

January 19, 2024<sup>(Revised)</sup>

## Shriram Finance Limited: Ratings 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 Dec 2023 Payout (Rs. crore)	Rating Action
Sansar Trust Aug 2022 II	PTC Series A	655.18	NA	385.73	[ICRA]AAA(SO); Reaffirmed
	Second loss facility	29.48	NA	29.48	[ICRA]A-(SO); Reaffirmed
Sansar Trust Sep 2022 II	PTC Series A	214.44	NA	122.19	[ICRA]AAA(SO); Reaffirmed
	Second loss facility	9.65	NA	9.65	[ICRA]A-(SO); Reaffirmed
Sansar Trust Dec 2022	Series A1 PTCs	1,070.02	NA	390.40	[ICRA]AAA(SO); Reaffirmed
	Series A2 PTCs	1,070.02	NA	655.64	[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 ratings 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 ratings would remain exposed to macro-economic shocks/business disruptions.

### Pool performance summary

Parameter	Sansar Trust Aug 2022 II	Sansar Trust Sep 2022 II	Sansar Trust Dec 2022
Months post securitisation	15	14	11
Pool amortisation	41.13%	43.02%	51.12%
PTC Series A amortisation	41.13%	43.02%	51.12%
Cumulative collection efficiency <sup>1</sup>	106.07%	124.07%	112.18%
Cumulative prepayment rate	8.74%	19.46%	22.92%
Average monthly prepayment rate	0.61%	1.53%	2.34%
Loss-cum-90+ dpd <sup>2</sup> (% of initial pool)	2.25%	0.54%	2.57%
Loss-cum-180+ dpd <sup>3</sup> (% of initial pool)	0.96%	0.20%	1.31%

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

<sup>2</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of initial pool principal

<sup>3</sup> Inclusive of unbilled and overdue principal portion of contracts delinquent for more than 180 days, as a % of initial pool principal

Parameter	Sansar Trust Aug 2022 II	Sansar Trust Sep 2022 II	Sansar Trust Dec 2022
Cumulative credit collateral (CC) utilisation	0.00%	0.00%	0.00%
Breakeven collection efficiency <sup>4</sup> for PTC Series A	78.39%	74.65%	66.39%
CC (% of balance pool)	16.14%	16.67%	24.55%
Excess interest spread (EIS; % of balance pool) for PTC A1 <sup>5</sup>	9.54%	15.49%	16.34%

## 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 pools of contracts
- Build-up of credit collateral (CC) and excess interest spread (EIS) cover available for balance PTC payouts
- Low delinquencies observed in harder buckets across the pools

### Credit challenges

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

## Description of key rating drivers highlighted above

The pools have reported healthy collections with the monthly collection efficiency exceeding 100% since the first payout month. The delinquencies in the softer bucket are relatively higher for the Dec 2022 transaction, though the roll forward to the harder bucket remains limited. The loss-cum-180+ days past due (dpd) has remained sub-1% for all the transactions, except for the Dec 2022 transaction at 1.31% as of the December 2023 payout month. The amortisation for the Dec 2022 transaction is higher compared to the other transactions due to higher prepayments.

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 notes 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.

<sup>4</sup>  $(\text{Balance cash flows payable to investor} - \text{CC available}) / \text{Balance pool cash flows}$

<sup>5</sup>  $(\text{Pool cash flows} - \text{Cash flows to PTC}) / \text{Pool principal outstanding}$

After making these adjustments, the expected loss and prepayments during the balance tenure of the pools are provided in the following table.

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
Sansar Trust Aug 2022 II	2.00-3.00%	8-12% p.a.
Sansar Trust Sep 2022 II	2.00-3.00%	8-12% p.a.
Sansar Trust Dec 2022	2.25-3.25%	8-12% p.a.

## Liquidity position: Strong

### PTCs

The liquidity for the instruments is strong after factoring in the CE available to meet the promised payouts to the investor. The total CE would be in the range of 5.0-5.5 times the estimated loss in the pools.

### SLF

The liquidity for the second loss facility SLF is strong after factoring in the first loss facility (FLF) available for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

## Rating sensitivities

**Positive factors** – Not applicable for the PTCs

The rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool of contracts, resulting in an increase in the CE cover available for the SLF.

**Negative factors** – Pressure on the ratings could emerge on sustained weak collections, resulting in higher-than-expected delinquency levels. Weakening in the credit profile of the servicer could also exert pressure on the ratings.

## Analytical approach

The rating action is based on the performance of the pools till November 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 pre-owned commercial vehicle finance and has a pan-India presence with 3,683 branches and other offices. As of September 30, 2023, SFL had an AUM (consolidated) of Rs. 2.1 lakh crore comprising commercial vehicle finance (46%), passenger vehicle finance (19%), construction equipment and farm equipment finance (9%), SME lending (10%), personal loans (4%), gold loans (3%) two-wheeler loans (5%) and housing loans (5%; through its subsidiary Shriram Housing Finance Limited).

### Key financial indicators

Shriram Finance Limited (Consolidated)	FY2022	FY2023	H1 FY2024
Total income	19,274	30,508	17,189
PAT	2,721	6,011	3,500
Total managed assets	1,52,742	223,769	239,003
Return on managed assets	1.9%	2.8%	3.0%
Managed gearing (times)	4.5	4.0	4.0
Gross stage 3 assets	7.1%	6.0%	5.6%
CRAR	23.0%	22.6%	22.2%

Source: Company; ICRA research; All ratios as per ICRA calculations; Amounts in Rs. Crore; Total managed assets = Total assets + Impairment allowance + Direct assignments – Goodwill, Managed gearing includes direct assignment as debt With the scheme of arrangement and amalgamation of STFC, SCUF and Shriram Capital Limited becoming effective, figures for the year ended March 31, 2023 are not comparable with the figures for the year ended March 31, 2022

### 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
					Jan 19, 2024	Jan 23, 2023	Sep 23, 2022	-		
1	Sansar Trust Aug 2022 II	PTC Series A	655.18	385.73	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA (SO)	-	-	
		Second loss facility	29.48	29.48	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	

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					Jan 19, 2024	Jan 23, 2023	Sep 30, 2022	-		
2	Sansar Trust Sep 2022 II	PTC Series A	214.44	122.19	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA (SO)	-	-	
		Second loss facility	9.65	9.65	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	

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			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Jan 19, 2024	Jan 17, 2023	Dec 23, 2022	-		
3	Sansar Trust Dec 2022	Series A1 PTCs	1,070.02	390.40	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA (SO)	-	-	

		Series A2 PTCs	1,070.02	655.64	[ICRA]AAA (SO)	[ICRA]AAA (SO)	Provisional [ICRA]AAA (SO)	-	-
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### Complexity level of the rated instrument

Trust	Instrument	Complexity Indicator
Sansar Trust Aug 2022 II	PTC Series A	Moderately Complex
	Second loss facility	Moderately Complex
Sansar Trust Sep 2022 II	PTC Series A	Simple
	Second loss facility	Simple
Sansar Trust Dec 2022	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**

ISIN	Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
NA	Sansar Trust Aug 2022 II	PTC Series A	September 2022	7.30%	September 2027	385.73	[ICRA]AAA(SO)
NA		Second loss facility	September 2022	-	September 2027	29.48	[ICRA]A-(SO)
NA	Sansar Trust Sep 2022 II	PTC Series A	September 2022	7.30%	May 2027	122.19	[ICRA]AAA(SO)
NA		Second loss facility	September 2022	-	May 2027	9.65	[ICRA]A-(SO)
INE0OGZ15015	Sansar Trust Dec 2022	Series A1 PTCs	December 2022	8.01%	January 2028	390.40	[ICRA]AAA(SO)
INE0OGZ15023		Series A2 PTCs	December 2022	8.01%	January 2028	655.64	[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

**Corrigendum**

Key Financial Indicator table on Page no. 4 has been modified in Document dated January 19, 2024.

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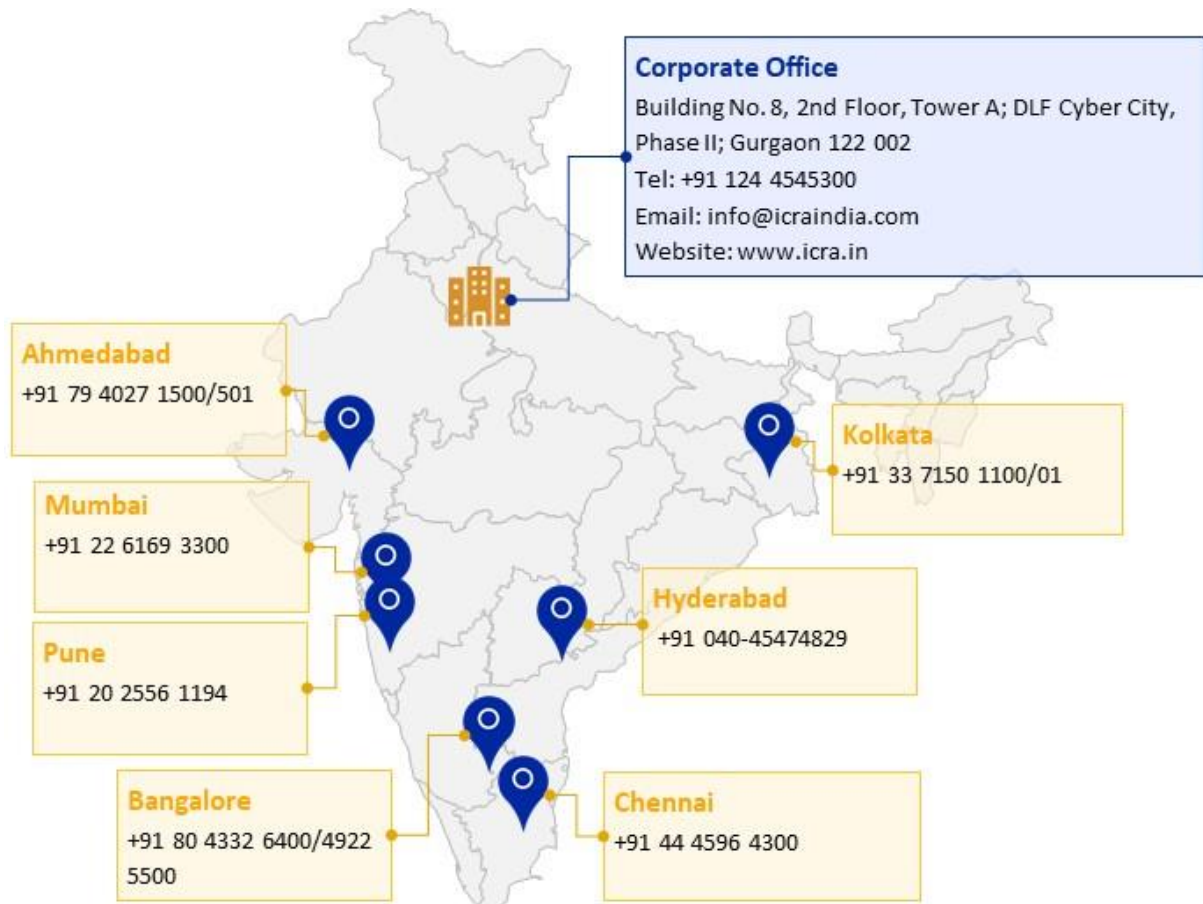
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