

March 08, 2024

Shriram Finance Limited: Rating action on PTCs and SLF 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 Feb-24 Payout (Rs. crore)	Rating Action
Sansar Trust Dec 2021 IV	PTC Series A	372.86	172.16	50.99	[ICRA]AAA(SO); Reaffirmed
	Second Loss Facility	11.19	11.19	11.19	[ICRA]AA+(SO); Upgraded from [ICRA]BBB+(SO)
Sansar Trust Feb 2022 II	PTC Series A1 (c)	36.74	36.74	16.32	[ICRA]AAA(SO); Reaffirmed
	PTC Series A1 (d)	5.80	5.80	5.80	[ICRA]AAA(SO); Reaffirmed
	Second Loss Facility	4.61	4.61	4.61	[ICRA]AA+(SO); Upgraded from [ICRA]BBB+(SO)

*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 reaffirmations and upgrades factor in the sustained healthy collections witnessed in the pool. Due to the amortisation in the transaction, there has been a build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Sansar Trust Dec 2021 IV	Sansar Trust Feb 2022 II
Months post securitisation	26	22
Pool amortisation	86.33%	78.42%
Cumulative collection efficiency ¹	118.23%	120.08%
Cumulative prepayment rate	49.22%	43.80%
Average monthly prepayment rate	2.57%	2.58%
Loss-cum-90+ dpd ² (% of initial pool)	1.40%	0.56%
Loss-cum-180+ dpd ³ (% of initial pool)	1.15%	0.34%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A	41.51%	52.73%
CC (% of balance pool)	58.52%	44.03%
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	10.54%	12.66%

¹ Cumulative collections till date (including advance collections) / (cumulative billings till date plus opening overdue)

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 its well-established franchise
- Healthy amortisation of the pools leading to lower uncertainty regarding the performance of the balance pool of contracts
- Build-up in credit collateral (CC) and excess interest spread (EIS) cover available for balance PTC payouts
- Low delinquencies observed in harder buckets in both the pools

Credit challenges

- Performance of the pool would remain exposed to macro-economic shocks/business disruption, if any

Description of key rating drivers highlighted above

The pools have reported healthy collections with the monthly collection efficiency exceeding 100% in the last 12 months. The loss-cum-30+ days past due (dpd) for the pools ranges between 1.5-2.5% as of the January 2024 collection month (February 2024 payout month). The 90+dpd remains between 0.5-1.5% for the transactions. As of January 2024 collection month (February 2024 payout month), 180+dpd remains between 0.5-1.5% for the transactions.

The pools have amortised by more than 75% as of January 2024 collection month (February 2024 payout month).

Any shortfall in collections in the past was mostly absorbed by the EIS in the structure with nil CC utilisation in the transaction. 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 the mentioned 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 Dec 2021 IV	0.5-1.5%	8-12% p.a.
Sansar Trust Feb 2022 II	0.5-1.5%	8-12% p.a.

Liquidity position: Superior

The liquidity for the PTC instruments is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 10 times the estimated loss in the pools. The cash flows from the pool and the available first loss facility are highly comfortable 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 contracts, resulting in an increase in the credit enhancement 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 rating.

Analytical approach

The rating action is based on the performance of the pools till January 2024 (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 company

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
Gross stage 3	7.1%	6.0%	5.5%
Capital to risk weighted assets ratio	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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Mar 08, 2024	Mar 17, 2023	Mar 31, 2022	Dec 31, 2021 [^]	-
1	Sansar Trust Dec 2021 IV	PTC Series A	372.86	50.99	[ICRA]AAA (SO)	[ICRA]AAA (SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
		Second Loss Facility	11.19	11.19	[ICRA]AA+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)	-

[^]Initial rating assigned

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
					Mar 08, 2024	Mar 17, 2023	Jun 20, 2022	Apr 06, 2022	Mar 29, 2022 [^]	-
2	Sansar Trust Feb 2022 II	PTC Series A1(c)	36.74	16.32	[ICRA]AAA (SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-
		PTC Series A1(d)	5.80	5.80	[ICRA]AAA (SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO); reaffirmed	Provisional [ICRA]AAA(SO)	-
		Second Loss Facility	4.61	4.61	[ICRA]AA+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO); reaffirmed	Provisional [ICRA]BBB+(SO)	-

[^]Initial rating assigned

Complexity level of the rated instrument

Trust	Instrument	Complexity Indicator
Sansar Trust Dec 2021 IV	PTC Series A	Simple
	Second Loss Facility	Simple
Sansar Trust Feb 2022 II	PTC Series A1(c)	Simple
	PTC Series A1(d)	Simple
	Second Loss Facility	Simple

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 2021 IV	PTC Series A	December 2021	6.85%	November 2026	50.99	[ICRA]AAA(SO)
	Second Loss Facility		-		11.19	[ICRA]AA+(SO)
Sansar Trust Feb 2022 II	PTC Series A1(c)	March 2022	5.95%	March 2026	16.32	[ICRA]AAA(SO)
	PTC Series A1(d)		5.95%	September 2026	5.80	[ICRA]AAA(SO)
	Second Loss Facility		-	September 2026	4.61	[ICRA]AA+(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

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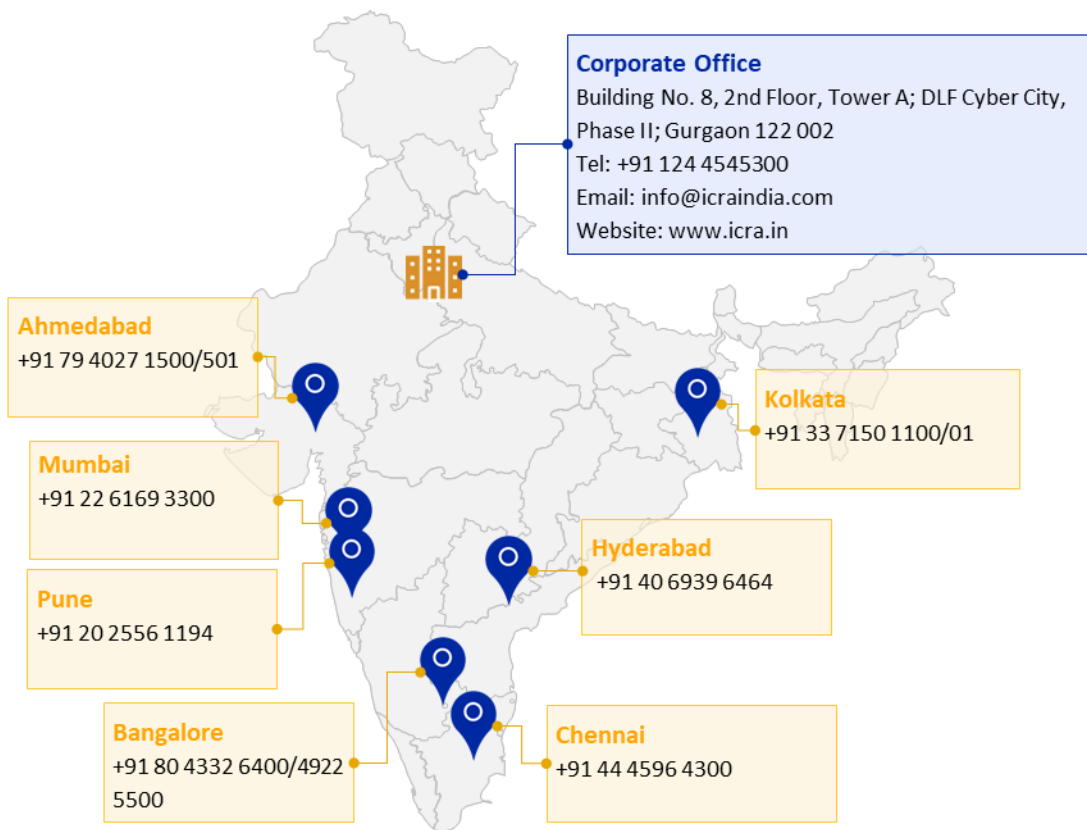
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