

October 29, 2024

Shriram Finance Limited: Rating reaffirmed for assignee payouts issued under four vehicle loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial rated amount (Rs. crore)	Amount O/s after last surveillance (Rs. crore)	Amount O/s after Sep-24 payout (Rs. crore)	Rating Action
Bank of India_May 2020	Assignee Payouts	291.01	29.61	7.43	[ICRA]AA+(SO); reaffirmed
STFC BOI _ June 2020	Assignee Payouts	175.00	25.34	7.93	[ICRA]AA+(SO); reaffirmed
STFC BOI _ July 2020	Assignee Payouts	138.47	20.93	6.33	[ICRA]AA+(SO); reaffirmed
STFC BOI SEP 2020	Assignee Payouts	160.10	17.19	5.00	[ICRA]AA+(SO); reaffirmed

*Instrument details are provided in Annexure I

Rationale

The assignee payouts are backed by vehicle loan receivables originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)}.

The reaffirmation of rating for the pools factor in the sustained healthy collection witnessed in the pools. There has been a build-up of the credit enhancement cover over the future assignee payouts due to high pool amortisation. The breakeven collection efficiency is also comfortable compared to the actual collection efficiency level observed in the pools. Furthermore, with significant amortisation in all pools, the credit collateral (CC) is covering the entire future assignee payouts. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Bank of India_May 2020	STFC BOI _ June 2020	STFC BOI _ July 2020	STFC BOI SEP 2020
Payout month	September 2024	September 2024	September 2024	September 2024
Months post securitisation	51	51	49	47
Assignee payout amortisation	97.5%	95.3%	93.4%	96.6%
Cumulative collection efficiency ¹	106.0%	102.7%	114.8%	108.4%
Cumulative prepayment rate	44.0%	56.6%	66.8%	57.4%
Average monthly prepayment rate	1.1%	1.6%	2.2%	1.8%
Loss-cum-90+ dpd ² (% of initial pool principal)	1.2%	1.6%	1.9%	1.7%
Loss-cum-180+ dpd ³ (% of initial pool principal)	1.2%	1.5%	1.8%	1.7%
Cumulative credit collateral (CC) utilisation ⁴	0.0%	0.0%	0.0%	0.0%
Breakeven collection efficiency ⁵ for assignee payouts	nm ⁶	nm	nm	nm
CC (% of balance pool)	>100.0%	>100.0%	>100.0%	>100.0%

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

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 CC is available in the form of an unconditional and irrevocable guarantee from SFL

⁵ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

⁶ Not meaningful

Transaction structure

For all the pools, as per the transaction structure, the monthly cash flow schedule comprises 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. Any prepayment in the pool would be used for the prepayment of assignee principal payout.

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 rating factors in the build-up in the credit enhancement with credit collateral covering entire PTC payouts after Sep-24 payout month.

Healthy pool performance – While delinquencies in the harder bucket with the loss-cum-90+ days past due (dpd; as percentage of initial pool principal) have remained moderate at ~2.3% for STFC BOI _ July 2020, it has been low at sub-2.0% for the other trusts after September 2024 payout month. Nonetheless, the performance of all the pools has been healthy with cumulative collection efficiency (including advances) upwards of ~100% till September 2024 payout month.

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 the surveillance of asset-backed securitisation (ABS) 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 (CoV) are arrived at after considering the past performance of the originator’s 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.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Bank of India_May 2020	STFC BOI _ June 2020	STFC BOI _ July 2020	STFC BOI SEP 2020
Originator	Shriram Finance Limited	Shriram Finance Limited	Shriram Finance Limited	Shriram Finance Limited
Servicer	Shriram Finance Limited	Shriram Finance Limited	Shriram Finance Limited	Shriram Finance Limited
Trustee	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited	Catalyst Trusteeship Limited
CC provider	Shriram Finance Limited	Shriram Finance Limited	Shriram Finance Limited	Shriram Finance Limited
Collection and payout account bank	Bank of India	Bank of India	Bank of India	Bank of India

Liquidity position: Superior

The liquidity for the instruments is superior as the credit collateral available covers the future assignee payouts.

Rating sensitivities

Positive factors – The rating can be upgraded on an improvement in SFL’s credit profile along with healthy pool performance.

Negative factors – The rating could be downgraded on sustained weak collections, resulting in higher-than-expected delinquency levels, or a deterioration in SFL’s credit profile.

Analytical approach

The rating action is based on the performance of the pools till September 2024 (payout month), the present delinquency levels and the credit enhancement available in the pools, and the performance expected over the balance tenure of these 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 had an AUM (consolidated) of Rs. 2.48 lakh crore comprising commercial vehicle finance (44%), passenger vehicle finance (19%), construction equipment and farm equipment finance (9%), small and medium-sized enterprise (SME) lending (12%), personal loans (4%), gold loans (2%) two-wheeler loans (5%) 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

[^]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	Current Amount Rated	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
		(Rs. crore)	(Rs. crore)	Oct 29, 2024	Oct 25, 2023	Nov 28, 2022	Nov 26, 2021
Bank of India_May 2020	Assignee Payouts	291.01 [^]	7.43	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)

[^] Initial rated amount was Rs. 450.63 crore of which Rs. 159.62 crore was withdrawn on Nov 9, 2020

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		(Rs. crore)	(Rs. crore)	Oct 29, 2024	Oct 25, 2023	Nov 28, 2022	Nov 26, 2021
STFC BOI_June 2020	Assignee Payouts	175.00	7.93	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA+(SO)	[ICRA]AA(SO)

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Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Bank of India_May 2020	Assignee Payouts	Moderately Complex
STFC BOI_June 2020	Assignee Payouts	Moderately Complex
STFC BOI_July 2020	Assignee Payouts	Moderately Complex
STFC BOI SEP 2020	Assignee Payouts	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 Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
Bank of India_May 2020	Assignee Payouts	June 09, 2020	9.00%	July 22, 2026	7.43	[ICRA]AA+(SO)
STFC BOI _ June 2020	Assignee Payouts	June 30, 2020	9.00%	March 22, 2026	7.93	[ICRA]AA+(SO)
STFC BOI _ July 2020	Assignee Payouts	July 28, 2020	9.00%	March 22, 2026	6.33	[ICRA]AA+(SO)
STFC BOI SEP 2020	Assignee Payouts	September 30, 2020	9.00%	September 22, 2026	5.00	[ICRA]AA+(SO)

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

Anubhav Agrawal

+91 22 6114 3439

anubhav.agrawal@icraindia.com

Rushabh Gohel

+91 22 6114 3450

rushabh.gohel@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Diptajyoti Banik

+91 22 6114 3412

diptajyoti.banik@icraindia.com

Anubha Rustagi

+91 22 6114 3456

anubha.rustagi2@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

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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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