April 18, 2024

Shriram Finance Limited: Ratings confirmed as final for PTCs backed by secured MSME loan receivables issued by SANSAR TRUST DEC 2023

Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
SANSAR TRUST DEC 2023	Series A1 PTC	495.20	492.02	[ICRA]AAA(SO); provisional rating confirmed as final
	Series A2 PTC	55.02	54.67	[ICRA]A-(SO); provisional rating confirmed as final

**Instrument details are provided in Annexure I*

Rationale

ICRA had assigned provisional ratings to the Series A1 and Series A2 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 secured MSME loan receivables originated by SFL with an aggregate principal outstanding of Rs. 546.69 crore (pool receivables of Rs. 777.76 crore).

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. While finalising the rating, ICRA has taken note that the PTC yield would be linked to the RBI repo rate plus a fixed spread of 210 bps instead of a fixed rate proposed at time of the initial rating exercise.

A summary of the pool's performance after the March 2024 payout is shown in the table below:

Pool performance summary

Parameter	SANSAR TRUST DEC 2023
Months post securitisation	2
Pool amortisation (as % of initial pool principal)	8.63%
PTC Amortisation	
Series A1 PTC	9.59%
Series A2 PTC	0.00%
Cumulative Prepayment rate	4.03%
Cumulative collection efficiency	104.22%
Loss cum 0+ dpd	0.00%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

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 the top 10 obligors accounting for ~1.6% of the overall pool principal amount

Credit challenges

- Pool has high share of contracts (~84%) with tenure greater than 48 months

- Exposure to interest rate risk given that the PTC yield is floating and pool yield is fixed
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any

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 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. Post utilising prepayments for payment of the principal portion on the Series A1 PTC, payment will be made towards the expected principal payout to Series A2 PTC. Upon payment of Series A1 PTCs in full, the collections from the pool, will be used to pay the expected principal payouts (100% of principal billed) to Series A2 PTC and post reinstatement of the external credit enhancement, the EIS, after meeting the promised payouts will be passed on to the originator on a monthly basis.

The loan pool receivables are 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 29.94% of the initial pool principal) 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. A CC equivalent to 3.00% of the initial pool principal also acts as credit enhancement in the transaction. The CC will be in the form of a fixed deposit maintained with a designated bank acceptable to ICRA.

There were no overdue in the pool as on the cut-off date. The pool was well diversified with low obligator concentration and a weighted average seasoning of 21.3 months and weighted average pre-securitisation amortisation of 26.4%. 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 tenure greater than 48 months (84%). The interest rate for contracts in pool is fixed, while the PTC yield is linked to external benchmark, thereby creating interest rate risk in the structure. 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 March 2024 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:

For Series A1 PTC: Superior

The liquidity position for Series A1 PTC is superior after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be ~7 times the estimated loss in the pool.

For Series A2 PTC: Strong

The liquidity position for Series A2 PTC is strong after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be ~4.5 times the estimated loss in the pool.

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 credit enhancement utilisation levels, could result in a rating upgrade.

Negative factors (for Series A1 PTC and Series A2 PTC) – 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, could 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 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 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 (SFL)

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; 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	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				April 18, 2024	Dec 29, 2023	-	-
SANSAR TRUST DEC 2023	Series A1 PTC	495.20	492.02	**[ICRA]AAA(SO)**	**Provisional [ICRA]AAA(SO)**	-	-
	Series A2 PTC	55.02	54.67	**[ICRA]A-(SO)**	**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	492.02	[ICRA]AAA(SO)
	Series A2 PTC		Residual	November 2029	54.67	[ICRA]A-(SO)

**Scheduled PTC maturity date at transaction initiation; may change on account of prepayments*
***Floating, linked to RBI Policy Repo Rate plus fixed spread of 210 bps*
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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