

February 28, 2024

## Shriram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Jan 24 III Trust

### Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar Jan 24 III Trust	PTC Series A	1,323.83	Provisional [ICRA]AAA(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
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### Rationale

ICRA has assigned a provisional rating 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. 1,454.76 crore (pool principal; receivables of Rs. 1,844.10 crore) of vehicle and construction equipment (CE) loan receivables.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, SFL's track record in the vehicle loan business and the credit enhancement available in the form of (i) over-collateralisation of 9.00% of the initial pool principal, (ii) a credit collateral (CC) of 3.50% of the initial pool principal to be provided by the originator, (iii) excess interest spread (EIS) of 15.01% of the initial pool principal in the structure, as well as the integrity of the legal structure. The rating is 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

- Proven track record in pre-owned commercial vehicle (CV) financing segment along with its well-established franchise
- Availability of over-collateralisation, EIS and CC in the transaction
- Low obligor concentration with top 10 obligors accounting for 0.69% of the overall pool principal amount

#### Credit challenges

- High share (i.e. ~36%) of contracts with original tenure of more than 48 months
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

### Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (February 25, 2029). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to the PTCs, will be used to make the expected principal payouts to PTC Series A. However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The loan pool receivables will be assigned at par to the PTC investors. The first line of support for PTC Series A in the transaction is in the form of over-collateralisation of 9.00% of the initial pool principal, which will be in the form of an equity tranche. The originator's claim on the EIS in the transaction is subordinated to the PTC payouts. Thus, the EIS acts as a source of credit enhancement in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the originator

on a monthly basis. However, on the occurrence of a PTC default or any other predefined acceleration event, the residual EIS every month shall be utilised for accelerating the principal payment due to the subscribers of PTC Series A. An acceleration event is triggered by servicer default, replacement of servicer or if the 150+ days past due (dpd) exceeds 5% of the outstanding pool principal.

A CC equivalent to 3.50% of the initial pool principal (Rs. 50.92 crore) also acts as credit enhancement in the transaction. The CC would be in the form of a fixed deposit maintained with a Designated Bank acceptable to ICRA. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the EIS first, followed by the CC, to meet the shortfall.

There were no overdues in the pool as on the pool cut-off date. The pool is well diversified with low obligator concentration and a weighted average seasoning of 9.1 months. It comprises new and used CV (new CV: 10.5% and used CV: 43.5%), new and used passenger vehicle (new PV: 8.1% and used PV: 32.2%) and new and used CE (new CE: 2.4% and used CE: 3.3%) loan contracts. The pool has moderate geographical concentration with the top 3 states (Karnataka, Uttar Pradesh and Andhra Pradesh) contributing 34.0% to the initial pool principal amount. It also has a high share (36.4%) of contracts with an original tenure of more than 48 months. Further, its performance would remain exposed to macro-economic 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 January 2024 payouts with good collections and loss-cum-180+ dpd levels of sub-3.0% for all the pools.

### 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 mean prepayment rate for the underlying pool is estimated at 4.8-18.0% (mean of 12.0%) per annum.

### Liquidity position: Strong

The liquidity position for PTC Series A is strong after factoring in the credit enhancement available for meeting the promised payouts to the investor. The total credit enhancement would be 4.8 times the estimated loss in the pool.

### Rating sensitivities

**Positive factors** – Not applicable

**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 analysis of the performance of SFL's 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 credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 rating is 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 rating 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 rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://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 an upper layer non-banking financial company. Based on the National Company Law Tribunal order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited (SCL) 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 3,700+ branches and other offices. As of December 31, 2023, SFL's assets under management (consolidated) stood at Rs. 2.26 lakh crore, comprising commercial vehicle finance (45%), passenger vehicle finance (18%), construction equipment and farm equipment finance (8%), small and medium-sized enterprise 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

Particulars	FY2022*	FY2023^	9M FY2024^
	Audited	Audited	Provisional
Total income	19,274	30,508	26,459
Profit after tax	2,721	6,011	5,373
Total managed assets#	1,52,742	2,23,769	2,54,307
Return on average managed assets (annualised)	1.9%	2.8%	3.0%
Managed gearing (times)	4.5	4.0	4.2

Particulars	FY2022*	FY2023^	9M FY2024^
	Audited	Audited	Provisional
<b>Gross stage 3</b>	7.1%	6.0%	5.5%
<b>Capital to risk weighted assets ratio</b>	23.0%	22.6%	21.0%

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore

With the scheme of arrangement and amalgamation of STFC, SCUF and SCL becoming effective, figures for the year ended March 31, 2023 are not comparable with the figures for the year ended March 31, 2022

\*For SFL, prior to the merger with SCUF and SCL; ^Consolidated post-merger

#Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill; Managed gearing includes off-book portfolio as debt

### 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
1 Sansar Jan 24 III Trust	PTC Series A	1,323.83	1,323.83	Feb 28, 2024 Provisional [ICRA]AAA(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity Indicator
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 (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Jan 24 III Trust	PTC Series A	February 2024	8.75%	February 2029	1,323.83	Provisional [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.

For more information, visit [www.icra.in](http://www.icra.in)

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