June 28, 2024

Shriram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by vehicle and construction equipment loan receivables issued by Sansar June 2024 III Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar June 2024 III Trust	PTC Series A	847.76	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

Rationale

The pass-through certificates (PTCs) are backed by a pool of vehicle and construction equipment loan receivables originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)} with an aggregate principal outstanding of Rs. 931.60 crore (pool receivables of Rs. 1,178.98 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available 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 ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. However, on the occurrence of predefined acceleration events, the residual EIS every month shall be utilised for accelerating the principal payment due to 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[1]. Any prepayment in the pool would be used for the prepayment of the PTC Series A principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.50% of the initial pool principal, amounting to Rs. 32.61 crore, provided by the Originator, (ii) subordination of 9.00% of the initial pool principal for PTC Series A, and (iii) the EIS of 14.92% of the initial pool principal for PTC Series A.

Key rating drivers and their description

Credit strengths

Track record of originator – The Originator, which is also servicing the loans in the transaction, has a well-established track record of more than four decades in the preowned commercial vehicle financing business and has adequate underwriting policies and collection procedures.

Granular pool supported by presence of credit enhancement – The pool was granular as on the cut-off date and comprised 22,296 contracts. The top 10 contracts formed only 0.5% of the initial pool principal, reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

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[1] *(Total outstanding principal of the defaulted loans/Outstanding principal balance of the total pool) (excluding defaulted loans to the extent principal is already repaid through EIS); where defaulted loans mean loans that are delinquent for more than 150 days or borrowers who have entered bankruptcy proceedings or any other loans where the Originator has written off the loan amount*

Seasoned contracts in the pool – The pool had amortised by ~16% with seasoning of ~8 months as on the cut-off date, reflecting the borrowers' relatively better credit profile and repayment track record. The contracts were current (i.e. non-delinquent) as on the cut-off date.

Credit challenges

Presence of long-tenure contracts – On the cut-off date, ~27% of the contracts in the pool had an original tenure of more than 48 months. The performance of such contracts has remained relatively weaker in the portfolio and the pool's performance would thus be dependent on the company's ability to limit the slippages of such borrowers.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.25% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 7.2% to 27.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

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 ~4.5 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 (SFL) 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 December 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	Rating Methodology for Securitisation Transactions
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.

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 March 31, 2024, its assets under management (consolidated) stood at Rs. 2.39 lakh crore comprising commercial vehicle finance (45%), passenger vehicle finance (18%), small and medium-sized enterprise (SME) lending (11%), construction equipment and farm equipment finance (9%), housing loans (6%; through its subsidiary – Shriram Housing Finance Limited), two-wheeler loans (5%), personal loans (4%), and gold loans (3%).

Key financial indicators

Particulars	FY2022	FY2023^	FY2024*
	Audited	Audited	Provisional
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; * Limited review*
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
^ 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	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
					Jun 28, 2024	-	-	-
1	Sansar June 2024 III Trust	PTC Series A	847.76	847.76	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 June 2024 III Trust	PTC Series A	June 28, 2024	8.75%	July 25, 2029	847.76	Provisional [ICRA]AAA(SO)

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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