payouts ⁶	2.81%	6.11%	14.26%	5.87%

¹ Cumulative collections till date (including advance collections) / (Cumulative billings till date + Opening overdues)

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

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

⁴ CC is available in the form of an unconditional and irrevocable guarantee from SFL

⁵ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

⁶ (Pool cash flows – Cash flows to Assignee) / Pool principal outstanding

Key rating drivers

Credit strengths

- Proven track record in pre-owned commercial vehicle (CV) financing segment along with a well-established franchise
- High amortisation of the pools, leading to lower uncertainty regarding the performance of the balance pool of contracts
- Build-up in credit collateral (CC) and excess interest spread (EIS) cover available for balance assignee payouts
- Low delinquencies in harder buckets across the pools

Credit challenges

- Performance of the pools would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

Following the end of the moratorium (in August 2020), all the pools had reported healthy collections, except in Q1 FY2022, when collections were impacted by the Covid-19 pandemic-induced restrictions. The monthly collection efficiency, post the September 2021 collection month, exceeded 96% for all the pools. The loss-cum-30+ days past due (dpd) for the pools was in the range of 1.9-3.2%, as of the August 2023 collection month (September 2023 payout month). The 90+dpd remains low in the range of 1.0-2.4% for all the transactions.

Any shortfall in collections in the past was mostly absorbed by the EIS in the structure with nil CC utilisation in the transactions. As the pools are highly amortised, there has been a significant build-up in the CE cover for the balance tenure of the assignee payouts even after CE 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 CE relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA noted that the performance of the pools would remain exposed to macro-economic 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 considering 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	Bank of India_May 2020	0.5-1.0%	11-13% p.a.
2	STFC BOI _ June 2020	1.0-2.0%	11-13% p.a.
3	STFC BOI_July 2020	1.0-2.0%	11-13% p.a.
4	STFC BOI SEP 2020	0.5-1.0%	11-13% p.a.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to the assignee 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 CE are expected to be comfortable to meet the promised payouts to the assignee.

Rating sensitivities

Positive factors – The rating can be upgraded on an improvement in SFL’s credit profile along with healthy pool performance.

Negative factors – The rating could be downgraded on sustained weak collections, resulting in higher-than-expected delinquency levels, or a deterioration in SFL’s credit profile.

Analytical approach

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

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

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 (SCL) 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%).

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: SFL, ICRA Research; 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	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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Oct 25, 2023	Nov 28, 2022	Nov 26, 2021	Nov 09, 2020	May 18, 2020
1	Bank of India_May 2020	Assignee Payouts	291.01 [^]	29.61	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

[^] Initial rated amount was Rs. 450.63 crore of which Rs. 159.62 crore was withdrawn on Nov 9, 2020

S. No.	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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Oct 25, 2023	Nov 28, 2022	Nov 26, 2021	Nov 09, 2020	Jul 08, 2020
2	STFC BOI _ June 2020	Assignee Payouts	175.00	25.34	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

S. No.	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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Oct 25, 2023	Nov 28, 2022	Nov 26, 2021	Nov 24, 2020	Jul 31, 2020
3	STFC BOI_July 2020	Assignee Payouts	138.47	20.93	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

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					Oct 25, 2023	Nov 28, 2022	Nov 26, 2021	Nov 24, 2020	Oct 12, 2020
4	STFC BOI SEP 2020	Assignee Payouts	160.10	17.19	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Bank of India_May 2020	Assignee Payouts	Moderately Complex
STFC BOI _ June 2020	Assignee Payouts	Moderately Complex
STFC BOI_July 2020	Assignee Payouts	Moderately Complex
STFC BOI SEP 2020	Assignee Payouts	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
Bank of India_May 2020	Assignee Payouts	May 2020	9.00%	July 2026	29.61	[ICRA]AA+(SO)
STFC BOI _ June 2020	Assignee Payouts	June 2020	9.00%	March 2026	25.34	[ICRA]AA+(SO)
STFC BOI_July 2020	Assignee Payouts	July 2020	9.00%	March 2026	20.93	[ICRA]AA+(SO)
STFC BOI SEP 2020	Assignee Payouts	September 2020	9.00%	September 2026	17.19	[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

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

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

RELATIONSHIP CONTACT

Mr. 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.

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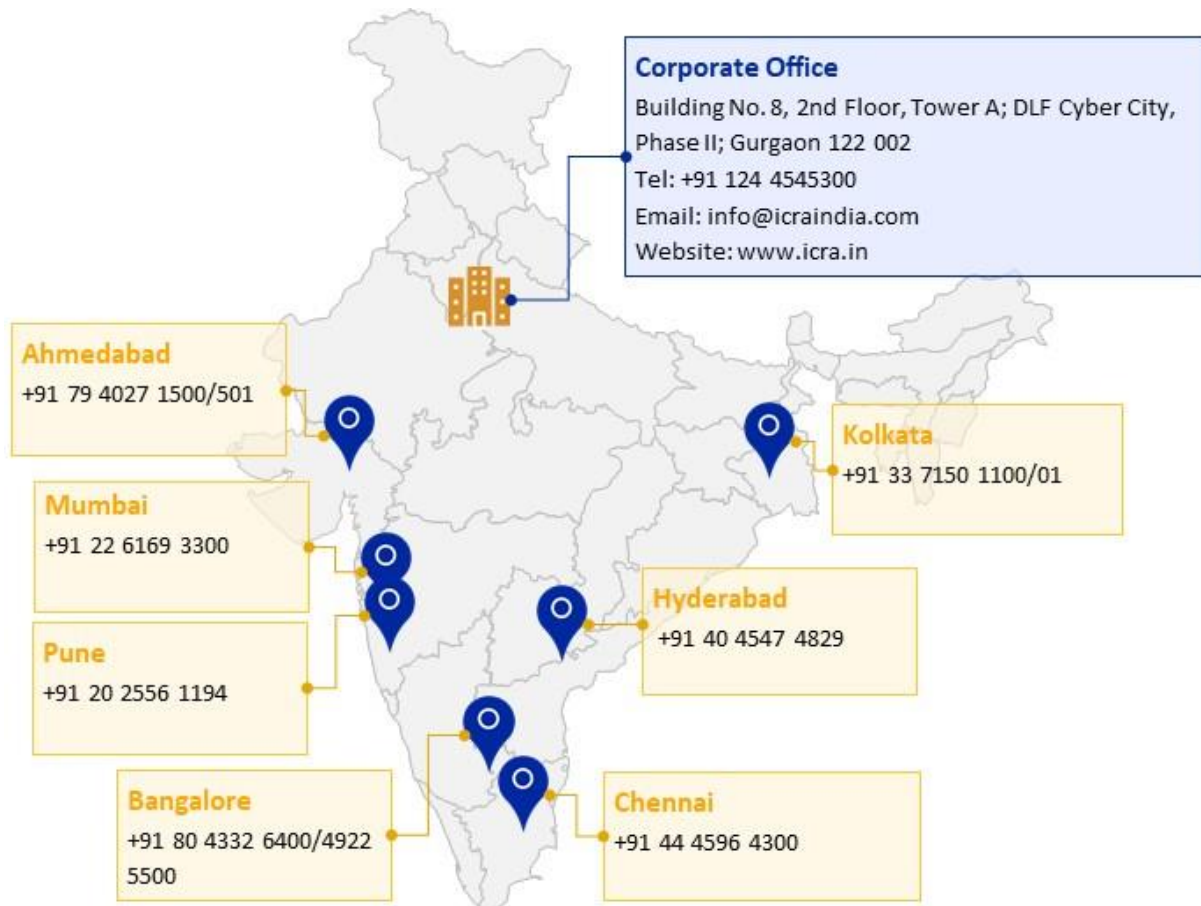
Registered Office

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

Tel: +91 11 23357940-45



Branches



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