

May 21, 2024

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 April 2024 Payout (Rs. crore)	Rating Action
Sansar Trust March 2023	PTC Series A1	405.56	NA	220.20	[ICRA]AAA(SO); Reaffirmed
	PTC Series A2	173.81	NA	173.81	[ICRA]AAA(SO); Reaffirmed
	Second loss facility	28.97	NA	28.97	[ICRA]A-(SO); Reaffirmed
Sansar Trust March 2023 VII	PTC Series A	625.13	NA	287.00	[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. The credit enhancement cover over the future PTC payouts has built up due to the amortisation. The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools. Nonetheless, the ratings would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Sansar Trust March 2023	Sansar Trust March 2023 VII
Months post securitisation	12	12
Pool amortisation	31.99%	50.84%
Cumulative collection efficiency ¹	105.97%	114.04%
Cumulative prepayment rate	6.26%	19.67%
Average monthly prepayment rate	0.54%	1.81%
Loss-cum-90+ dpd ² (% of initial pool)	1.41%	1.51%
Loss-cum-180+ dpd ³ (% of initial pool)	0.35%	0.47%
Cumulative credit collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A	79.77%	69.22%
CC (% of balance pool)	14.70%	10.17%

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

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

Parameter	Sansar Trust March 2023	Sansar Trust March 2023 VII
Excess interest spread (EIS; % of balance pool) for PTC A1 ⁵	9.27%	15.51%

Key rating drivers

Credit strengths

- Proven track record in pre-owned CV financing segment along with well-established franchise
- Healthy amortisation of the pools, leading to lower uncertainty regarding the performance of the balance pool 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 in both pools

Credit challenges

- Performance of pools would remain exposed to 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 both transactions, though the roll-forward to the harder bucket remains limited. The loss-cum-180+ days past due (dpd) has remained below 1% for both transactions. The amortisation for the March 2023 VII transaction is higher compared to the other transaction 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 healthy amortisation has been observed in the mentioned pools, the credit enhancement cover has built up for the balance tenure of the PTC payouts despite being utilised.

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 credit enhancement 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 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 are arrived at after considering the past performance of SFL's (the Originator) 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 pools are provided in the following table.

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
Sansar Trust March 2023	2.00-3.00%	12-18% p.a.
Sansar Trust March 2023 VII	2.00-3.00%	18-24% p.a.

⁵ (Pool cash flows – Cash flows to PTC) / Pool principal outstanding

Liquidity position:

Sansar Trust March 2023: Strong

The liquidity for the PTC instrument is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 5 times the estimated loss in the pool. The cash flows from the pool and the available first loss facility are comfortable for the top-up of the second loss facility (SLF), if needed, as per the defined waterfall mechanism.

Sansar Trust March 2023 VII: Superior

The liquidity for the PTC instrument 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 6 times the estimated loss in the pool.

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 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 ratings.

Analytical approach

The rating action is based on the performance of the pools till March 2024 (collection month), the present delinquency levels and the credit enhancement available in the pools, 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 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 pre-owned CV finance and has a pan-India presence with 3,683 branches and other offices. As of September 30, 2023, SFL's assets under management (AUM; consolidated) stood at Rs. 2.1 lakh crore comprising CV finance (46%), PV finance (19%), construction equipment and farm equipment finance (9%), small and medium enterprise (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

Particulars	FY2022*	FY2023^	FY2024^
	Audited	Audited	Limited Review
Total income	19,274	30,508	36,413
Profit after tax	2,721	6,011	7,391
Total managed assets#	1,52,742	2,23,769	2,66,453
Gross stage 3	7.1%	6.0%	5.2%
Capital-to-risk weighted assets ratio	23.0%	22.6%	20.3%

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

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				May 21, 2024	May 16, 2023	March 28, 2023	-
Sansar Trust March 2023	PTC Series A1	405.56	220.20	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
	PTC Series A2	173.81	173.81	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
	Second loss facility	28.97	28.97	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-

Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
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				May 21, 2024	May 16, 2023	March 31, 2023	-
Sansar Trust March 2023 VII	PTC Series A	625.13	287.00	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Sansar Trust March 2023	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	Second loss facility	Moderately Complex
Sansar Trust March 2023 VII	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Sansar Trust March 2023	PTC Series A1	March 2023	7.70%	April 2028	220.20	[ICRA]AAA(SO)
	PTC Series A2				173.81	[ICRA]AAA(SO)
	Second loss facility				28.97	[ICRA]A-(SO)
Sansar Trust March 2023 VII	PTC Series A	March 2023	8.75%	April 2028	287.00	[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

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

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@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:

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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



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