

October 25, 2023

Shriram Finance Limited: Rating reaffirmed for PTCs issued under 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 2023 Payout (Rs. crore)	Rating Action
Sansar Trust Sep 2021 VI	PTC Series A	767.22	353.01	115.63	[ICRA]AAA(SO); Reaffirmed
Sansar Trust June 2022 V	PTC Series A	326.73	323.29	112.28	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

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

Pool performance summary

Parameter	Sansar Trust Sep 2021 VI	Sansar Trust June 2022 V
Months post securitisation	23	14
Pool amortisation	76.58%	61.35%
PTC Series A amortisation	84.93%	65.27%
Cumulative collection efficiency ¹	108.97%	113.44%
Cumulative prepayment rate	44.59%	30.55%
Average monthly prepayment rate	2.53%	2.57%
Loss-cum-90+ dpd ² (% of initial pool)	3.34%	1.74%
Loss-cum-180+ dpd ³ (% of initial pool)	2.59%	0.75%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A	11.29%	62.05%
CC (% of balance pool)	54.44%	12.94%
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	22.85%	19.72%

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

⁵ (Pool cash flows – Cash flows to PTC) / Pool principal outstanding

Key rating drivers

Credit strengths

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

Credit challenges

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

Description of key rating drivers highlighted above

The pools have reported healthy collections with the monthly collection efficiency exceeding 98% since the first payout month. The loss-cum-30+ days past due (dpd) for the pools was in the range of 4-8% as of the August 2023 collection month (September 2023 payout month). Despite the higher 30+dpd numbers, the 90+dpd remains in the range of 1.5-3.5% for the transactions.

Any shortfall in collections in the past was mostly absorbed by the EIS in the structure with nil CC utilisation. As the pools are moderately amortised, there has been a build-up in the CE cover for the balance tenure of the PTC 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 pool are provided in the table below.

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
Sansar Trust Sep 2021 VI	1.5-2.5%	8-12% p.a.
Sansar Trust June 2022 V	1.5-2.5%	8-12% p.a.

Liquidity position: Superior

For Sansar Trust Sep 2021 VI:

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 CC amounting to ~54% of the balance pool principal amount. Even assuming a monthly

collection efficiency of only 50% in the underlying pool of contracts in a stress scenario, the CC would cover the shortfall for the entire scheduled PTC payouts.

For Sansar Trust June 2022 V:

As per the transaction structure, only the interest amount is promised to the PTC Series A holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This imparts significant liquidity to the transaction in the interim period. The cash flows from the pool and the available CE are expected to be highly comfortable to meet the promised payouts to the PTC Series A investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge on sustained weak collections, resulting in higher-than-expected delinquency levels.

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 pool, and the performance expected over the balance tenure of the 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: 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
							Oct 25, 2023	Nov 28, 2022	Nov 17, 2021	
1	Sansar Trust Sep 2021 VI	PTC Series A	767.22	115.63	[ICRA]AAA (SO)	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA (SO)	Provisional [ICRA]AAA (SO)	-

[^]Initial rating 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	
						Oct 25, 2023	October 19, 2022			July 19, 2022
2	Sansar Trust June 2022 V	PTC Series A	326.73	112.28	[ICRA]AAA (SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA (SO)	-	-	

Complexity level of the rated instrument

Trust	Instrument	Complexity Indicator
Sansar Trust Sep 2021 VI	PTC Series A	Simple
Sansar Trust June 2022 V	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust Sep 2021 VI	PTC Series A	October 2021	7.00%	June 2028	115.63	[ICRA]AAA(SO)
Sansar Trust June 2022 V	PTC Series A	July 2022	8.00%	June 2027	112.28	[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.

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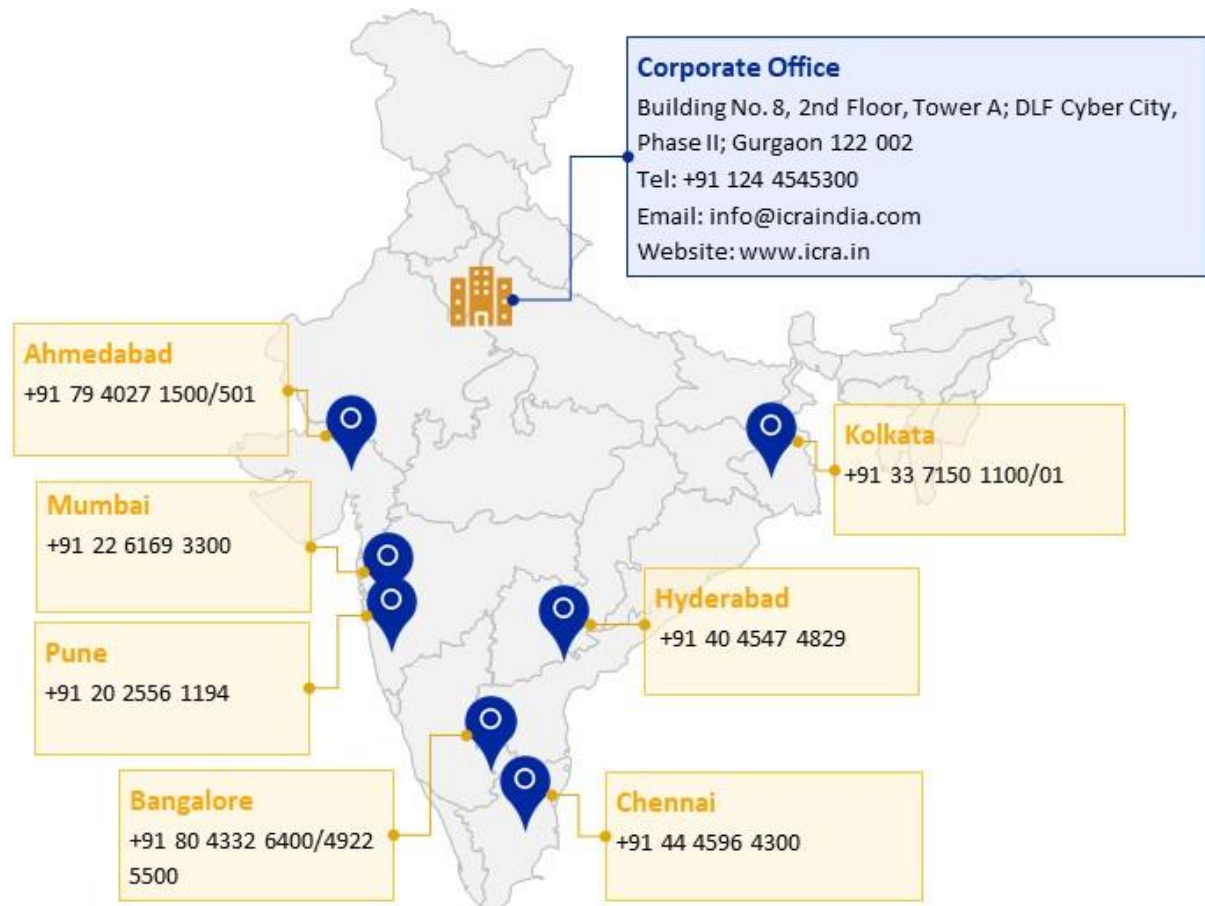
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