

August 23, 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 Outstanding after Last Surveillance (Rs. crore)	Current Outstanding Amount after July 2024 Payout (Rs. crore)	Rating Action
Sansar Trust May 2023 III	PTC Series A	609.39	609.39	279.13	[ICRA]AAA(SO); Reaffirmed
	Second loss facility	36.56	36.56	36.56	[ICRA]A-(SO); Reaffirmed
Sansar Trust June 2023	Series A1 PTCs	505.22	505.22	337.53	[ICRA]AA+(SO); Reaffirmed
	Series A2 PTCs	26.59	26.59	26.59	[ICRA]A-(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by vehicle loan receivables originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)}.

The reaffirmation of the ratings factors in the sustained healthy collections witnessed in the pools. The credit enhancement cover over the future PTC payouts has built up due to pool amortisation. The breakeven collection efficiency is also comfortable compared to the actual collection efficiency level observed in the pools. Nonetheless, the ratings would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Sansar Trust May 2023 III	Sansar Trust June 2023
Payout month	July 2024	July 2024
Months post securitisation	13	12
Pool amortisation	54.20%	31.53%
Cumulative collection efficiency ¹	103.81%	100.62%
Cumulative prepayment rate	15.91%	4.68%
Average monthly prepayment rate	1.32%	0.40%
Loss-cum-90+ dpd ² (% of initial pool)	1.01%	2.43%
Loss-cum-180+ dpd ³ (% of initial pool)	0.10%	0.67%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
Breakeven collection efficiency ⁴ for PTC Series A	72.48%	79.58%
CC ⁵ (% of balance pool)	24.02%	7.30%

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

⁵ For Sansar Trust May 2023 III, CC is available as a combination of fixed deposit (FD) and an unconditional and irrevocable guarantee from SFL

Transaction structure

For Sansar Trust May 2023 III, the monthly cash flow schedule comprises the promised interest payout and principal payout (100% of the pool principal billed). Any surplus excess interest spread (EIS), after meeting the promised payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal.

Sansar Trust June 2023 has a two-tranche structure with Series A1 PTCs comprising 95% of the pool principal as on the cut-off date, followed by Series A2 PTCs (5%). As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout to Series A1 PTCs. 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 prepayment in the pool would be used for the prepayment of Series A1 PTC principal. The residual cash flows from the pool, after meeting the promised and expected payouts, will be passed on to Series A2 PTCs as yield on expected basis. After the maturity of Series A1 PTCs, a structure similar to the one used for Series A1 PTCs would be followed to make the principal, prepayment and residual cash flow payouts to Series A2 PTCs.

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. It also has adequate underwriting policies and collection procedures.

Build-up of credit enhancement available in the structure – The ratings factor in the build-up in the credit enhancement with the cash collateral (CC) increasing to 24.0% and 7.3% of the balance pool principal for Sansar Trust May 2023 III and Sansar Trust June 2023, respectively, from 11.0% and 5.0%, respectively, at the time of securitisation. Internal credit support is also available through the EIS of 8.1% and 9.4% for Sansar Trust May 2023 III and Sansar Trust June 2023, respectively. Further, internal credit support is available through subordination of 7.3% for Series A1 PTCs of Sansar Trust June 2023.

Healthy pool performance – While delinquencies in the harder bucket remained low with the loss-cum-90+ days past due (dpd; as percentage of initial pool principal) at 1.0% for Sansar Trust May 2023 III, the same was moderate at 2.4% for Sansar Trust June 2023 after the July 2024 payout month. Nonetheless, the performance of both pools has been healthy with a cumulative collection efficiency (including advances) of more than 100% till the July 2024 payout month while the breakeven collection efficiency remained comfortably below the monthly collection efficiency.

Credit challenges

Risks associated with lending business – The pools' 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 pools, ICRA has estimated the shortfall in principal collection and prepayments during their tenure as provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1.	Sansar Trust May 2023 III	4.75%	4.8-18.0% p.a.
2.	Sansar Trust June 2023	5.00%	4.8-18.0% p.a.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Sansar Trust May 2023 III	Sansar Trust June 2023
Originator	Shriram Finance Limited	Shriram Finance Limited
Servicer	Shriram Finance Limited	Shriram Finance Limited
Trustee	IDBI Trusteeship Services Limited	Catalyst Trusteeship Limited
CC holding bank	FLF: ICICI Bank Limited; SLF: Axis Bank	Hongkong and Shanghai Banking Corporation Limited
Collection and payout account bank	ICICI Bank Limited	Hongkong and Shanghai Banking Corporation Limited

FLF – First loss facility; SLF – Second loss facility

Liquidity position

For Sansar Trust May 2023 III and Series A1 PTCs of Sansar Trust June 2023: Strong

The liquidity for the PTC instruments 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 3 times the estimated loss in the pool. The cash flows from the pools and the available first loss facility (FLF) are comfortable for the top-up of the second loss facility (SLF), if needed, as per the defined waterfall mechanism.

For Series A2 PTCs of Sansar Trust June 2023: Adequate

The liquidity for the PTC instrument is adequate after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 2 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable for PTC Series A1 of Sansar Trust May 2023 III

The ratings for the other instruments 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.

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 (SFL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pools till July 2024 (payout 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 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 June 30, 2024, SFL's assets under management (consolidated) stood at Rs. 2.48 lakh crore comprising commercial vehicle finance (44%), passenger vehicle finance (19%), small and medium-sized enterprise (SME) lending (12%), construction equipment and farm equipment finance (9%), personal loans (4%), two-wheeler loans (5%), gold loans (2%) and housing loans (6%; through its subsidiary Shriram Housing Finance Limited).

Key financial indicators

Particulars	FY2023 [^]	FY2024 [^]	Q1 FY2025 [^]
	Audited	Audited	Limited Review
Total income	30,508	36,413	9,597
Profit after tax	6,011	7,391	2,029
Total managed assets [#]	2,23,769	2,66,453	2,76,104
Gross stage 3	6.0%	5.2%	5.2%
Capital to risk weighted assets ratio	22.6%	20.3%	NA

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; NA – Not available

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)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
				Aug 23, 2024	Aug 10, 2023	Jun 05, 2023	-	-
1 Sansar Trust May 2023 III	PTC Series A	609.39	279.13	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-
	Second loss facility	36.56	36.56	[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				
		Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
				Aug 23, 2024	Aug 10, 2023	Jun 29, 2023	-	-
2 Sansar Trust June 2023	Series A1 PTCs	505.22	337.53	[ICRA]AA+(SO)	[ICRA]AA+(SO)	Provisional [ICRA]AA+(SO)	-	-
	Series A2 PTCs	26.59	26.59	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Sansar Trust May 2023 III	PTC Series A	Simple
	Second loss facility	Simple
Sansar Trust June 2023	Series A1 PTCs	Moderately Complex
	Series A2 PTCs	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 Ratings
Sansar Trust May 2023 III	PTC Series A	May 29, 2023	8.75%	June 15, 2028	279.13	[ICRA]AAA(SO)
	Second loss facility		NA		36.56	[ICRA]A-(SO)
Sansar Trust June 2023	Series A1 PTCs	June 23, 2023	8.30%	July 18, 2028	337.53	[ICRA]AA+(SO)
	Series A2 PTCs		Residual		26.59	[ICRA]A-(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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