

December 29, 2023

Shriram Finance Limited: Provisional ratings assigned to PTCs backed by secured MSME loan receivables issued by SANSAR TRUST DEC 2023

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
SANSAR TRUST DEC 2023	Series A1 PTC	495.20	Provisional [ICRA]AAA(SO); Assigned
	Series A2 PTC	55.02	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

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. 495.20-crore (pool principal; receivables of Rs. 782.72 crore) secured micro, small and medium enterprise (MSME) loan receivables.

The provisional ratings are based on the established track record of the company in secured small and medium-sized enterprise (SME) lending, the credit enhancement (CE) available in the form of (i) a credit collateral (CC) of 3.00% of the initial pool principal, (ii) subordination of 10% of the initial pool principal and (iii) excess interest spread (EIS) of 29.88% 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

- Established track record of the company in secured SME lending
- Availability of CE in the form of subordination, EIS and CC in the transaction
- Low obligor concentration with top 10 obligors accounting for 1.6% of the overall pool principal amount

Credit challenges

- Pool has high share of contracts (~84%) with tenure of more than 48 months
- Performance of the pool would remain exposed to any macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the scheduled cash flow promised to Series A1 PTC on each payout date will comprise the interest payments to Series A1 PTC at the predetermined interest rate on the principal outstanding while the monthly principal payments will be on expected basis and are promised on the final maturity date. The collections from the pool, after making the promised interest payouts to Series A1 PTC, will be utilised to make the expected principal payments to Series A1 PTC (100% of the pool principal billing). However, this principal payout is not promised and any shortfall in making the expected principal payment to Series A1 PTC would be carried forward to the subsequent payouts. After utilising prepayments for the payment of the principal portion of Series A1 PTC, payment will be made towards the expected principal payout to Series A2 PTC. Upon the payment of Series A1 PTC in full, the collections from the pool will be used to make the expected principal payouts (100% of principal billed) to Series A2 PTC. Following the reinstatement of the external CE, the EIS, after meeting the promised payouts, will be passed on to the originator on a monthly basis.

The loan pool receivables will be assigned at par to the PTC investors. The originator's claim in the EIS is subordinated to the PTC payouts. Thus, the EIS (amounting to 29.88% of the initial pool principal) acts as a source of CE in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the originator on a monthly basis. A CC equivalent to 3.00% of the initial pool principal also acts as CE in the transaction. The CC would be in the form of a fixed deposit maintained with a designated bank acceptable to ICRA.

There are no overdues in the pool as on the cut-off date. The pool is well diversified with low obligator concentration and a weighted average seasoning of 21.3 months and a weighted average pre-securitisation amortisation of 26.5%. The pool has high geographical concentration with the top 3 states (Telangana, Tamil Nadu and Andhra Pradesh) contributing 71.0% to the initial pool principal amount. It also has a high share of contracts with a tenure of more than 48 months (84%). Further, the pool's performance would remain exposed to macroeconomic shocks/business disruptions.

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:

For Series A1 PTC: Superior

As per the transaction structure, only the interest amount is promised to Series A1 PTC 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 highly comfortable to meet the promised payouts to Series A1 PTC.

For Series A2 PTC: Strong

Series A2 PTC is subordinated to Series A1 PTC and the entire 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 for meeting the promised payouts to the Series A2 PTC investors.

Rating sensitivities

Positive factors –

Series A1 PTC – Not applicable

Series A2 PTC – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels and lower CE utilisation levels, 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 CE utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

Analytical approach

The rating action is based on the analysis of the performance of SFL's secured MSME portfolio till September 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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; 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, which 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 assets under management (AUM) of Rs. 2,02,641 crore comprising preowned 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 a profit after tax (PAT) of Rs. 3,426 crore on AUM of Rs. 2,02,641 crore in H1 FY2024. The gross stage 3 stood at 5.79% while the net stage 3 was 2.80% in Q2 FY2024. SFL reported a PAT of Rs. 1,675 crore and net worth of Rs. 44,821 crore in Q1 FY2024. The company is adequately capitalised with a capital-to-risk weighted assets ratio (CRAR) of 22.15% in Q2

FY2024. Total outstanding borrowings stood at Rs. 1,65,300 crore with bank term loans and public deposits forming ~50% of the total borrowings as of September 30, 2023.

Key financial indicators (SFL)

Particulars	FY2022*	FY2023^	H1 FY2024^
	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 29, 2023	-	-	-
1 SANSAR TRUST DEC 2023	Series A1 PTC	495.20	495.20	Provisional [ICRA]AAA(SO)	-	-	-
	Series A2 PTC	55.02	55.02	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	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 DEC 2023	Series A1 PTC	Dec 2023	8.60%	November 2029	495.20	Provisional [ICRA]AAA(SO)
	Series A2 PTC		Residual	November 2029	55.02	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

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

Priya Gounder

+91 22 6114 3454

priya.gounder@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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.