

December 26, 2023

Shriram Finance Limited: Ratings confirmed as final for 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	[ICRA]AA+(SO); provisional rating confirmed as final
	Series A2 PTCs	25.05	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2023, ICRA had assigned a 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. 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 subordination, EIS and CC in the transaction
- Low obligor concentration with the 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,

A summary of the pool's performance after the November 2023 payouts is shown in the table below:

Pool performance summary

Parameter	Sansar Trust Sep 2023
First Payout Date	October 18, 2023
Months post securitisation	2
Pool amortisation (as % of initial pool principal)	5.93%
<u>PTC Amortisation</u>	
Series A1 PTC	6.24%
Series A2 PTC	0.00%
Cumulative collection efficiency	104.55%
Loss cum 0+ dpd	2.49%
Loss cum 30+ dpd	0.67%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

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 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 EIS. CC equivalent to 5.00% of the initial pool principal (Rs. 25.05 crore) also acts as a credit enhancement in the transaction. ICRA takes note that the CC provided is 5.00% of the initial pool principal as against 3.75% indicated at the time of assigning provisional rating. The CC would be in the form of 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 shortfall.

There were no overdues in the pool as on the cut-off date. The pool was well diversified with low obligor concentration and had a weighted average seasoning of 10.3 months. It comprises of 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 had moderate geographical concentration with the top-3 states (Karnataka, Rajasthan and Maharashtra) contributing 36.7% to the initial pool principal amount. It also had 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 November 2023 payout with cumulative collection efficiency upwards of 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 for both the PTCs

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 the 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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

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 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 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 2,975 branches and 708 rural centres. As of September 30, 2023, SFL had consolidated AUM of Rs. 2,02,641 crore comprising pre-owned commercial vehicle finance (49%), passenger vehicle loans (19%), construction equipment (7%), farm equipment (2%), SME lending (11%), personal loans (4%), gold loans (3%) and two-wheeler loans (5%).

The company reported PAT of Rs. 3,426 crore on an AUM of Rs. 2,02,641 crore for H1FY2024. The Gross stage 3 stood at 5.79% and Net stage 3 at 2.80% for Q2 FY2024. PAT for Q1 FY2024 stood at Rs 1,675 crore and net-worth of SFL stood at Rs 44,821 crore. The company is adequately capitalized with CRAR at 22.15% at Q2 FY2024. Total outstanding borrowings stands at Rs 1,653 billion with bank term loans and public deposits forming ~50% of the total borrowings at September 30, 2023.

Key financial indicators (SFL)

Particulars	FY2022*	FY2023^	H1FY2024^
	Audited	Audited	Audited
Net worth	25,932	43,306	46,035
Profit after tax	2,708	5,979	3,426
Assets under management (AUM)	1,27,041	1,85,683	2,02,641
Gross stage 3	7.1%	6.2%	5.8%
Net stage 3	3.7%	3.2%	2.8%

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
				Dec 26, 2023	Sep 22, 2023			
1 Sansar Trust Sep 2023	Series A1 PTCs	475.90	475.90	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-	-
	Series A2 PTCs	25.05	25.05	[ICRA]A-(SO)	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	[ICRA]AA+(SO)
	Series A2 PTCs		Residual	Sep 2028	25.05	[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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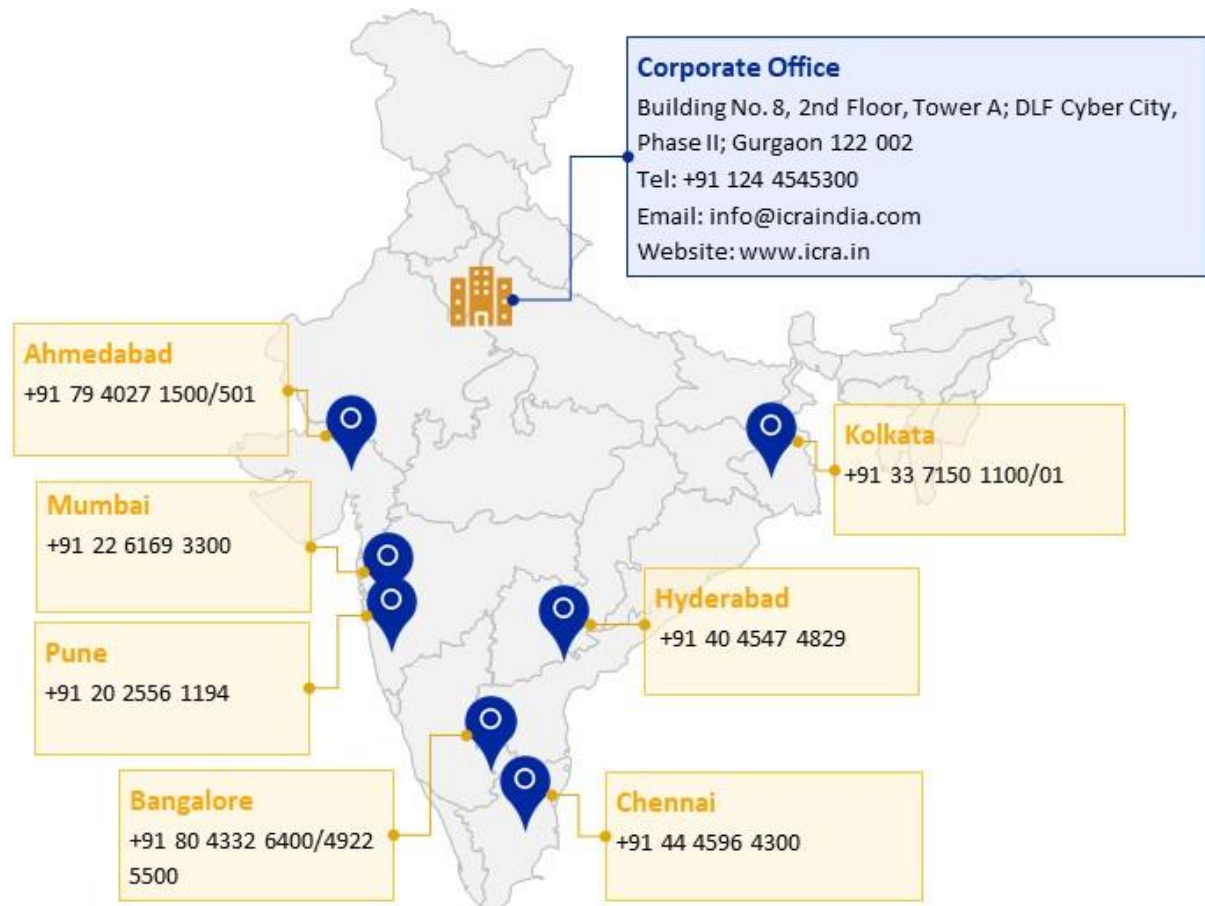
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