

October 18, 2024

Shriram Finance Limited: Rating confirmed as final for PTCs backed by vehicle and construction equipment loan receivables issued by Sansar June 2024 V Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Sansar June 2024 V Trust	PTC Series A	805.97	[ICRA]AAA(SO); provisional rating confirmed as final
	Equity Tranche	70.08	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned a provisional rating to the pass-through certificates (PTC) Series A issued by Sansar June 2024 V Trust under a securitisation transaction originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of vehicle loan and construction equipment loan receivables originated by SFL with an aggregate principal outstanding of Rs. 876.05 crore (pool receivables of Rs. 1,113.26 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.

Transaction Structure

The transaction has a two-tranche structure, whereby the equity tranche (8.00% of the initial pool principal) is subordinated to PTC Series A (92.00%). As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payout to PTC Series A while the interest payout to the equity tranche will be on expected basis. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) to PTC Series A 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. Any prepayment in the pool would be used for the prepayment of the PTC Series A principal. After the maturity, of PTC Series A, a similar structure with respect to principal payment, surplus EIS and prepayment would be followed for the equity tranche.

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. 30.66 crore provided by the Originator, (ii) subordination of 8.00% of the initial pool principal for PTC Series A, and (iii) the EIS of 14.77% of the initial pool principal for PTC Series A and the equity tranche.

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.

Granular pool supported by presence of credit enhancement –The pool is granular as on the cut-off date and consists of 19,148 contracts, with top 10 contracts forming only ~0.6% of the initial pool principal, thereby 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.

Seasoned contracts in the pool – The pool had amortised by ~17% with seasoning of ~10 months as on the cut-off date thereby 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, ~44% of the contracts in the pool had original tenure of more than 48 months. The performance of such contracts has remained relatively weaker in the portfolio, and pool’s performance would thus be dependent on 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 4.50% 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 ratings for the instruments.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Sansar June 2024 V Trust
Originator	Shriram Finance Limited
Servicer	Shriram Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	Deutsche Bank A.G.
Collection and payout account bank	Deutsche Bank A.G.

Liquidity position

For PTC Series A: Strong

The liquidity position for PTC Series A is strong after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be around 4.25 times the estimated loss in the pool.

For Equity Tranche: Adequate

The liquidity position for Equity Tranche is adequate after factoring in the CE available for meeting the promised payouts to the investor. The total CE would be around 2.50 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable for PTC Series A

The rating for the equity tranche could be upgraded if sustained strong collection performance is witnessed in the underlying pool of contracts (monthly collection efficiency >95%) leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement.

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 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 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	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

^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	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
				Oct 18, 2024	Sep 24, 2024			
Sansar June 2024 V Trust	PTC Series A	805.97	805.97	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
	Equity Tranche	70.08	70.08	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	Moderately Complex
Equity Tranche	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)	Rating
Sansar June 2024 V Trust	PTC Series A	September 20, 2024	8.75%	August 20, 2029	805.97	[ICRA]AAA(SO)
	Equity Tranche		Residual		70.08	[ICRA]A-(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.

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Branches



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