

July 02, 2024

## Shriram Finance Limited: Rating confirmed as final for PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Vehicle Finance Trust Dec 2022

### Summary of rating action

Trust Name	Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Sansar Vehicle Finance Trust Dec 2022	PTC Series A	2,621.02	2,611.74	[ICRA]AAA(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned provisional rating to the pass-through certificates (PTCs) issued by Sansar Vehicle Finance Trust Dec 2022 under a securitisation transaction originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of vehicle and construction equipment loan receivables originated by SFL with an aggregate principal outstanding of Rs. 2,970.85-crore (pool receivable of Rs. 3,713.22-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 rating has now been confirmed as final.

### Pool performance summary

The transaction has completed one payout as of May 2024 collection month with nil amortisation of PTCs given that it is currently in the replenishment period. There has been no cash collateral utilisation in the transaction.

### Transaction Structure

As per the transaction structure, the cash flow schedule comprises promised quarterly interest payout while the principal payout is on an expected basis as per the exhibit below. The principal is promised on the final maturity date (78<sup>th</sup> month from the PTC issuance date or September 18, 2030).

#### Expected principal repayment schedule of PTCs

Months Post PTC Issuance	12	18	24	30	36.5	42	48	54	60
Principal repayment (%)	6.0%	6.0%	6.0%	6.0%	12.5%	12.5%	12.5%	12.5%	26.0%
Cumulative Principal repayment (%)	6.0%	12.0%	18.0%	24.0%	36.5%	49.0%	61.5%	74.0%	100.0%

The trustee in the transaction will open reserve accounts viz. Interest Service Reserve Account (ISRA) and Mandatory Cash Sweep Service Reserve Account (MCSSRA), in which the trustee will deposit the next interest and principal due from the collections as per the waterfall mechanism.

The transaction will have a replenishment period of up to 54 months, if no PTC trigger event occurs. During the replenishment period, the excess collections after meeting the deposits in the ISRA and MCSSRA along with the investor payouts would be used to purchase additional pool of loan receivables that meet pre-defined selection criteria. A minimum asset coverage ratio (ACR) of 1.1375x (gradually building up to 1.5x) is required to be maintained during the replenishment period.

The asset cover ratio will be calculated on each distribution date (PTC payout date), starting from the first distribution date, as (A)/(B), where:

- (A) is the total outstanding principal amount of the identified receivables plus the balance amount in the MCSSRA and ISRA plus any other cash balances available in the collection and payout account
- (B) is the outstanding principal of the senior tranche PTCs plus the unpaid but accrued yield on the senior PTCs

For the calculation of the asset cover ratio;

- (i) only the principal amount of the receivable is taken into consideration
- (ii) if any receivables are overdue for more than 60 days or have been restructured or rescheduled before as on the testing date, the principal amount of the receivables will be excluded from the calculation
- (iii) the principal amount scheduled for payment beyond the last MCS (mandatory cash sweep) payment date shall be excluded from the calculation.

The asset cover test will be carried out monthly, starting from the immediately succeeding month of the date of allotment of PTCs.

The transaction also features various trigger events, and upon the occurrence of any trigger event, the replenishment period will end and the trustee, if directed by the majority of investors may find one or more purchaser for receivables. The trustee will also be entitled to terminate the servicer agreement with SFL and appoint a replacement servicer. The servicer shall be entitled to deposit the collections from the underlying pool on daily basis. The amortisation of the PTCs would however be restricted to 25% during the first three years in line with the Voluntary Retention Route (VRR) scheme and any excess collections will be maintained in a bank account.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 4.40% of the initial pool principal amounting to Rs. 130.72 crore provided by the Originator, (ii) subordination of 12.10% of the initial pool principal for PTC Series A, and (iii) excess interest spread (EIS) 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 in the pre-owned commercial vehicle financing business of more than four decades and has adequate underwriting policies and collection procedures.

**Availability of credit enhancement** – The pool is expected to remain granular during the replenishment period thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

### Credit challenges

**Relative uncertainty regarding the follow-on pools** – Given the replenishment structure in the transaction, the pool replenishment will be subject to availability and meeting the stringent eligibility criteria for the follow-on pools.

**Risks associated with lending business** – The performance of the initial and follow-on pools 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 4.00% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% 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: Superior

The liquidity position for PTC Series A is superior after factoring in the credit enhancement available for meeting the promised payouts to the investor.

### Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – The rating could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the underlying pool. 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 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
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 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 <sup>^</sup>	FY2024 <sup>*</sup>
	Audited	Audited	Provisional
Total income	19,274	30,508	36,413
Profit after tax	2,721	6,011	7,391
Total managed assets <sup>#</sup>	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

<sup>^</sup>Consolidated post-merger

<sup>#</sup>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 (FY2025)		Chronology of Rating History for the Past 3 Years			
		Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				July 02, 2024	Mar 28, 2024	-	-
Sansar Vehicle Finance Trust Dec 2022	PTC Series A	2,621.02	2,611.74	[ICRA]AAA(SO)	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 <sup>^</sup>	Maturity Date	Amount Rated (Rs. crore)	Rating
<b>Sansar Vehicle Finance Trust Dec 2022</b>	PTC Series A	March 25, 2024	9.20%*	September 18, 2030	2,611.74	[ICRA]AAA(SO)

Source: Company, <sup>^</sup> per annum payable quarterly, \*revised from 9.30%

**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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